

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL 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 Fiscal Year Ended January 2, 1998 Commission File No. 1-13881

NEW MARRIOTT MI, INC.  
(To Be Renamed "Marriott International, Inc.")

Delaware  
(State of Incorporation)

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

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

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

Title of each class

Name of each exchange on which registered

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Common Stock, \$0.01 par value (100 shares outstanding as of February 24, 1998)

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New York Stock Exchange \*  
Chicago Stock Exchange\*  
Pacific Stock Exchange\*

Class A Common Stock, \$0.01 par value (no shares outstanding as of February 24, 1998)

Philadelphia Stock Exchange\*

\* Subject to official notice of issuance.

The aggregate market value of shares of common stock held by non-affiliates at January 2, 1998 was \$0.

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 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.

Documents Incorporated by Reference

Portions of the Proxy Statement prepared for the 1998 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

Index to Exhibits is located on pages 47 through 49.

## PART I

New Marriott MI, Inc. is a wholly owned subsidiary of Marriott International, Inc. formed to conduct Marriott International, Inc.'s lodging, senior living and distribution services businesses. Throughout this report, New Marriott MI, Inc., together with its subsidiaries, is referred to as "the Company." As described herein, it is expected that all of the issued and outstanding common stock of the Company will be distributed as a special dividend to shareholders of Marriott International, Inc.

### FORWARD-LOOKING STATEMENTS

When used throughout this report, the words "believes," "anticipates," "expects," "intends," "hopes," "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: dependence on arrangements with present and future property owners; contract terms offered by competitors; competition within each of the Company's business segments; business strategies and their intended results; the balance between supply of and demand for hotel rooms, timeshare units and senior living accommodations; the Company's continued ability to renew existing operating contracts and franchise agreements and obtain new operating contracts and franchise agreements (in each case on favorable terms); the Company's ability to develop and maintain positive relations with current and potential hotel and senior living community owners and distribution services clients; the effect of international, national and regional economic conditions; the availability of capital to fund investments; the Company's ability to achieve synergies and performance improvements subsequent to closing on acquisitions; Marriott International, Inc.'s ability to successfully complete its recently announced spinoff transaction; and other risks described from time to time in the Company's filings with the Securities and Exchange Commission, including those set forth on Exhibit 99 filed herewith. Given these uncertainties, readers are cautioned not to place undue reliance on such statements. The Company also undertakes no obligation to publicly update or revise any forward-looking statement to reflect current or future events or circumstances.

### ITEMS 1 AND 2. BUSINESS AND PROPERTIES

The Company is a worldwide operator and franchisor of hotels and senior living communities. The Company's operations are grouped in two business segments, Lodging and Contract Services, which represented 77 percent and 23 percent, respectively, of total sales in 1997.

In its Lodging segment, the Company operates and franchises lodging facilities under 10 separate brand names and develops and operates vacation timesharing resorts.

The Contract Services segment consists of two businesses. Marriott Senior Living Services develops and presently operates 89 senior living communities offering independent living, assisted living and skilled nursing care for seniors in the United States. Marriott Distribution Services supplies food and related products to internal operations and to external customers throughout the United States.

#### Proposed Spinoff

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On October 1, 1997, Marriott International, Inc. announced a definitive agreement to combine the operations of its Marriott Management Services Division (MMS) with the North American operations of Sodexo Alliance, S.A. (Sodexo), a worldwide food and management services organization. The combined company, to be renamed Sodexo Marriott Services, Inc. (SMS), will be the largest provider of food and facilities management services in North America. SMS common stock is expected to be listed on the New York Stock Exchange.

Prior to the merger, all of the issued and outstanding common stock of the Company will be distributed, on a pro rata basis, as a special dividend to holders of Marriott International, Inc. common stock (the Spinoff). Marriott International, Inc. has received a private letter ruling from the Internal Revenue Service that the Spinoff will be tax-free to Marriott International, Inc. and its shareholders. The Company will be renamed "Marriott International, Inc." and its common stock will be listed on the New York Stock Exchange, subject to official notice of issuance.

The Spinoff and merger transactions are expected to be consummated on March 27, 1998, subject to customary conditions, including approval by Marriott International, Inc.'s shareholders. A special meeting of shareholders is scheduled to be held on March 17, 1998 for purposes of considering and acting on the foregoing transactions and related matters. A proxy statement and proxy card relating to the special meeting were mailed beginning on February 16, 1998 to shareholders of record of Marriott International, Inc. on January 28, 1998.

Upon consummation of the Spinoff, the Company will have two classes of common stock. One class will have one vote per share (New Marriott Common Stock) and one class will have ten votes per share (New Marriott Class A Common Stock). Each holder of Marriott International, Inc. common stock on the record date for the Spinoff will receive one share of New Marriott Common Stock and one share of New Marriott Class A Common Stock for each share of Marriott International, Inc. common stock owned on such date. The rights, powers and preferences of the two classes of stock will otherwise be identical, except that the Board of Directors may declare and pay a regular quarterly cash dividend on the New Marriott Common Stock that may be up to 125 percent of the cash dividend declared and paid on the New Marriott Class A Common Stock, and the New Marriott Common Stock has certain customary minority rights protection provisions that apply if a person or group of persons acquires over 15 percent of the outstanding shares of New Marriott Class A Common Stock after the Spinoff, and does not at that time hold at least the same percentage of New Marriott Common Stock.

The Company has entered into a \$1.5 billion multicurrency revolving credit agreement permitting borrowings by the Company following consummation of the Spinoff. The facility has a term of five years and borrowings will bear interest at the London Interbank Offered Rate (LIBOR) plus a spread, based on the Company's public debt rating. Additionally, annual fees will be paid on the facility at a rate also based on the Company's public debt rating.

Each outstanding zero-coupon convertible subordinated note (LYONs) of Marriott International, Inc. will be convertible into 8.76 shares of New Marriott Common Stock, 8.76 shares of New Marriott Class A Common Stock and 2.19 shares of SMS common stock (after giving effect to a one-for-four reverse stock split). The LYONs will be assumed by the Company, and SMS will assume nine percent of the LYONs obligation, which percentage is based on an estimate of the relative equity values of SMS and the Company.

On February 25, 1998, Marriott International, Inc. commenced a tender offer and consent solicitation for all \$600 million of its outstanding public senior debt (the Marriott International Public Debt) and RHG Finance Corporation, a subsidiary of Marriott International, Inc. (and which will be a subsidiary of the Company upon the Spinoff), commenced a tender offer and consent solicitation for all \$120 million of its outstanding public debt (the RHG Public Debt), which is guaranteed by Marriott International, Inc. In the event that the consent solicitation for any of the four series of Marriott International Public Debt is unsuccessful, the Company will assume the debt of such series that is not purchased by Marriott International, Inc. in the tender offer, and any untendered RHG Public Debt will constitute part of the Company's consolidated debt and will be guaranteed by the Company. Under its agreements with Sodexho and Marriott International, Inc., to the extent that the Company assumes any such Marriott International Public Debt, or any RHG Public Debt is not purchased in the tender offer, Marriott International, Inc. will make a cash payment to the Company in an amount equal to the aggregate amount of such debt.

The Company and SMS will enter into agreements under which the Company will distribute food and supplies and provide administrative and data processing services to SMS. The rights to all Marriott trademarks and trade names will be transferred to the Company, which will license to SMS, for a period of four years, certain Marriott brand names used in the food service and facilities management businesses.

Financial information by industry segment and geographic area as of January 2, 1998 and for the three fiscal years then ended, appears in the Combined Statement of Income, the Summary of Significant Accounting Policies -- International Operations and the Business Segments notes to the Combined Financial Statements included in Part II, Item 8.

#### Employee Relations - - - - -

At January 2, 1998, the Company had approximately 117,000 employees. Approximately 3,500 employees at properties managed by the Company were represented by labor unions. The Company believes its relations with employees are positive.

## Other Properties

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In addition to the operating properties discussed below, the Company leases an 870,000 square foot office building, located in Bethesda, Maryland, which serves as the Company's headquarters. This lease has an initial term which expires in 2004, and includes options for an additional 15 years.

The Company believes its properties are in generally good physical condition with need for only routine repair and maintenance.

## LODGING

The Company's Lodging businesses included 1,478 operated or franchised hotels with 297,086 rooms at January 2, 1998, under 10 distinct brands, serving all segments of the lodging industry: Marriott Hotels, Resorts and Suites (full-service); Ritz-Carlton (luxury); Renaissance (full-service); New World (full-service); Ramada International (moderate-price, full-service); Residence Inn (extended-stay); Courtyard hotels (moderate-price); Fairfield Inn and Suites (economy); TownePlace Suites (moderate-price, extended-stay) and serviced apartments including those operated under the Marriott Executive Residences brand (extended-stay, international). The Company is also a leading developer and operator of vacation timesharing properties (Marriott Vacation Club International).

## Company-Operated Lodging Properties

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At January 2, 1998, the Company operated a total of 729 properties (191,214 rooms) across its 10 lodging brands under long-term management or lease agreements with property owners (together, the Operating Agreements).

Terms of the Company's management agreements vary, but typically include base and incentive management fees and reimbursement of costs (both direct and indirect) of lodging operations. Such agreements are generally for initial periods of 20 to 30 years, with options to renew for up to 50 additional years. The Company's 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, a number of the Operating Agreements permit the owners to terminate the agreement if financial returns fail to meet defined levels and the operator has not cured such deficiencies.

The Company's responsibilities for units it operates include hiring, training and supervising the managers and employees required to operate the facilities. The Company provides centralized reservation services, and national advertising, marketing and promotional services, as well as various accounting and data processing services. The Company prepares and implements annual budgets for lodging facilities that it operates. Additionally, the Company is responsible for allocating funds, generally a fixed percentage of revenue, for periodic renovation of buildings and replacement of furnishings. The Company believes that its ongoing refurbishment program is adequate to preserve the competitive position and earning power of the hotels.

## Franchised Lodging Properties

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The Company has franchising programs that permit the use of its brand names and its lodging systems by other hotel owners and operators. Under these programs, the Company receives 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 full-service hotels. In addition, franchisees contribute to the national marketing and advertising programs, and pay fees for use of the Company's centralized reservation systems. At January 2, 1998, the Company had 749 franchised properties (105,872 rooms).

Summary of Hotels by Brand

The table below shows the distribution of hotels by brand as of January 2, 1998.

Brand	Company-operated		Franchised	
	Units	Rooms	Units	Rooms
Marriott Hotels, Resorts and Suites.....	204	87,423	122	37,148
Ritz-Carlton.....	33	11,416	-	-
Renaissance.....	62	24,183	8	2,587
New World.....	14	6,889	-	-
Ramada International.....	33	7,032	41	7,444
Residence Inn.....	112	14,719	146	15,957
Courtyard.....	210	30,731	139	17,015
Fairfield Inn and Suites.....	51	7,133	293	25,721
TownePlace Suites.....	2	184	-	-
Marriott Executive Residences and Other.....	8	1,504	-	-
Total.....	729	191,214	749	105,872

A significant proportion of hotels operated or franchised by the Company at January 2, 1998 were located outside the U.S., as follows:

Brand	U.S.		Non-U.S.	
	Units	Rooms	Units	Rooms
Marriott Hotels, Resorts and Suites.....	254	101,641	72	22,930
Ritz-Carlton.....	20	7,166	13	4,250
Renaissance.....	31	14,145	39	12,625
New World.....	-	-	14	6,889
Ramada International.....	-	-	74	14,476
Residence Inn.....	254	30,125	4	551
Courtyard.....	338	46,715	11	1,031
Fairfield Inn and Suites.....	344	32,854	-	-
TownePlace Suites.....	2	184	-	-
Marriott Executive Residences and Other.....	-	-	8	1,504
Total.....	1,243	232,830	235	64,256

Marriott Hotels, Resorts and Suites primarily serve business and leisure travelers and meeting groups at locations in downtown and suburban areas, near airports and at resort locations. Most Marriott full-service hotels contain from 300 to 500 rooms. However, the 19 convention hotels (approximately 18,500 rooms) are larger and contain up to 1,900 rooms. Marriott full-service hotel facilities typically include swimming pools, gift shops, convention and banquet facilities, a variety of restaurants and lounges and parking facilities. The 35 Marriott resort hotels (approximately 15,000 rooms) have additional recreational facilities, such as tennis courts and golf courses. The 10 Marriott Suites (approximately 2,600 rooms) are full-service suite hotels that typically contain about 250 suites, each consisting of a living room, bedroom and bathroom. These properties have only limited meeting space.

The Company operates 25 conference centers, with approximately 4,400 guest rooms, located throughout the United States. Some of the centers are used exclusively by employees of the sponsoring organization, while others are marketed to outside meeting groups and individuals. The centers typically include meeting room space, dining facilities, guest rooms and recreational facilities. The Company receives management fees for operating the conference centers under contracts which typically range from one to five years. Management fees are generally based on a fixed amount or a percentage of revenues, and some of the management contracts provide for the Company to earn incentive fees if certain financial targets are exceeded.

Room revenues for Marriott full-service hotels contributed approximately 61 percent of the Company's full-service hotel sales for fiscal year 1997, with the remainder coming from food and beverage operations, recreational facilities and other services. Individual business and leisure travelers accounted for approximately 62 percent of occupied room nights at the Company full-service hotels for fiscal year 1997, with group meetings representing another 38 percent. Although business at many resort properties is seasonal depending on location, overall hotel profits have been relatively stable and include only moderate seasonal fluctuations.

As of January 2, 1998, Marriott Hotels, Resorts and Suites were located in 41 states, the District of Columbia and 33 other countries. The Company expects to add 21 operated or franchised Marriott Hotels, Resorts and Suites (approximately 6,100 rooms) during 1998. Of these hotel rooms, approximately 50 percent will be located outside the United States.

At January 2, 1998, Marriott Hotels, Resorts and Suites operated or franchised by the Company were located outside the U.S. in the United Kingdom (23 hotels), Continental Europe (14 hotels), Asia (eight hotels), the Americas (17 hotels), Africa and the Middle East (eight hotels) and Australia (two hotels).

Ritz-Carlton hotels and resorts are renowned for their distinctive architecture and the quality of their facilities, dining and guest service. Most Ritz-Carlton hotels have 200 to 500 guest rooms and typically include meeting and banquet facilities, a variety of restaurants and lounges, gift shops, swimming pools and parking facilities. Resort guests usually have access to additional recreational amenities, such as tennis courts and golf courses.

As of January 2, 1998, Ritz-Carlton luxury hotels and resorts were located in the United States and 12 other countries. It is expected that three Ritz-Carlton hotels (approximately 1,000 rooms) will be opened during 1998.

Renaissance is a global quality tier brand which targets business travelers, group meetings and leisure travelers. Renaissance hotels are generally located in downtown locations of major cities, in suburban office parks, near major gateway airports and in destination resorts. Most hotels contain 300 to 500 rooms; however, a few of the convention hotels are larger in size, and some hotels in non-gateway markets, particularly in Europe, are smaller. Renaissance hotels typically include an all-day dining restaurant, a specialty restaurant, club floors and lounge, boardrooms, convention and banquet facilities. There are 15 Renaissance Resorts which have additional recreational facilities including golf, tennis and water sports. As of January 2, 1998, Renaissance hotels were located in 15 states, the District of Columbia and 22 other countries.

At January 2, 1998, Renaissance hotels operated or franchised by the Company were located outside the U.S. in Continental Europe (16 hotels), Asia (12 hotels), the Americas (eight hotels), Africa and the Middle East (two hotels) and Australia (one hotel).

New World primarily targets international business travelers. New World hotels are located exclusively in the Asia-Pacific region and are concentrated in the major business districts of gateway cities in China and Southeast Asia. With hotels in the key gateway markets to China of Hong Kong, Beijing and Shanghai, New World has expanded into China's secondary business centers. New World hotels typically range in size from 300 to 600 rooms and offer multiple restaurants and lounges, executive floors and a variety of recreational, banquet and meeting facilities. As of January 2, 1998, New World hotels were located in seven countries outside the U.S.

Ramada International is a moderately priced, full-service brand targeted at business and leisure travelers. Each full-service Ramada International property includes a restaurant, a cocktail lounge and full-service meeting and banquet facilities. Ramada International hotels are located primarily in Europe in major and secondary cities, near major international airports and suburban office park locations. The Company also receives a royalty fee from Cendant Corporation (successor to HFS, Inc.) and Ramada Franchise Canada Limited for the use of the Ramada name in the United States and Canada, respectively.

As of January 2, 1998, Ramada International hotels were located in 22 countries outside the U.S., including the United Kingdom (four hotels), Continental Europe (48 hotels), Asia (11 hotels), Central and South America (three hotels), Africa and the Middle East (five hotels) and Australia (three hotels).

The Company expects to add 17 hotels (approximately 4,000 rooms) to the Renaissance, New World and Ramada International brands during fiscal 1998.

Courtyard hotels is the Company's moderate-price limited service hotel product. Aimed at individual business and leisure travelers as well as families, Courtyard hotels maintain a residential atmosphere and typically have 80 to 150 rooms. Well landscaped grounds include a courtyard with a pool and social areas. Most hotels feature meeting rooms, limited restaurant and lounge facilities, and an exercise room. The operating systems developed for these hotels allow Courtyard to be price competitive while providing better value through superior facilities and guest service.

As of January 2, 1998, Courtyard hotels were located in 42 states, the District of Columbia, Canada and the United Kingdom. The Company expects to add 36 properties (approximately 5,000 rooms) to its Courtyard hotel system during fiscal 1998, primarily through franchising.

Residence Inn is the U.S. market leader in the extended-stay lodging segment, which caters primarily to business, government and family travelers who stay more than five consecutive nights. Residence Inns generally have 80 to 130 studio and two-story penthouse suites. Most inns feature a series of residential style buildings with landscaped walkways, courtyards and recreational areas. The inns do not have restaurants but offer complimentary continental breakfast. Each suite contains a fully equipped kitchen, and many suites have wood-burning fireplaces.

As of January 2, 1998, Residence Inns were located in 43 states, Canada and Mexico. The Company expects to add 34 inns (approximately 4,000 rooms) to its Residence Inn system during fiscal 1998, primarily through franchising.

Fairfield Inn and Suites is the Company's economy lodging product which competes directly with major national economy motel chains. Aimed at cost-conscious individual business and leisure travelers, a typical Fairfield Inn has 65 to 135 rooms and offers a swimming pool, complimentary continental breakfast and free local phone calls. Fairfield Suites are designed to meet the needs of travelers who require more space and amenities. They feature suites that are 25 percent larger than the typical Fairfield Inn room, and offer a broader range of amenities.

As of January 2, 1998, Fairfield Inn and Suites were located in 47 states. The Company expects to add 44 franchised Fairfield Inn and Suites (approximately 3,900 rooms) to its system during fiscal 1998.

TownePlace Suites is a moderately priced, extended-stay hotel product that is designed to appeal to business and leisure travelers. The standard TownePlace Suites hotel consists of two interior-corridor buildings containing 95 units consisting of high-quality one- and two-bedroom studio suites. Each suite has a fully equipped kitchen and separate living area. Each hotel provides housekeeping services and has on-site exercise facilities, an outdoor pool, 24-hour staffing and laundry facilities. The Company plans to open 18 TownePlace Suites (approximately 1,900 rooms) during fiscal 1998.

Serviced apartments provide temporary housing for business executives and others who need quality accommodations outside their home country for 30 or more days. Some serviced apartments operate under the Marriott Executive Residences brand, that was introduced in February 1997 and is being developed specifically for the long-term international traveler.

Marriott Vacation Club International develops, sells and operates vacation timesharing resorts. Profits are generated from three primary sources: (1) selling fee simple and other forms of timeshare interests, (2) operating the resorts and (3) financing consumer purchases of timesharing intervals.

Some timesharing resorts are located adjacent to Marriott 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 the Company through an affiliated exchange company. Owners also can trade their unused interval for points in the Marriott Rewards program, enabling them to stay at over 1,300 Marriott hotels worldwide.

In 1997, the Company had 11 resorts in active sales, including the historic Custom House in Boston, which is the Company's first urban timeshare project and the Company's first European timeshare resort in Marbella, Spain.

Additionally, the Company announced its second European timeshare and golf resort on the island of Mallorca in Spain. In 1997, the Company added 20,000 new owners taking the Company's total timeshare owners to over 100,000. In addition, the Company purchased a minority ownership in Interval International, Inc., one of the leading timeshare interval exchange companies.

As of January 2, 1998, the Company operated 32 timeshare resorts located in the Continental U.S. (28 resorts), Hawaii (one resort), the Caribbean (two resorts) and Europe (one resort).

#### Other Activities

Marriott Golf manages 17 golf course facilities for the Company and other golf course owners.

The Company has provided event planning and management services since 1996 under the brand name of Marquis Events International by Marriott. In 1996, the Company was awarded a contract by the National Football League to be the official provider of hospitality services such as catering, beverage services, entertainment and decor to the NFL's corporate clientele for the 1997, 1998 and 1999 Super Bowls.

The Company operates systemwide hotel reservation centers in Omaha, Nebraska; Salt Lake City, Utah; Atlanta, Georgia; Los Angeles, California; and London, England that handle reservation requests for Marriott lodging brands worldwide, including franchised units. A further eight regional administrative office locations also serve as reservation centers. The Company owns the Omaha facility and leases the other facilities.

The Company's Architecture and Construction Division assists in the design, development, construction and refurbishment of lodging properties and senior living communities.

#### Competition

The Company encounters strong competition both as a hotel operator and a franchisor. There are over 500 hotel management companies in the United States, including several that operate more than 100 properties. These operators are primarily private management firms, but also include several large national chains that own and operate their own hotels and also franchise their brands. Hotel management contracts are typically long-term in nature, but most allow the hotel owner to replace the management firm if certain financial or performance criteria are not met.

Affiliation with a national or regional brand is prevalent in the U.S. lodging industry. In 1997, the majority of U.S. hotel rooms were brand-affiliated. Most of the branded properties are franchises, under which the operator pays the franchisor a fee for use of its hotel name and reservation system. The franchising business is fairly concentrated, with the three largest franchisors operating multiple hotel brands accounting for a significant proportion of all U.S. rooms.

Outside the United States, branding is much less prevalent, and most markets are served primarily by independent operators. The Company believes that chain affiliation will increase in overseas markets as local economies grow, trade barriers are reduced, international travel accelerates and hotel owners seek the economies of centralized reservation systems and marketing programs.

The Company has approximately a six percent share of the U.S. lodging market and less than a one percent share of the lodging market outside the United States. The Company's brands are attractive to hotel owners seeking a management company or franchise affiliation, because its hotels typically generate higher occupancies and revenue per available room (REVPAR) than direct competitors in most market areas. The Company attributes this performance premium to its success in achieving and maintaining strong customer preference. The Company believes its superior facilities, national marketing programs, reservation systems and its emphasis on guest service and satisfaction are contributing factors.

The Company's properties are regularly upgraded to maintain their competitiveness. The vast majority of rooms in the Marriott lodging system either opened or have been refurbished in the past five years. The Company also strives to continually update and improve the products and services offered. The Company believes that by operating a number of hotels in each of its brands, it stays in direct touch with customers and reacts to changes in the marketplace more quickly than chains which rely exclusively on franchising.



Repeat guest business is enhanced by the Marriott Rewards and Marriott Miles programs, which reward frequent travelers with free stays at Marriott hotels or free travel on participating airlines. Marriott Rewards, introduced in the spring of 1997, is a multi-brand frequent guest program and replaced the Company's 14-year-old Honored Guest Awards program. In addition to the participation of seven Marriott brands and Marriott Vacation Club International, Marriott Rewards has formed a partnership with select Ritz-Carlton hotels and also allows members to exchange points for frequent flyer miles with nine partner airlines. Management believes that the frequent stay programs generate substantial repeat business that might otherwise go to competing hotels.

The resort timesharing industry also is very competitive. Formerly dominated by real estate development companies and entrepreneurs, the industry has recently begun to attract well capitalized corporations with significant experience in the lodging and hospitality-related industries. The Company currently has about a six percent share of this rapidly growing industry's annual worldwide sales of about \$6 billion. The Company competes by offering premium quality products at attractive locations to prospective timeshare buyers, many of whom are familiar with the Company's strong commitment to customer satisfaction through its hotel properties. Approximately 26 percent of the Company's ownership resort sales come from additional purchases by or referrals from existing owners.

#### CONTRACT SERVICES

The Contract Services segment includes two businesses: Marriott Senior Living Services (development and operation of senior living communities and related senior care services) and Marriott Distribution Services (distribution of food and supplies).

#### Marriott Senior Living Services

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Through its Senior Living Services business, the Company develops and operates both "independent full-service" and "assisted living" senior living communities and provides related senior care services. Most are rental communities with daily rates that depend on the amenities and services provided. The Company is the largest U.S. operator of senior living communities in the quality tier.

As of January 2, 1998, the Senior Living Services business operated 44 independent full-service senior living communities, which offer both independent living apartments and personal assistance units for seniors. Most of these communities also offer licensed nursing care.

As of January 2, 1998, the Senior Living Services business also operated 45 assisted living senior living communities under the names "Brighton Gardens by Marriott," "Village Oaks," "National Guest Homes" and "Hearthside." Assisted living senior living communities are for seniors who presently require personal assistance with hygiene, administration of medication, mobility and other daily activities which do not require skilled nurses. The Brighton Gardens concept is quality tier assisted living which generally has 100 single resident assisted living suites and 30 to 45 nursing beds in a community. Alzheimer care units are also provided at 23 communities. Village Oaks and National Guest Homes are moderately priced assisted living concepts which emphasize non-family companion living and generally have 70 two-person suites in a community. These concepts are geared for the cost-conscious senior who enjoys the companionship of another unrelated individual. Hearthside assisted living communities consist of a cluster of six or seven 14-room cottages which offer residents small scale and family-like living at a moderate price and single resident assisted living suites.

The assisted living concepts typically include three meals per day, linen and housekeeping services, security, transportation, and social and recreational activities. Additionally, skilled nursing and therapy services are generally available to Brighton Gardens and Hearthside residents.

Terms of the senior living services management agreements vary but typically include base management fees, ranging from four to five percent of revenues, central administrative services reimbursements and incentive management fees. Such agreements are generally for initial periods of five to 30 years, with options to renew for up to 25 additional years. Under the terms of the lease agreements covering certain of the communities, the Company pays the owner fixed annual rentals plus additional rentals equal to a percentage of annual revenues in excess of a fixed amount.

The senior living services market is one of the fastest-growing segments of the U.S. economy and the Company is expanding its Senior Living Services division to meet this growing demand. By the end of fiscal 1998, the Company expects to operate approximately 120 senior living communities.

As of January 2, 1998, the Company operated 89 senior living communities in 24 states.

	Communities	Units/1/
	-----	-----
Independent full-service		
- owned.....	3	1,189
- operated under long-term agreements.....	41	11,074
	-----	-----
	44	12,263
	-----	-----
Assisted living		
- owned.....	12	1,242
- operated under long-term agreements.....	33	4,188
	-----	-----
	45	5,430
	-----	-----
Total senior living communities.....	89	17,693
	=====	=====

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 /1/ Units represent independent and assisted living apartments plus beds in nursing centers.

#### Marriott Distribution Services

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Marriott Distribution Services (MDS) is a United States limited-line distributor of food and related supplies, carrying an average of 3,000 product items per distribution center. This business unit originally focused on purchasing, warehousing and distributing food and supplies to other Marriott businesses. In recent years, however, MDS has steadily increased its third-party business to about 65 percent of total sales volume in fiscal year 1997, compared to less than 15 percent in fiscal year 1988.

MDS operated a nationwide network of 15 distribution centers as of January 2, 1998, including three centers opened during 1997. Leased facilities are generally built to the Company's specifications, and utilize a narrow aisle concept and technology to enhance productivity.

MDS plans to pursue new business by leveraging its purchasing economies, quality assurance programs and operating systems.

#### Competition

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The Company encounters strong competition in each of its Contract Services businesses.

Marriott Senior Living Services competes mostly with local and regional providers of long-term health care and senior living services, although some national providers are emerging in the assisted living market. Marriott Senior Living Services is able to compete by operating well maintained facilities and by providing quality health care, food service and other services at reasonable prices. The reputation for service associated with the Marriott name is also attractive to residents and their families. Additionally, Marriott Senior Living Services has focused on developing relationships with professionals who often refer seniors to senior living communities, such as hospital discharge planners and ministers. By educating these groups on the assisted living concept, and familiarizing them with the Marriott product and associates, Marriott Senior Living Services generates a significant volume of referrals that helps its senior living communities to quickly achieve high, stabilized occupancy levels.

MDS competes with numerous national, regional and local distribution companies in the \$134 billion U.S. food distribution industry. MDS attracts clients by adopting competitive pricing policies and by maintaining one of the highest order fill rates in the industry. In addition, MDS uses its purchasing leverage and limited product lines to provide a favorable cost structure.

ITEM 3. LEGAL PROCEEDINGS

There are no material legal proceedings pending against the Company.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

The New Marriott Common Stock and the New Marriott Class A Common Stock have been accepted for listing on the New York Stock Exchange, Chicago Stock Exchange, Pacific Stock Exchange and Philadelphia Stock Exchange, subject to official notice of issuance.

At February 24, 1998, there were 100 shares of Company common stock outstanding, all of which were held by Marriott International, Inc.

ITEM 6. SELECTED HISTORICAL FINANCIAL DATA

The following table presents summary selected historical financial data for the Company derived from its financial statements as of and for the five fiscal years ended January 2, 1998.

The historical information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Combined Financial Statements and notes thereto, each contained herein. Per share data has not been presented because the Company was not a publicly held company during the periods presented below.

	Fiscal Year				
	1997	1996/1/	1995	1994	1993
	(in millions)				
INCOME STATEMENT DATA:					
Sales.....	\$ 9,046	\$ 7,267	\$ 6,255	\$ 5,746	\$ 4,665
Operating Profit Before					
Corporate Expenses and Interest.....	609	508	390	316	267
Income Before Cumulative Effect					
of a Change in Accounting Principle/2/.....	324	270	219	162	125
Net Income.....	324	270	219	162	95
BALANCE SHEET DATA (AT END OF YEAR):					
Total Assets.....	5,557	4,198	3,179	2,401	2,285
Long-Term and Convertible Subordinated Debt.....	422	681	180	102	113

/1/ Fiscal year 1996 includes 53 weeks, all other years include 52 weeks.  
 /2/ Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," was adopted in the first fiscal quarter of 1993.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The following discussion presents an analysis of results of operations of the Company for fiscal years ended January 2, 1998 (52 weeks), January 3, 1997 (53 weeks) and December 29, 1995 (52 weeks). Comparable statistics are used throughout this report and are based upon Company-operated U.S. properties. The Ramada International and New World brands do not have any U.S. properties.

1997 Compared to 1996.

Net income increased 20 percent to \$324 million in fiscal 1997, on a sales increase of 24 percent to \$9 billion, driven by contributions from new unit expansion, including acquisitions, and strong profit growth for the Lodging segment.

LODGING operating profit was up 26 percent on 20 percent higher sales, benefiting from favorable conditions in the U.S. lodging market, and contributions from new properties. The revenue increase resulted from average REVPAR growth across all brands of eight percent and the net addition of 325 hotels (69,810 rooms), including the acquisition of Renaissance Hotel Group N.V. (RHG). This revenue growth resulted in higher base management and franchise fees. Revenue growth also contributed to higher house profits which resulted in higher incentive management fees.

Profits for Marriott Hotels, Resorts and Suites increased in excess of 20 percent in fiscal 1997 on sales growth of seven percent, which reflects the addition of a net of two units (881 rooms) in the U.S. and a net of eight units (2,903 rooms) internationally. Comparable Company-operated U.S. hotels achieved seven percent higher sales due to REVPAR increases of nine percent resulting from room rate growth of nine percent to \$129. These sales gains, coupled with profit margin improvements, generated substantially higher incentive management fees at many properties. Profits for international hotels also were higher, primarily because of contributions from new properties in 1996 and 1997.

Ritz-Carlton reported an increase in average room rates of five percent to \$185 and an increase in occupancy of four percentage points to 79 percent, resulting in a 10 percent increase in REVPAR.

RHG, which is comprised of the Renaissance, New World and Ramada International brands, contributed \$594 million in sales since its March 29, 1997 acquisition. REVPAR for Company-operated U.S. Renaissance hotels increased six percent due to higher room rates and a slight decrease in occupancy. Integration of RHG into the Company's payroll, procurement, marketing and sales, reservation and yield management systems continues to progress on schedule and is expected to contribute to revenue gains and margin improvements in 1998.

The limited-service lodging brands reported eight percent higher sales and more than 25 percent profit growth in fiscal 1997 benefiting from increased incentive management fees on Company-operated properties and expansion of franchising programs. The limited-service brands added a net of 149 properties (16,390 rooms), primarily franchises, during fiscal 1997.

- . Courtyard, the Company's moderate-price brand, posted a five percent increase in sales for comparable Company-operated units, as average room rates and REVPAR were up eight percent, while occupancy remained at 81 percent.
- . Residence Inn, the Company's extended-stay brand, generated five percent growth in sales for comparable Company-operated units, as average room rates climbed eight percent to \$95, while occupancy dipped slightly to 84 percent resulting in a six percent increase in REVPAR.
- . Fairfield Inn and Suites, the Company's economy brand, reflected a decrease of two percent in sales for comparable Company-operated units. A two percent increase in average room rates to \$51 was offset by a slight decline in occupancy to 75 percent, resulting in no change in REVPAR.

Marriott Vacation Club International posted a 21 percent increase in the number of timeshare intervals sold and 51 percent growth in financially reported sales under the percentage of completion method. The sales increase resulted from strong performance in several locations, including Marriott Vacation Club International's first European resort in Marbella, Spain, as well as Fort Lauderdale and Orlando, Florida and Hilton Head, South Carolina. Increased profits from resort development were offset by reduced financing income, due to lower sales of timeshare notes receivable during fiscal 1997.

CONTRACT SERVICES reported a 29 percent decrease in operating profit on 44 percent higher sales in fiscal 1997. Profit comparisons between years are effected by sales to investors during 1996 and 1997 of 43 senior living communities which the Company continues to operate under long-term agreements. Before the impact of these transactions, Contract Services profits increased four percent over fiscal 1996. Contract Services operating profit was also adversely affected by start-up losses for new distribution centers and distribution accounts.

Marriott Senior Living Services reported a sales increase of 28 percent in fiscal 1997 over 1996, primarily due to the opening of 17 communities during 1997 and a two percentage point increase in occupancy, to 95 percent, for comparable properties. Operating profit declined as "ownership profits" from 43 properties sold to investors since the beginning of 1996 were replaced with "managed operating profits."

Marriott Distribution Services' sales were up sharply in fiscal 1997 as a result of the addition of several major restaurant customers and the net addition of two new distribution centers. Profits, however, were lower in fiscal 1997 due to start-up costs associated with the new centers, as well as costs of integrating the new business into existing distribution centers.

Corporate expenses rose 21 percent in 1997, due to non-cash items associated with investments generating significant income tax benefits as well as modest staff increases to accommodate growth and new business development. Interest expense decreased 41 percent from fiscal 1996 due to the sale of the 29 Forum Group communities to Host Marriott. Interest income declined 14 percent, primarily due to collections on, and sales of, affiliate and other notes receivable.

The Company's effective income tax rate increased to 39 percent in 1997, compared to 38 percent in 1996, primarily due to the RHG acquisition. The effective tax rate is expected to decline about one-half percentage point in 1998.

1996 Compared to 1995.

Net income increased 23 percent to \$270 million in 1996, driven by contributions from new unit expansion and strong profit growth for both the Lodging and Contract Services segments, partially offset by higher interest and corporate expenses.

Sales were up 16 percent to \$7.3 billion in 1996. The impact of the 53rd week on 1996 results of operations was not significant.

LODGING operating profit was up 26 percent on 10 percent higher sales, benefiting from favorable conditions in the U.S. lodging market, and contributions from new properties. The Company added a net of 146 hotels (18,204 rooms) and opened four new vacation club resorts during the year.

Profits for Marriott Hotels, Resorts and Suites rose 24 percent in 1996 on sales growth of nine percent reflecting the addition of a net of two units (1,006 rooms) in the U.S. and a net of 17 units (3,768 rooms) internationally. Comparable Company-operated U.S. hotels posted eight percent higher sales due to room rate growth of seven percent to \$118, and a one percentage point increase in occupancy to 78 percent. These sales gains, coupled with profit margin improvements, generated substantially higher incentive management fees at many properties. Profits for international hotels also were higher, primarily because of contributions from new properties.

The limited-service lodging brands reported 10 percent higher sales and 29 percent profit growth in 1996, also benefiting from increased incentive management fees on Company-operated properties, and expansion of franchising programs. The three brands added a net of 125 properties (12,888 rooms), primarily franchises, during 1996.

- . Courtyard posted an eight percent increase in sales for comparable Company-operated units, as average room rates were up eight percent to \$78, while occupancy remained at 81 percent.
- . Residence Inn generated eight percent growth in sales for comparable Company-operated units, as average room rates climbed seven percent to \$89, while occupancy dipped slightly to 85 percent.
- . Fairfield Inn and Suites achieved a six percent sales gain for comparable Company-operated units, as average room rates were boosted 10 percent to \$50. Occupancy fell four percentage points to 77 percent, reflecting the planned shift to higher rated business. The Company introduced Fairfield Suites in 1996.

Marriott Vacation Club International posted a 25 percent increase in the number of timeshare intervals sold and 17 percent growth in financially reported sales under the percentage of completion method. Income from owner financing activities and resort management also increased. Profits were flat, reflecting higher marketing and selling costs associated with new resort locations, off-site sales centers and establishing a European operations group.

Also contributing to 1996 lodging profit growth was higher income from the Company's investment in The Ritz-Carlton Hotel Company LLC. For comparable U.S. hotels, the luxury chain posted a 10 percent increase in sales as average room rates increased four percent to \$181 and occupancy increased to 75 percent. In addition, house profit margins improved, benefiting from integration with Marriott Lodging systems and programs.

CONTRACT SERVICES reported a 87 percent increase in operating profit on 52 percent higher sales in fiscal 1996 primarily due to the March 1996 acquisition of the Forum Group.

Sales for Marriott Senior Living Services increased 117 percent in 1996, while profits were up more than five fold from 1995 levels. Excluding the impact of the Forum Group acquisition, sales increased 23 percent and profits increased 18 percent. Overall growth was generated by a gain in occupancy to 96 percent, and a two percent increase in average per diem rates for comparable Marriott senior living communities, strong move-in rates at 11 communities opened since the beginning of 1995 and contributions from the acquired Forum Group communities.

Sales for Marriott Distribution Services grew 35 percent in 1996, as the division opened five new distribution centers and added several major external restaurant accounts. Profits were flat in 1996, as sales gains were offset by start-up costs associated with the new centers and new business.

Corporate expenses rose 24 percent in 1996, reflecting higher outlays associated with new business development and staff additions to facilitate the Company's growth. Additionally, costs increased due to tax-related investments which generated significant after-tax savings. Interest expense increased significantly as a result of interest expense on debt associated with the Forum Group acquisition. Interest income declined five percent, primarily due to collections on, and sales of, affiliate and other notes receivable.

The Company's effective income tax rate declined to 38 percent in 1996, compared to 39.4 percent in 1995. This favorable trend reflects the Company's ongoing participation in jobs and affordable housing tax credit programs.

## LIQUIDITY AND CAPITAL RESOURCES

### Growth Strategy

- - - - -

After the Spinoff, the Company will have substantial investment capacity with which to pursue growth opportunities. The Company's lodging management and franchise operations and its contract services businesses generate substantial operating cash flow, with only modest reinvestment requirements. The Company's lodging division expects to add more than 140,000 rooms over the five years 1998-2002, and to significantly expand its portfolio of vacation club resorts. During the same period, the Company also expects to take advantage of significant opportunities in the senior living services market by more than tripling the number of senior living communities it operates.

The planned capital structure of the Company, following the Spinoff, is part of an integrated strategy for a focused hospitality company with substantially increased borrowing and investment capacity, as well as increased flexibility to



use its equity, where prudent, to participate aggressively in the ongoing global consolidation of the lodging industry as well as the accelerating rate of consolidation of the senior living industry within the United States. The Company intends to pursue strategic acquisition opportunities.

The Company believes that it will have access to financial resources sufficient to finance its growth, as well as to support ongoing operations and meet debt service and other cash requirements.

#### Cash From Operations - - - - -

Cash from operations was \$521 million in 1997, \$504 million in 1996 and \$281 million in 1995. The operating cash flow in 1997 primarily reflects higher earnings than 1996, offset by lower sales of timeshare notes receivable. While the Company's timesharing business generates strong operating cash flow, annual amounts are affected by the timing of cash outlays for the acquisition and development of new resorts and cash inflows related to purchaser financing. Interval sales financed by the Company are not included in operating cash flow until cash is collected or the notes are sold for cash.

Earnings Before Interest Expense, Income Taxes, Depreciation and Amortization (EBITDA) was \$679 million, \$561 million and \$437 million for fiscal years 1997, 1996 and 1995, respectively, representing a 21 percent increase in 1997 and a 28 percent increase in 1996. The Company considers EBITDA to be an indicator of its operating performance because EBITDA can be used to measure the Company's ability to service debt, fund capital expenditures and expand its business. Nevertheless, EBITDA should not be considered as an alternative to net income, operating profit, cash flows from operations, or any other operating or liquidity measure prescribed by generally accepted accounting principles. A substantial portion of the Company's EBITDA is based on fixed dollar amounts or percentages of sales. This includes lodging base management and franchise fees and land rent. With more than 1,450 hotel properties, no single operation or customer is critical to the Company's financial results.

The Company's ratio of current assets to current liabilities was .83 at January 2, 1998, compared to .70 at January 3, 1997. Each of the Company's businesses minimizes working capital through strict credit-granting policies, aggressive collection efforts and high inventory turnover. Working capital for managed hotels is generally advanced to the Company by the hotel owners.

#### Investing Activities Cash Flows - - - - -

Acquisitions. The Company completed three major acquisitions during the last three years: Renaissance Hotel Group N.V., a premier operator and franchisor of approximately 150 hotels, under three brands, in 38 countries; Forum Group, Inc. (Forum), a leading provider of senior living services; and a 49 percent interest in The Ritz-Carlton Hotel Company LLC, one of the world's premier luxury hotel brands and management companies. The Company expects to exercise its right to acquire the remaining 51 percent of The Ritz-Carlton Hotel Company LLC within the next several years at prices based on Ritz-Carlton's cash flow.

Dispositions. On April 3, 1997, the Company agreed to sell and leaseback, under long-term, limited-recourse leases, 14 limited service hotels for approximately \$149 million in cash. Concurrently, the Company agreed to pay security deposits of \$15 million, which will be refunded upon expiration of the leases. As of January 2, 1998, sales of all of the properties had closed, resulting in a \$20 million excess of the sales price over the net book value, which will be recognized as a reduction of rent expense over the 17-year initial lease terms. On October 10, 1997, the Company agreed to sell, and leaseback, under long-term, limited-recourse leases, another nine limited service hotels for approximately \$129 million in cash. Concurrently, the Company agreed to pay security deposits of \$13 million, which will be refunded upon expiration of the leases. At January 2, 1998, sales of three of these nine properties had closed, resulting in a \$7 million excess of the sales price over the net book value, which will be recognized as a reduction of rent expense over the 15-year initial lease terms. All of the aforementioned leases are renewable at the option of the Company.

On April 11, 1997, the Company sold five senior living communities for cash consideration of approximately \$79 million. On September 12, 1997, the Company agreed to sell another seven senior living communities for cash consideration of approximately \$93 million. As of January 2, 1998, the sales of five of these properties had closed. The Company will continue to operate all of these communities under long-term management agreements.

On June 21, 1997, the Company sold 29 senior living communities acquired as part of the Forum acquisition, to Host Marriott for approximately \$550 million, resulting in no gain or loss. The consideration included approximately \$50 million to be received subsequent to 1997 as expansions at certain communities are completed. The \$500 million of consideration received during 1997 consisted of \$222 million in cash, \$187 million of outstanding debt, \$50 million of notes receivable due June 20, 1998, and \$41 million of notes receivable due January 1, 2001. The notes receivable from Host Marriott bear interest at nine percent. Under the terms of the sale, Host Marriott purchased all of the common stock of Forum which, at the time of the sale, included the 29 communities, certain working capital and associated debt. The Company will continue to operate these communities under long-term management agreements.

The Company sold four senior living communities during 1996 and three senior living communities during 1995, retaining long-term operating agreements.

Capital Expenditures and Other Investments. Capital expenditures in 1997, 1996 and 1995 of \$520 million, \$293 million and \$127 million, respectively, included construction and development of new senior living communities and Courtyard, Residence Inn and TownePlace Suites properties. Capital expenditures are expected to increase in 1998. The Company expects that, over time, it will sell certain lodging and senior living service properties under development, or to be developed, while continuing to operate them under long-term agreements.

The Company also will continue to make other investments to grow its businesses, including development of new timeshare resorts and loans and minority equity investments in connection with adding units to the Marriott Lodging and Senior Living Services businesses.

The Company has made loans to owners of hotel and senior living properties which it operates or franchises. At January 2, 1998, and January 3, 1997, loans outstanding pursuant to this program totaled \$351 million and \$186 million, respectively. Unfunded commitments aggregating \$220 million were outstanding at January 2, 1998. These loans are typically secured by mortgages on the projects. During 1997, \$18 million of proceeds were received from sales of such loans to institutional investors. The Company participates in a program with an unaffiliated lender in which the Company may provide credit enhancements for loans made to facilitate third party ownership of Company-operated or franchised hotels and senior living services communities.

The annual capital required by the Company to maintain its hotels and senior living communities is modest. Most of the Company's operating agreements require that specified percentages of sales be set aside for renovation and refurbishment of the properties.

The Company, like most computer users, will be required to modify significant portions of its computer software so that it will function properly prior to, in the year 2000 and beyond. The Company has assembled a dedicated team to address the year 2000 issue. This team has completed an inventory of all systems requiring modification, and has completed the remediation of some significant systems. Many of the costs to be incurred will be reimbursed to the Company or otherwise paid directly by owners and clients, pursuant to existing contracts. Estimated pre-tax maintenance and modification costs to be borne by the Company are approximately \$25 to \$30 million and will be expensed as incurred. These amounts are subject to numerous estimation uncertainties including the extent of work to be done, availability and cost of consultants and the extent of testing required.

#### Cash From Financing Activities -----

Non-interest bearing cash advances to or from Marriott International, Inc. are made to allow both the Company and Marriott International, Inc. to meet their respective cash requirements. Through such advances, the Company has had access to funds from Marriott International, Inc.'s \$1.5 billion revolving credit facility and commercial paper program.

In 1996, the Company received proceeds of \$288 million from the issuance of zero coupon subordinated Liquid Yield Option Notes which have an aggregate maturity value of \$540 million in 2011. Each \$1,000 LYON was issued at a discount representing a yield to maturity of 4.25 percent.

Upon consummation of the Spinoff, each LYON will be convertible into 8.76 shares of New Marriott Common Stock, 8.76 shares of New Marriott Class A Common Stock and 2.19 shares of SMS common stock (after giving effect to a one-for-four reverse stock split). The LYONs will be assumed by the Company, and SMS will assume nine percent of the LYONs obligation, which percentage is based on an estimate of the relative equity values of SMS and the Company. The Company will remain liable to the holders of the LYONs for any payments that SMS fails to make on its allocable portion.

The Company has entered into a \$1.5 billion multicurrency revolving credit agreement permitting borrowings by the Company following consummation of the Spinoff. The facility has a term of five years and borrowings will bear interest at LIBOR plus a spread, based on the Company's public debt rating. Additionally, annual fees will be paid on the facility at a rate also based on the Company's public debt rating.

On February 25, 1998, Marriott International, Inc. commenced a tender offer and consent solicitation for all \$600 million of its outstanding public senior debt (the Marriott International Public Debt) and RHG Finance Corporation, a subsidiary of Marriott International, Inc. (and which will be a subsidiary of the Company upon the Spinoff), commenced a tender offer and consent solicitation for all \$120 million of its outstanding public debt (the RHG Public Debt), which is guaranteed by Marriott International, Inc. In the event that the consent solicitation for any of the four series of Marriott International Public Debt is unsuccessful, the Company will assume the debt of such series that is not purchased by Marriott International, Inc. in the tender offer, and any untendered RHG Public Debt will constitute part of the Company's consolidated debt and will be guaranteed by the Company. Under its agreements with Sodexho and Marriott International, Inc., to the extent that the Company assumes any such Marriott International Public Debt, or any RHG Public Debt is not purchased in the tender offer, Marriott International, Inc. will make a cash payment to the Company in an amount equal to the aggregate amount of such debt.

Dividends. The Company expects to pay quarterly dividends comparable to those historically paid by Marriott International, Inc.

Share Repurchases. The Company has been authorized by its Board of Directors to purchase, subsequent to the consummation of the Spinoff, up to approximately five million shares of New Marriott Common Stock and up to approximately five million shares of New Marriott Class A Common Stock.

#### OTHER MATTERS

##### Inflation

- - - - -

The rate of inflation has been moderate in recent years and, accordingly, has not had a significant impact on the Company's businesses.

##### Market Risk Disclosures

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The Company's earnings are affected by changes in interest rates as a result of holding certain notes receivable which earn a variable rate of interest. If interest rates increased by 10 percent, interest income would have increased by \$1 million, based on balances during the fiscal year ended January 2, 1998. Changes in interest rates also impact the fair value of the Company's fixed rate notes receivable. If interest rates increased by 10 percent, the fair value of the Company's fixed rate notes receivable balances would have decreased by approximately \$4 million, based on balances at January 2, 1998.

The Company uses a foreign exchange swap to hedge a loan receivable denominated in UK pounds sterling, and interest rate swap agreements to hedge interest rate exposures relating to the Company's timeshare mortgage financing program. The fair value of these arrangements, and the exposures to loss in earnings, fair value and cash flows arising from these arrangements are not material to the Company.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial information is included on the pages indicated:

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Report of Independent Public Accountants.....	21
Combined Statement of Income.....	22
Combined Balance Sheet.....	23
Combined Statement of Cash Flows.....	24
Notes to Combined Financial Statements.....	25-40

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholder of New Marriott MI, Inc.:

We have audited the accompanying combined balance sheet of New Marriott MI, Inc. as of January 2, 1998 and January 3, 1997, and the related combined statements of income and cash flows for each of the three fiscal years in the period ended January 2, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an 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 audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of New Marriott MI, Inc. as of January 2, 1998 and January 3, 1997, and the results of its operations and its cash flows for each of the three fiscal years in the period ended January 2, 1998, in conformity with generally accepted accounting principles.

/s/ ARTHUR ANDERSEN LLP

Washington, D.C.  
February 19, 1998

NEW MARRIOTT MI, INC.  
 COMBINED STATEMENT OF INCOME  
 FISCAL YEARS ENDED JANUARY 2, 1998, JANUARY 3, 1997 AND DECEMBER 29, 1995  
 (\$ IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	1997	1996	1995
	(52 weeks)	(53 weeks)	(52 weeks)
<b>SALES</b>			
Lodging			
Rooms.....	\$ 4,288	\$ 3,619	\$ 3,273
Food and beverage.....	1,577	1,361	1,289
Other.....	1,143	874	765
	-----	-----	-----
	7,008	5,854	5,327
Contract Services.....	2,038	1,413	928
	-----	-----	-----
	9,046	7,267	6,255
	-----	-----	-----
<b>OPERATING COSTS AND EXPENSES</b>			
Lodging			
Departmental direct costs			
Rooms.....	964	843	772
Food and beverage.....	1,195	1,038	973
Remittances to hotel owners (including \$541, \$438 and \$300, respectively, to related parties).....	1,493	1,256	1,120
Other operating expenses.....	2,787	2,265	2,102
	-----	-----	-----
	6,439	5,402	4,967
Contract Services.....	1,998	1,357	898
	-----	-----	-----
	8,437	6,759	5,865
	-----	-----	-----
<b>OPERATING PROFIT</b>			
Lodging.....	569	452	360
Contract Services.....	40	56	30
	-----	-----	-----
<b>OPERATING PROFIT BEFORE CORPORATE EXPENSES AND INTEREST.....</b>			
Corporate expenses.....	609	508	390
Interest expense.....	(88)	(73)	(59)
Interest income.....	(22)	(37)	(9)
	-----	-----	-----
	32	37	39
	-----	-----	-----
<b>INCOME BEFORE INCOME TAXES.....</b>	531	435	361
Provision for income taxes.....	207	165	142
	-----	-----	-----
<b>NET INCOME.....</b>	\$ 324	\$ 270	\$ 219
	=====	=====	=====
<b>EARNINGS PER SHARE</b>			
Pro Forma Basic Earnings per Share (Unaudited).....	\$ 1.27	\$ 1.06	\$ .88
	=====	=====	=====
Pro Forma Diluted Earnings per Share (Unaudited).....	\$ 1.19	\$ .99	\$ .83
	=====	=====	=====

See Notes To Combined Financial Statements

NEW MARRIOTT MI, INC.  
 COMBINED BALANCE SHEET  
 January 2, 1998 and January 3, 1997  
 (\$ in millions)

	January 2, 1998	January 3, 1997
ASSETS		
Current assets		
Cash and equivalents.....	\$ 289	\$ 239
Accounts and notes receivable.....	724	426
Inventories, at lower of average cost or market.....	129	124
Prepaid taxes.....	159	149
Other.....	66	46
	1,367	984
Property and equipment.....		
Intangible assets.....	1,537	1,824
Investments in affiliates.....	1,448	333
Notes and other receivable.....	530	491
Other.....	414	292
	261	274
	\$ 5,557	\$ 4,198
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable.....	\$ 839	\$ 716
Accrued payroll and benefits.....	333	264
Self-insurance.....	57	50
Other payables and accruals.....	410	374
	1,639	1,404
Long-term debt.....		
Self-insurance.....	112	384
Other long-term liabilities.....	196	191
Convertible subordinated debt.....	714	478
Equity	310	297
Investments and net advances from Marriott International, Inc.....	2,586	1,444
	\$ 5,557	\$ 4,198

See Notes To Combined Financial Statements

NEW MARRIOTT MI, INC.  
 COMBINED STATEMENT OF CASH FLOWS  
 Fiscal Years Ended January 2, 1998, January 3, 1997 and December 29, 1995  
 (\$ in millions)

	1997	1996	1995
	(52 weeks)	(53 weeks)	(52 weeks)
<b>OPERATING ACTIVITIES</b>			
Net income.....	\$ 324	\$ 270	\$ 219
Adjustments to reconcile to cash provided by operations:			
Depreciation and amortization.....	126	89	67
Income taxes.....	64	69	61
Timeshare activity, net.....	(118)	(95)	(192)
Other.....	86	61	46
Working capital changes:			
Accounts receivable.....	(82)	(30)	(31)
Inventories.....	-	13	(6)
Other current assets.....	(8)	2	(8)
Accounts payable and accruals.....	129	125	125
Cash provided by operations.....	521	504	281
<b>INVESTING ACTIVITIES</b>			
Capital expenditures.....	(520)	(293)	(127)
Acquisitions.....	(859)	(307)	(210)
Dispositions.....	559	65	42
Loans to Host Marriott Corporation.....	(5)	(16)	(210)
Loan repayments from Host Marriott Corporation.....	6	141	250
Other loan advances.....	(90)	(73)	(143)
Other loan collections and sales.....	41	155	37
Other.....	(180)	(158)	(120)
Cash used in investing activities.....	(1,048)	(486)	(481)
<b>FINANCING ACTIVITIES</b>			
Issuances of long-term debt.....	16	-	11
Repayments of long-term debt.....	(15)	(133)	(14)
Issuance of convertible subordinated debt.....	-	288	-
Advances from (to) Marriott International, Inc.....	576	(132)	215
Cash provided by financing activities.....	577	23	212
<b>INCREASE IN CASH AND EQUIVALENTS</b>	50	41	12
CASH AND EQUIVALENTS, beginning of year.....	239	198	186
CASH AND EQUIVALENTS, end of year.....	\$ 289	\$ 239	\$ 198

See Notes To Combined Financial Statements



NEW MARRIOTT MI, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

On October 1, 1997, Marriott International, Inc. announced a definitive agreement to combine the operations of its Marriott Management Services Division with the North American operations of Sodexo Alliance, S.A. (Sodexo), a worldwide food and management services organization. Prior to the merger, all of the issued and outstanding common stock of New Marriott MI, Inc. (together with its subsidiaries, the Company) will be distributed, on a pro rata basis, as a special dividend to holders of Marriott International, Inc. common stock (the Spinoff). For each share of common stock in Marriott International, Inc., shareholders will receive one share of Company Common Stock and one share of Company Class A Common Stock. The Spinoff and merger are expected to be consummated on March 27, 1998, subject to customary conditions, including approval by Marriott International, Inc.'s shareholders. A special meeting of shareholders is scheduled to be held on March 17, 1998 for purposes of considering and acting on the foregoing transactions and related matters.

Marriott International, Inc. has received a private letter ruling from the Internal Revenue Service that the Spinoff will be tax-free to Marriott International, Inc. and its shareholders. The Company will be renamed "Marriott International, Inc." and its common stock will be listed on the New York Stock Exchange, subject to official notice of issuance.

For the purposes of governing certain of the ongoing relationships between the Company and SMS after the Spinoff and to provide for orderly transition, the Company and SMS will enter into various agreements including the Distribution Agreement, Employee Benefits and Other Employment Matters Allocation Agreement, Liquid Yield Option Notes (LYONS) Allocation Agreement, Tax Sharing Agreement, Trademark and Trade Name License Agreement, Noncompetition Agreement, Employee Benefit Services Agreement, Procurement Services Agreement, Distribution Services Agreement and other transitional services agreements. Effective as of the Spinoff date, these agreements will provide, among other things, that the Company will assume sponsorship of certain of Marriott International, Inc.'s employee benefit plans and insurance programs as well as succeed to Marriott International, Inc.'s liability to LYONS holders under the LYONS Indenture, a portion of which will be assumed by SMS.

These combined financial statements present the financial position, results of operations and cash flows of the Company as if it were a separate entity for all periods presented. Marriott International, Inc.'s historical basis in the assets and liabilities of the Company has been carried over. All material intercompany transactions and balances between entities included in these combined financial statements have been eliminated. Sales by the Company to Marriott International, Inc., of \$434 million in 1997, \$406 million in 1996 and \$325 million in 1995 have not been eliminated. Changes in Investments and Net Advances from Marriott International, Inc. represent the net income of the Company plus the net cash transferred between Marriott International, Inc. and the Company and certain non-cash items.

The Company has operated as a unit of Marriott International, Inc., utilizing Marriott International, Inc.'s centralized systems for cash management, payroll, purchasing and distribution, employee benefit plans, insurance and administrative services. As a result, substantially all cash received by the Company was deposited in and commingled with Marriott International, Inc.'s general corporate funds. Similarly, operating expenses, capital expenditures and other cash requirements of the Company were paid by Marriott International, Inc. and charged directly or allocated to the Company. Certain assets and liabilities related to the Company's operations are managed and controlled by Marriott International, Inc. on a centralized basis. Such assets and liabilities have been allocated to the Company based on the Company's use of, or interest in, those assets and liabilities. In the opinion of management, Marriott International, Inc.'s methods for allocating costs, assets and liabilities are believed to be reasonable. After the Spinoff, the Company intends to perform these functions independently and expects that the costs incurred will not be materially different from those currently allocated.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date

NEW MARRIOTT MI, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS -- (Continued)

of the financial statements, and the reported amounts of sales and expenses during the reporting period. Accordingly, ultimate results could differ from those estimates.

#### Fiscal Year

The Company's fiscal year ends on the Friday nearest to December 31. The 1996 fiscal year includes 53 weeks, while 1997 and 1995 fiscal years include 52 weeks.

#### Managed Operations

The Company operates 509 hotels and 55 senior living communities under long-term management agreements whereby remittances to owners, of \$1,350 million, \$1,056 million and \$960 million in 1997, 1996 and 1995, respectively, are based primarily on profits.

Working capital and operating results of managed hotels and senior living communities operated by the Company's employees are consolidated because the operating responsibilities associated with such entities are substantially the same as if they were owned. The combined financial statements include the following related to managed hotels and senior living communities operated by the Company's employees: current assets and current liabilities of \$512 million at January 2, 1998 and \$320 million at January 3, 1997; sales of \$5,515 million in 1997, \$4,595 million in 1996 and \$4,071 million in 1995; and operating expenses, including remittances to owners, of \$5,181 million in 1997, \$4,322 million in 1996 and \$3,830 million in 1995.

#### International Operations

The combined statement of income includes the following related to international operations: sales of \$333 million in 1997, \$224 million in 1996 and \$189 million in 1995; and operating profit before corporate expenses and interest of \$49 million in 1997, \$21 million in 1996 and \$19 million in 1995.

#### Profit Sharing Plan

Marriott International, Inc. contributes to a profit sharing plan for the benefit of employees meeting certain eligibility requirements and electing participation in the plan. Contributions are determined annually by the Board of Directors of Marriott International, Inc. The Company's contributions are based on salaries and wages of participating Company employees and totaled \$36 million for 1997, \$29 million for 1996 and \$22 million for 1995.

#### Self-Insurance Programs

Marriott International, Inc. is self-insured for certain levels of general liability, workers' compensation, employment practices and employee medical coverage. Estimated costs of these self-insurance programs are accrued at the present value of projected settlements for known and anticipated claims.

#### General and Administrative Expenses

Marriott International, Inc. provided certain corporate general and administrative services to the Company and the cost of those services was allocated to the Company based on the services provided.

#### Interest Expense

The interest expense reflected in the combined statement of income is based upon the historical debt of the Company.

NEW MARRIOTT MI, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS -- (Continued)

Cash and Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at date of purchase to be cash equivalents. Marriott International, Inc. uses drafts in its cash management system. At January 2, 1998 and January 3, 1997, outstanding drafts of Marriott International, Inc. allocated to the Company are included in accounts payable and totaled \$135 million and \$124 million, respectively. At January 2, 1998 and January 3, 1997, cash included \$140 million and \$133 million, respectively, related to managed properties. Marriott International, Inc.'s centralized cash has been allocated to the Company.

New Accounting Standards

The Company will adopt Statement of Financial Accounting Standards (FAS) No. 130, "Reporting Comprehensive Income" and FAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" during 1998. The Company is evaluating the impact of these statements on its combined financial statements. FAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" was adopted during the first quarter of 1997, and FAS No. 129, "Disclosure of Information about Capital Structure" was adopted in the fourth quarter of 1997, with no material effect on the Company's combined financial statements.

The Company adopted FAS No. 128, "Earnings Per Share" in the fourth quarter of 1997. A comparison to pro forma earnings per share as previously calculated follows:

	(unaudited)		
	1997	1996	1995
Pro Forma Primary Earnings Per Share as previously calculated.....	\$ 1.21	\$ 1.00	\$ .83
Pro Forma Fully Diluted Earnings Per Share as previously calculated.....	\$ 1.19	\$ .99	\$ .83
Pro Forma Basic Earnings Per Share.....	\$ 1.27	\$ 1.06	\$ .88
Pro Forma Diluted Earnings Per Share.....	\$ 1.19	\$ .99	\$ .83

On November 20, 1997, the Emerging Issues Task Force of the Financial Accounting Standards Board reached a consensus on EITF 97-2 "Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangements." EITF 97-2 addresses the circumstances in which a management entity may include the revenues and expenses of a managed entity in its financial statements.

The Company is assessing the impact of EITF 97-2 on its long-standing policy of including in its financial statements the working capital, revenues and operating expenses of managed hotels and retirement communities operated with the Company's employees. If the Company concludes that EITF 97-2 should be applied to its management agreements, it would no longer include in its financial statements certain working capital and revenues of those managed operations. Application of EITF 97-2 to the Company's financial statements as of and for the 52 weeks ended January 2, 1998, would have reduced each of revenues and operating expenses by approximately \$1.3 billion, and would have no impact on operating profit, net income, pro forma earnings per share or equity.

RELATIONSHIP WITH HOST MARRIOTT AND HOST MARRIOTT SERVICES

Marriott International, Inc., the Company and Host Marriott Corporation (Host Marriott) have entered into agreements which provide, among other things, for (i) the Company to manage and franchise lodging properties owned or leased by Host Marriott (the Host Marriott Lodging Management Agreements), (ii) the Company to manage senior living communities owned by Host Marriott (the Host Marriott Senior Living Management Agreements), (iii) Marriott International, Inc. to guarantee Host Marriott's performance in connection with certain loans or other obligations (the Marriott International, Inc. Guarantees), and (iv) the Company to provide Host Marriott with various administrative services (the Service Agreements). Upon consummation of the Spinoff, the Company will replace Marriott International, Inc. under these agreements and guarantees. Marriott International, Inc. has the right to purchase up to 20 percent of the voting stock of Host Marriott if certain events involving a change of control occur. This right will be assigned to the Company upon consummation of the Spinoff.

The Host Marriott Lodging Management Agreements provide for the Company to manage Marriott hotels, Courtyard hotels and Residence Inns owned or leased by Host Marriott. Each Host Marriott Lodging Management Agreement, when entered into, reflects market terms and conditions and is substantially similar to the terms of management agreements with third-party owners regarding lodging facilities of a similar type. The Company recognized sales of \$2,302 million, \$1,787 million and \$1,274 million and operating profit before corporate expenses and interest of \$140 million, \$95 million and \$59 million during 1997, 1996 and 1995, respectively, from the lodging properties owned or leased by Host Marriott. Additionally, Host Marriott is a general partner in several unconsolidated partnerships that own lodging properties operated by the Company under long-term agreements. The Company recognized sales of \$1,513 million, \$1,769 million and \$1,878 million and operating profit before corporate expenses and interest of \$122 million, \$121 million and \$115 million in 1997, 1996 and 1995, respectively, from the lodging properties owned by these unconsolidated partnerships. The Company also leases land to certain of these partnerships and recognized land rent income of \$23 million, \$22 million and \$21 million in 1997, 1996 and 1995, respectively.

The Host Marriott Senior Living Management Agreements provide for the Company to manage independent full-service senior living communities owned or leased by Host Marriott. These agreements, entered into on June 21, 1997, reflect market terms and conditions and are substantially similar to management agreements with third-party owners. The Company recognized sales of \$126 million and operating profit before corporate expenses and interest of \$1 million under these agreements during 1997.

The Company has provided, and may provide in the future, financing to Host Marriott for a portion of the cost of acquiring properties to be operated or franchised by the Company, including partial consideration for Host Marriott's purchase of 29 senior living communities from the Company. The outstanding principal balance of these loans was \$135 million and \$37 million at January 2, 1998 and January 3, 1997, respectively, and the Company recognized \$9 million, \$17 million and \$23 million in 1997, 1996 and 1995, respectively, in interest and fee income under these credit agreements with Host Marriott.

Under the Marriott International, Inc. Guarantees, Marriott International, Inc. has guaranteed the performance of Host Marriott and certain of its affiliates to lenders and other third parties. These guarantees were limited to \$107 million at January 2, 1998. No payments have been made by Marriott International, Inc. pursuant to these guarantees.

On December 29, 1995, Host Marriott distributed to its shareholders through a special dividend all of the outstanding shares of common stock of Host Marriott Services Corporation (Host Marriott Services), which operates food, beverage and merchandise concessions at airports, on toll roads and at arenas and other tourist attractions. The Company provides certain administrative and data processing services to Host Marriott Services for which the Company charged \$10 million and \$11 million in 1997 and 1996, respectively. In addition, the Company provides and distributes food and supplies to Host Marriott Services, for which the Company charged \$80 million in 1997, \$77 million in 1996 and (prior to the special dividend) \$65 million in 1995.

NEW MARRIOTT MI, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS -- (Continued)

The Company also provides certain administrative services to Host Marriott (including the services provided to Host Marriott Services prior to the special dividend) for which the Company charged \$17 million in 1997, \$19 million in 1996 and \$25 million in 1995, including reimbursements.

PROPERTY AND EQUIPMENT

	1997	1996
-----		
(in millions)		
Land.....	\$ 425	\$ 433
Buildings and leasehold improvements.....	486	847
Furniture and equipment.....	329	323
Timeshare properties.....	379	335
Construction in progress.....	230	183
	-----	-----
	1,849	2,121
Accumulated depreciation and amortization.....	(312)	(297)
	-----	-----
	\$ 1,537	\$ 1,824
	=====	=====

Property and equipment is recorded at cost, including interest, rent and real estate taxes incurred during development and construction. Interest capitalized as a cost of property and equipment totaled \$16 million in 1997, \$9 million in 1996 and \$8 million in 1995. Replacements and improvements that extend the useful life of property and equipment are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the asset life or lease term. Land with an aggregate book value of \$264 million at January 2, 1998 is leased to certain partnerships affiliated with Host Marriott. Most of this land has been pledged to secure debt of these lessees. The Company has agreed to defer receipt of rentals on this land, if necessary, to permit the lessees to meet their debt service requirements.

ACQUISITIONS AND DISPOSITIONS

Renaissance Hotel Group N.V.

On March 29, 1997, the Company acquired substantially all of the outstanding common stock of Renaissance Hotel Group N.V. (RHG), an operator and franchisor of approximately 150 hotels in 38 countries under the Renaissance, New World and Ramada International brands. The purchase cost, of approximately \$937 million, was funded by Marriott International, Inc. The acquisition has been accounted for using the purchase method of accounting. The purchase cost has been allocated to the assets acquired and liabilities assumed based on estimated fair values as follows:

(in millions)	
Current assets.....	\$ 141
Hotel management, franchise and license agreements.....	380
Other assets.....	7
Current liabilities.....	(119)
Long-term debt.....	(12)
Other long-term liabilities.....	(106)
Investments and net advances from Marriott International, Inc.....	(128)
Goodwill.....	774
	-----
Purchase cost.....	\$ 937
	=====

Goodwill is being amortized on a straight-line basis over 40 years. Amounts allocated to management, franchise and license agreements are being amortized on a straight-line basis over the lives of the agreements.

NEW MARRIOTT MI, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS -- (Continued)

The Company included RHG's operating results from the date of acquisition. Summarized below are the unaudited pro forma combined results of operations of the Company for 1997 and 1996, as if RHG had been acquired at the beginning of the respective fiscal years (in millions).

	1997	1996
	-----	-----
Sales.....	\$ 9,244	\$ 8,123
	=====	=====
Net income.....	\$ 319	\$ 242
	=====	=====

Unaudited pro forma results of operations include an adjustment for interest expense of \$12 million and \$53 million for 1997 and 1996, respectively, as if the acquisition borrowings had been incurred by the Company. Amortization expense deducted in determining net income reflects the impact of the excess of the purchase price over the net tangible assets acquired. The unaudited pro forma combined results of operations do not reflect the Company's expected future results of operations.

Dr. Henry Cheng Kar-Shun is the Managing Director of New World Development Company Limited (New World Development) and, together with his family and affiliated corporations, owns or otherwise controls approximately 35 percent of New World Development's common stock. Effective June 1, 1997, Dr. Cheng was appointed to the Board of Directors of Marriott International, Inc. Dr. Cheng, New World Development and their affiliates own all or a portion of 87 hotels that are operated by the Company and, prior to the Company's acquisition of RHG, owned a majority of RHG common stock. New World Development and other affiliates of Dr. Cheng have indemnified the Company for certain lease, debt, guarantee and other obligations resulting from the formation of RHG as a hotel management company in 1995.

The Ritz-Carlton Hotel Company LLC

On April 24, 1995, the Company acquired a 49 percent beneficial ownership interest in The Ritz-Carlton Hotel Company LLC, which owns the management agreements on the Ritz-Carlton hotels and resorts, the licenses for the Ritz-Carlton trademarks and trade name as well as miscellaneous assets. The investment was acquired for a total consideration of approximately \$200 million. The Company expects to acquire the remaining 51 percent within the next several years beginning in 1998. The investment in the Ritz-Carlton Hotel Company LLC is accounted for using the equity method of accounting.

The excess of the Company's investment in The Ritz-Carlton Hotel Company LLC over its share of the net tangible assets is being amortized over 25 years. The Company's income from The Ritz-Carlton Hotel Company LLC is included in lodging operating profit in the accompanying combined statement of income. The Company received distributions of \$17 million, \$20 million and \$6 million in 1997, 1996 and 1995, respectively, from its investment in The Ritz-Carlton Hotel Company LLC. Such amounts were based upon an annual, cumulative preferred return on invested capital.

NEW MARRIOTT MI, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS -- (Continued)

Forum Group, Inc.

On March 25, 1996, a wholly owned subsidiary of the Company acquired all of the outstanding shares of common stock of Forum Group, Inc. (Forum), an operator of 43 senior living communities, 34 of which were owned or partially owned by Forum, for total cash consideration of approximately \$303 million. The acquisition was accounted for using the purchase method of accounting. The purchase cost was allocated to the assets acquired and liabilities assumed based on estimated fair values as follows:

	(in millions)
Current assets.....	\$ 40
Property and equipment.....	531
Other assets.....	29
Current liabilities.....	(45)
Long-term debt.....	(363)
Other long-term liabilities.....	(58)
Goodwill.....	169
	-----
Purchase cost.....	\$ 303
	=====

Goodwill is being amortized on a straight-line basis over 35 years.

On June 21, 1997, the Company sold 29 senior living communities acquired as part of the Forum acquisition, to Host Marriott for approximately \$550 million, resulting in no gain or loss. The consideration included approximately \$50 million to be received subsequent to 1997, as expansions at certain communities are completed. The \$500 million of consideration received during 1997 consisted of \$222 million in cash, \$187 million of outstanding debt, \$50 million of notes receivable due on June 20, 1998, and \$41 million of notes receivable due on January 1, 2001. The notes receivable from Host Marriott bear interest at nine percent. Under the terms of sale, Host Marriott purchased all of the common stock of Forum which at the time of the sale included the 29 communities, certain working capital and associated debt. The Company will continue to operate these communities under long-term management agreements.

Other Property Sales

On April 3, 1997, the Company agreed to sell and leaseback, under long-term, limited-recourse leases, 14 limited service hotels for approximately \$149 million in cash. Concurrently, the Company agreed to pay security deposits of \$15 million, which will be refunded upon expiration of the leases. As of January 2, 1998, sales of all of the properties had closed, resulting in a \$20 million excess of the sales price over the net book value, which will be recognized as a reduction of rent expense over the 17-year initial lease terms. On October 10, 1997, the Company agreed to sell and leaseback, under long-term, limited-recourse leases, another nine limited service hotels for approximately \$129 million in cash. Concurrently, the Company agreed to pay security deposits of \$13 million, which will be refunded upon expiration of the leases. As of January 2, 1998, sales of three of these nine properties had closed, resulting in a \$7 million excess of the sales price over the net book value, which will be recognized as a reduction of rent expense over the 15-year initial lease terms. All of the aforementioned leases are renewable at the option of the Company.

On April 11, 1997, the Company sold five senior living communities for cash consideration of approximately \$79 million. On September 12, 1997, the Company agreed to sell another seven senior living communities for cash consideration of approximately \$93 million. As of January 2, 1998, the sales of five of these properties had closed. The Company will continue to operate all of these communities under long-term management agreements.

During 1996, the Company sold and leased back four senior living communities for cash consideration of approximately \$53 million. The excess of the sales price over the net book value of \$9 million will be recognized as a reduction of rent expense over the 20-year initial lease terms.

NEW MARRIOTT MI, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS -- (Continued)

Note Sales

The Company periodically sells, with limited recourse, notes receivable originated by Marriott Vacation Club International in connection with the sale of timesharing intervals. Net proceeds from these transactions totaled \$68 million in 1997 and \$148 million in 1996. At January 2, 1998, the Company had a repurchase obligation of \$70 million with respect to these mortgage note sales. Additionally, the Company sold, without recourse, first mortgage loans on Marriott lodging and senior living properties of \$18 million in 1997 and \$113 million in 1996.

INTANGIBLE ASSETS

	1997	1996
	(in millions)	
Hotel management, franchise and license agreements.....	\$ 587	\$ 178
Goodwill.....	937	190
Other.....	31	30
	1,555	398
Accumulated amortization.....	(107)	(65)
	\$ 1,448	\$ 333

Intangible assets are amortized on a straight-line basis over periods of three to 40 years. Amortization expense totaled \$42 million in 1997, \$12 million in 1996 and \$6 million in 1995.

INCOME TAXES

Total deferred tax assets and liabilities as of January 2, 1998 and January 3, 1997, were as follows:

	1997	1996
	(in millions)	
Deferred tax assets.....	\$ 388	\$ 389
Deferred tax liabilities.....	(378)	(304)
Net deferred taxes.....	\$ 10	\$ 85

The tax effect of each type of temporary difference and carryforward that gives rise to a significant portion of deferred tax assets and liabilities as of January 2, 1998 and January 3, 1997 follows:

	1997	1996
	(in millions)	
Self-insurance.....	\$ 103	\$ 103
Employee benefits.....	93	106
Deferred income.....	15	15
Other reserves.....	27	25
Frequent stay programs.....	99	78
Partnership interests.....	(31)	(37)
Property, equipment and intangible assets.....	(178)	(118)
Finance leases.....	(44)	(25)
Other, net.....	(74)	(62)
Net deferred taxes.....	\$ 10	\$ 85



NEW MARRIOTT MI, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS -- (Continued)

No provision for U.S. income taxes, or additional foreign taxes, has been made on the cumulative unremitted earnings of non-U.S. subsidiaries (\$60 million as of January 2, 1998) because management considers these earnings to be permanently invested. These earnings could become subject to additional taxes if remitted as dividends, loaned to the Company or a U.S. affiliate, or if the Company sells its interests in the affiliates. It is not practicable to estimate the amount of additional taxes which might be payable on the unremitted earnings.

The provision for income taxes consists of:

	1997	1996	1995
	-----	-----	-----
	(in millions)		
Current - Federal.....	\$ 168	\$ 102	\$ 46
- State.....	34	21	16
- Foreign.....	43	13	15
	-----	-----	-----
	245	136	77
Deferred - Federal.....	(34)	24	57
- State.....	(3)	4	10
- Foreign.....	(1)	1	(2)
	-----	-----	-----
	(38)	29	65
	-----	-----	-----
	\$ 207	\$ 165	\$ 142
	=====	=====	=====

The tax provision does not reflect the benefit attributable to the Company relating to the exercise of employee stock options of Marriott International, Inc. of \$38 million in 1997, \$27 million in 1996 and \$20 million in 1995.

A reconciliation of the U.S. statutory tax rate to the Company's effective income tax rate follows:

	1997	1996	1995
	-----	-----	-----
U.S. statutory tax rate.....	35.0%	35.0%	35.0%
State income taxes, net of U.S. tax benefit....	4.0	4.0	4.8
Corporate-owned life insurance.....	(0.8)	(0.8)	(1.3)
Tax credits.....	(3.4)	(2.2)	(1.5)
Goodwill amortization.....	1.6	0.6	0.2
Other, net.....	2.6	1.4	2.2
	-----	-----	-----
Effective rate.....	39.0%	38.0%	39.4%
	=====	=====	=====

Cash paid for income taxes, net of refunds, was \$143 million in 1997, \$96 million in 1996 and \$81 million in 1995.

As part of the Spinoff, SMS and the Company will enter into a tax sharing agreement which reflects each party's rights and obligations with respect to deficiencies and refunds, if any, of federal, state or other taxes relating to the business of Marriott International, Inc. and the Company prior to the Spinoff.

The Company is included in the consolidated federal income tax return of Marriott International, Inc. The income tax provision reflects the portion of Marriott International, Inc.'s historical income tax provision attributable to the operations of the Company. Management believes the income tax provision, as reflected, is comparable to what the income tax provision would have been if the Company had filed a separate return during the periods presented.

NEW MARRIOTT MI, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS -- (Continued)

LEASES

Summarized below are the Company's future obligations under leases at January 2, 1998:

Fiscal Year	Operating Leases ----- (in millions)
1998.....	\$ 135
1999.....	131
2000.....	126
2001.....	122
2002.....	123
Thereafter.....	1,149
	-----
Total minimum lease payments.....	\$ 1,786 =====

Most leases have initial terms of up to 20 years, and contain one or more renewal options, generally for five or 10 year periods. The leases provide for minimum rentals, and additional rentals which are based on the operations of the leased property.

Rent expense consists of:

	1997 -----	1996 ----- (in millions)	1995 -----
Minimum rentals.....	\$ 123	\$ 110	\$ 102
Additional rentals.....	127	133	102
	-----	-----	-----
	\$ 250 =====	\$ 243 =====	\$ 204 =====

LONG-TERM DEBT

Long-term debt at January 2, 1998 and January 3, 1997, consisted of the following:

	1997 -----	1996 -----
	(in millions)	
Secured debt.....	\$ -	\$ 283
Unsecured debt:		
Endowment deposits (non-interest bearing).....	108	107
Other.....	28	14
	-----	-----
	136	404
Less current portion.....	24	20
	-----	-----
	\$ 112 =====	\$ 384 =====

The Company has entered into a \$1.5 billion multicurrency revolving credit agreement permitting borrowings by the Company following consummation of the Spinoff. The facility has a term of five years and borrowings will bear interest at the London Interbank Offered Rate (LIBOR) plus a spread, based on the Company's public debt rating. Additionally, annual fees will be paid on the facility at a rate also based on the Company's public debt rating.

The 1997 combined statement of cash flows excludes \$226 million of debt assumed by Host Marriott and \$91 million of notes receivable related to the sale of 29 senior living communities to Host Marriott and \$12 million of debt assumed in the RHG acquisition. The 1996 combined statement of cash flows excludes \$363 million of Forum debt assumed at the date of acquisition by the Company. Non-recourse debt of \$62 million and \$29 million

NEW MARRIOTT MI, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS -- (Continued)

extinguished without cash payments in 1997 and 1996, respectively, and \$77 million assumed in 1995 is not reflected in the statement of cash flows.

Aggregate debt maturities are: 1998 - \$24 million; 1999 - \$11 million; 2000 - \$8 million; 2001 - \$9 million; 2002 - \$8 million and \$76 million thereafter.

Cash paid for interest was \$11 million in 1997, \$19 million in 1996, and \$2 million in 1995.

CONVERTIBLE SUBORDINATED DEBT

On March 25, 1996, \$540 million (principal amount at maturity) of zero coupon convertible subordinated debt in the form of LYONS due 2011 was issued. Each \$1,000 LYON is convertible at any time, at the option of the holder, into 8.76 shares of Marriott International, Inc.'s common stock. The LYONS were issued at a discount representing a yield to maturity of 4.25 percent. The Company recorded the LYONS at the discounted amount at issuance. Accretion is recorded as interest expense and an increase to the carrying value. Gross proceeds from the LYONS issuance were \$288 million.

Upon consummation of the Spinoff, each LYON will be convertible into 8.76 shares of Company Common Stock, 8.76 shares of Company Class A Common Stock and 2.19 shares of SMS common stock (after giving effect to a one-for-four reverse stock split). The LYONS will be assumed by the Company, and SMS will assume nine percent of the LYONS obligation, which percentage is based on an estimate of the relative equity values of SMS and the Company. The Company will be liable to the holders of the LYONS for any payments that SMS fails to make on its allocable portion.

At the option of the holder, the Company may be required to redeem each LYON on March 25, 1999, or March 25, 2006, for \$603.71 or \$810.36 per LYON, respectively. In such event, the Company may elect to redeem the LYONS for cash, common stock, or any combination thereof.

The LYONS are redeemable by the obligor at any time on or after March 25, 1999, for cash equal to the issue price plus accrued original issue discount. The LYONS are expressly subordinated to the senior indebtedness of the issuer, including guarantees, as defined in the indenture governing the LYONS (Senior Indebtedness). Marriott International, Inc.'s Senior Indebtedness amounted to \$1.8 billion at January 2, 1998. Following the Spinoff, the Company's obligations under the LYONS will be subordinated to the Company's Senior Indebtedness, and SMS's obligations under the LYONS will be subordinated to the Company's and SMS's Senior Indebtedness.

NEW MARRIOTT MI, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS -- (Continued)

PRO FORMA EARNINGS PER SHARE - UNAUDITED

The following table illustrates the reconciliation of the earnings and pro forma number of shares used in the basic and diluted pro forma earnings per share calculations (in millions, except per share amounts).

	1997	1996	1995
<b>Computation of Pro Forma Basic Earnings Per Share</b>			
Net income.....	\$ 324	\$ 270	\$ 219
Pro forma weighted average shares outstanding.....	254.2	254.9	249.6
	\$ 1.27	\$ 1.06	\$ .88
<b>Computation of Pro Forma Diluted Earnings Per Share</b>			
Net income.....	\$ 324	\$ 270	\$ 219
After-tax interest expense on convertible subordinated debt.....	8	6	-
	\$ 332	\$ 276	\$ 219
Pro forma weighted average shares outstanding.....	254.2	254.9	249.6
<b>Pro Forma Effect of Dilutive Securities</b>			
Employee stock purchase plan.....	0.1	0.5	0.2
Employee stock option plan.....	8.7	8.9	7.0
Deferred stock incentive plan.....	5.4	5.8	6.2
Convertible subordinated debt.....	9.5	7.3	-
	277.9	277.4	263.0
	\$ 1.19	\$ .99	\$ .83

The pro forma effect of dilutive securities is computed using the treasury stock method and average market prices during the period. The if-converted method is used for convertible subordinated debt.

INVESTMENTS AND NET ADVANCES FROM MARRIOTT INTERNATIONAL, INC.

The following is an analysis of Marriott International, Inc.'s investment in the Company:

	(in millions)		
	1997	1996	1995
Balance at beginning of year.....	\$ 1,444	\$ 1,251	\$ 763
Net income.....	324	270	219
Net cash transactions with Marriott International, Inc..	576	(132)	215
Employee stock plan issuance and other.....	242	55	54
	\$ 2,586	\$ 1,444	\$ 1,251

NEW MARRIOTT MI, INC.  
 NOTES TO COMBINED FINANCIAL STATEMENTS -- (Continued)

EMPLOYEE STOCK PLANS

Under Marriott International, Inc.'s 1996 Comprehensive Stock Incentive Plan (Comprehensive Plan), Marriott International, Inc. may award to participating Company employees (i) options to purchase Marriott International, Inc.'s common stock (Stock Option Program and Supplemental Executive Stock Option awards), (ii) deferred shares of Marriott International, Inc.'s common stock and (iii) restricted shares of Marriott International, Inc.'s common stock. In addition, Marriott International, Inc. has an employee stock purchase plan (Stock Purchase Plan). In accordance with the provisions of Opinion No. 25 of the Accounting Principles Board, no compensation cost is recognized for the Stock Option Program, the Supplemental Executive Stock Option awards or the Stock Purchase Plan.

Deferred shares granted to officers and key employees under the Comprehensive Plan generally vest over 10 years in annual installments commencing one year after the date of grant. Certain employees may elect to defer receipt of shares until termination or retirement. The Company accrues compensation expense for the fair market value of the shares on the date of grant, less estimated forfeitures. Marriott International, Inc. awarded 0.2 million and 0.4 million deferred shares to Company employees under this plan during 1997 and 1996, respectively. Compensation cost recognized during 1997 and 1996 was \$9 million and \$8 million, respectively.

Restricted shares under the Comprehensive Plan are issued to officers and key employees and distributed over a number of years in annual installments, subject to certain prescribed conditions including continued employment. The Company recognizes compensation expense for the restricted shares over the restriction period equal to the fair market value of the shares on the date of issuance. Marriott International, Inc. awarded 0.1 million and 0.2 million restricted shares to Company employees under this plan during 1997 and 1996, respectively. Compensation cost recognized was \$2 million in each of 1997 and 1996.

Under the Stock Purchase Plan, eligible employees may purchase Marriott International, Inc. common stock through payroll deductions at the lower of market value at the beginning or end of each plan year.

Employee stock options may be granted to officers and key employees at exercise prices not less than the market price of Marriott International, Inc.'s stock on the date of grant. Nonqualified options expire up to 15 years after the date of grant. Most options under the Stock Option Program are exercisable in cumulative installments of one-fourth at the end of each of the first four years following the date of grant. In February 1997, Marriott International, Inc. issued one million Supplemental Executive Stock Option awards to certain Company employees, which vest after eight years. However, if Marriott International, Inc.'s stock price meets certain performance criteria the options may vest sooner. These options have an exercise price of \$54 and none of them were exercised or forfeited during 1997.

For purposes of the following disclosures required by FAS No. 123, "Accounting for Stock-Based Compensation," the fair value of each option granted has been estimated on the date of grant using the Black-Scholes option-pricing model, with the following assumptions:

	1997	1996	1995
	-----	-----	-----
Annual dividends.....	\$ .35	\$ .32	\$ .28
Expected volatility.....	24%	25%	26%
Risk free interest rate.....	6.2%	6.1%	5.9%
Expected life (in years).....	7	7	7

Pro forma compensation cost for the Stock Option Program, the Supplemental Executive Stock Option awards and employee purchases pursuant to the Stock Purchase Plan subsequent to December 30, 1994, recognized in accordance with FAS No. 123, would reduce the Company's net income as follows (in millions):

	1997	1996	1995
	-----	-----	-----
Net income as reported.....	\$ 324	\$ 270	\$ 219
Pro forma net income.....	\$ 309	\$ 261	\$ 216



NEW MARRIOTT MI, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS -- (Continued)

BUSINESS SEGMENTS

	1997	1996	1995
	-----	-----	-----
		(in millions)	
Identifiable assets			
Lodging.....	\$ 3,995	\$ 2,414	\$ 2,329
Contract Services.....	968	1,279	377
Corporate.....	594	505	473
	-----	-----	-----
	\$ 5,557	\$ 4,198	\$ 3,179
	=====	=====	=====
Capital expenditures			
Lodging.....	\$ 271	\$ 158	\$ 76
Contract Services.....	233	122	44
Corporate.....	16	13	7
	-----	-----	-----
	\$ 520	\$ 293	\$ 127
	=====	=====	=====
Depreciation and amortization			
Lodging.....	\$ 89	\$ 55	\$ 45
Contract Services.....	25	24	11
Corporate.....	12	10	11
	-----	-----	-----
	\$ 126	\$ 89	\$ 67
	=====	=====	=====

The Company is a diversified hospitality company with operations in two business segments: Lodging, which includes development, ownership, operation and franchising of lodging properties under 10 brand names and development and operation of vacation timesharing resorts; and Contract Services, consisting of the development, ownership and operation of senior living communities and wholesale food distribution.

The results of operations of the Company's business segments are reported in the combined statement of income. Segment operating expenses include selling, general and administrative expenses directly related to the operations of the businesses, aggregating \$518 million in 1997, \$446 million in 1996 and \$380 million in 1995.

NEW MARRIOTT MI, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS -- (Continued)

QUARTERLY FINANCIAL DATA - UNAUDITED

(\$ in millions, except per share data)

	1997/1/				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
Systemwide revenues/2/.....	\$ 2,586	\$ 3,173	\$ 3,127	\$ 4,310	\$ 13,196
Sales.....	1,909	2,195	2,073	2,869	9,046
Operating profit before corporate expenses and interest.....	135	159	136	179	609
Net income.....	69	84	74	97	324
Pro forma diluted earnings per share/3,4/.....	.26	.31	.27	.36	1.19

	1996/1/				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
Systemwide revenues/2/.....	\$ 2,001	\$ 2,323	\$ 2,277	\$ 3,298	\$ 9,899
Sales.....	1,509	1,696	1,645	2,417	7,267
Operating profit before corporate expenses and interest.....	101	129	115	163	508
Net income.....	64	62	59	85	270
Pro forma diluted earnings per share/3,4/.....	.22	.23	.22	.31	.99

/1/ The quarters consist of 12 weeks, except the fourth quarter, which includes 16 weeks in 1997 and 17 weeks in 1996.

/2/ Systemwide revenues represent sales of the Company plus revenues of franchised lodging properties and other properties not operated with the Company's employees, less fees generated by such properties (that are already included in sales of the Company).

/3/ Pro forma earnings per share data reflect the adoption, in the fourth quarter of 1997, of Statement of Financial Accounting Standards No. 128, "Earnings Per Share."

/4/ The sum of the earnings per share for the four quarters differs from annual per share due to the required method of computing weighted average number of shares in interim periods.



ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEMS 10, 11, 12 and 13.

As described below, certain information appearing in the Company's Proxy Statement to be furnished to shareholders in connection with the 1998 Annual Meeting of Shareholders, is incorporated by reference in this Form 10-K Annual Report.

- ITEM 10. This information is incorporated by reference to the "Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" sections of the Company's Proxy Statement to be furnished to shareholders in connection with the 1998 Annual Meeting. Information regarding executive officers is included below.
- ITEM 11. This information is incorporated by reference to the "Executive Compensation" section of the Company's Proxy Statement to be furnished to shareholders in connection with the 1998 Annual Meeting.
- ITEM 12. This information is incorporated by reference to the "Security Ownership of Certain Beneficial Owners and Management" section of the Company's Proxy Statement to be furnished to shareholders in connection with the 1998 Annual Meeting.
- ITEM 13. This information is incorporated by reference to the "Certain Transactions" section of the Company's Proxy Statement to be furnished to shareholders in connection with the 1998 Annual Meeting.

EXECUTIVE OFFICERS

Set forth below is certain information with respect to the executive officers of the Company, each of whom currently holds the same positions with Marriott International, Inc. Such persons will relinquish their positions with Marriott International, Inc. on the Spinoff date. However, William J. Shaw will continue as Chairman of the SMS Board.

Name and Title	Age	Business Experience
J. W. Marriott, Jr. Chairman of the Marriott International, Inc. Board and Chief Executive Officer	65	Mr. Marriott is Chairman of the Marriott International, Inc. Board and Chief Executive Officer of the Company. He joined Marriott Corporation in 1956 and has been a member of the Board of Directors of Marriott Corporation / Host Marriott / Marriott International since 1964. He became President of Marriott Corporation in 1964, Chief Executive Officer of Marriott Corporation in 1972 and Chairman of the Board of Marriott Corporation in 1985. Mr. Marriott remains a director of Host Marriott and is a director of Host Marriott Services. He is also a director of General Motors Corporation and the U.S.-Russia Business Council. He serves on the Board of Trustees of the Mayo Foundation, National Geographic Society and Georgetown University. He is on the President's Advisory Committee of the American Red Cross and the Executive Committee of the World Travel & Tourism Council, and is a member of the Business Council and the Business Roundtable. Mr. Marriott has served as Chairman of the Marriott International, Inc. Board and Chief Executive Officer of Marriott International, Inc. since October 1993. He will become a director of the Company upon the Spinoff.
Todd Clist Vice President; President - Marriott Lodging, United States and Canada	56	Todd Clist joined Marriott Corporation in 1968. Mr. Clist served as general manager of several hotels before being named Regional Vice President, Midwest Region for Marriott Hotels, Resorts and Suites in 1980. Mr. Clist became Executive Vice President of Marketing for Marriott Hotels, Resorts and Suites in 1985, and Senior Vice President, Lodging Products and Markets in 1989. Mr. Clist was named Executive Vice President and General Manager for Fairfield Inn in 1990, for both Fairfield Inn and Courtyard in 1991, and for Fairfield Inn, Courtyard and Residence Inn in 1993. Mr. Clist was appointed to his current position in January 1994.
Edwin D. Fuller Vice President; President and Managing Director - Marriott Lodging International	52	Edwin D. Fuller joined Marriott Corporation in 1972 and held several sales positions before being appointed Vice President - Marketing in 1979. After serving as general manager at several Marriott hotels, Mr. Fuller became a Regional Vice President in 1985 and was promoted to Senior Vice President and Managing Director of Marriott Lodging International in 1990. Mr. Fuller was appointed to his current position in January 1994.

Name and Title	Age	Business Experience
Paul E. Johnson, Jr. Vice President; President - Marriott Senior Living Services	50	Paul E. Johnson, Jr. joined Marriott Corporation in 1983 in Corporate Financial Planning & Analysis. In 1987, he was promoted to Group Vice President of Finance and Development for the Marriott Service Group and later assumed responsibility for real estate development for Marriott Senior Living Services. During 1989, he served as Vice President and General Manager of Marriott Corporation's Travel Plazas division. Mr. Johnson subsequently served as Vice President and General Manager of Marriott Family Restaurants from December 1989 through 1991. In October 1991, he was appointed as Executive Vice President and General Manager of Marriott Senior Living Services, and in June 1996 he was appointed to his current position.
Brendan M. Keegan Senior Vice President - Human Resources	54	Brendan M. Keegan joined Marriott Corporation in 1971, in the Corporate Organization Development Department and subsequently held several human resources positions, including Vice President of Organization Development and Executive Succession Planning. In 1986, Mr. Keegan was named Senior Vice President, Human Resources, Marriott Service Group, which now comprises the Company's Contract Services Group. In April 1997, Mr. Keegan was appointed Senior Vice President of Human Resources for the Company's worldwide human resources functions, including compensation, benefits, labor and employee relations, employment, human resources planning and development and employee communications.
Robert T. Pras Vice President; President - Marriott Distribution Services	56	Robert T. Pras joined Marriott Corporation in 1979 as Executive Vice President of Fairfield Farm Kitchens, the predecessor of Marriott Distribution Services. In 1981, Mr. Pras became Executive Vice President of Procurement and Distribution. In May 1986, Mr. Pras was appointed to the additional position of General Manager of Marriott Corporation's Continuing Care Retirement Communities. He was named Executive Vice President and General Manager of Marriott Distribution Services in 1990. Mr. Pras was appointed to his current position in January 1997.
Joseph Ryan Executive Vice President and General Counsel	56	Joseph Ryan joined the Company in December 1994 as Executive Vice President and General Counsel. Prior to that time, he was a partner in the law firm of O'Melveny & Myers, serving as the Managing Partner from 1993 until his departure. He joined O'Melveny & Myers in 1967 and was admitted as a partner in 1976.

Name and Title	Age	Business Experience
William J. Shaw Director, President and Chief Operating Officer	52	On March 31, 1997, William J. Shaw became President and Chief Operating Officer of Marriott International, Inc. Mr. Shaw joined Marriott Corporation in 1974, was elected Corporate Controller in 1979 and a Vice President in 1982. In 1986, Mr. Shaw was elected Senior Vice President-Finance and Treasurer of Marriott Corporation. He was elected Executive Vice President of Marriott Corporation and promoted to Chief Financial Officer in April 1988. In February 1992, he was elected President of the Marriott Service Group, which now comprises Marriott International, Inc.'s Contract Services Group. Mr. Shaw was elected Executive Vice President and President - Marriott Service Group in October 1993. Mr. Shaw is also Chairman of the Board of Directors of Host Marriott Services. He also serves on the Board of Trustees of the University of Notre Dame, Loyola College in Maryland and the Suburban Hospital Foundation. Mr. Shaw has been a director of Marriott International, Inc. since May 1997 and a director of the Company since its inception in 1997.
Michael A. Stein Executive Vice President and Chief Financial Officer	48	Michael A. Stein joined Marriott Corporation in 1989 as Vice President, Finance and Chief Accounting Officer. In 1990, he assumed responsibility for Marriott Corporation's financial planning and analysis functions. In 1991, he was elected Senior Vice President, Finance and Corporate Controller of Marriott Corporation and also assumed responsibility for Marriott Corporation's internal audit function. In October 1993, he was appointed Executive Vice President and Chief Financial Officer of Marriott International, Inc. Prior to joining Marriott Corporation, Mr. Stein spent 18 years with Arthur Andersen LLP (formerly Arthur Andersen & Co.) where, since 1982, he was a partner.
James M. Sullivan Vice President; Executive Vice President - Lodging Development	54	James M. Sullivan joined Marriott Corporation in 1980, departed in 1983 to acquire, manage, expand and subsequently sell a successful restaurant chain, and returned to Marriott Corporation in 1986 as Vice President of Mergers and Acquisitions. Mr. Sullivan became Senior Vice President, Finance - Lodging in 1989, Senior Vice President - Lodging Development in 1990 and was appointed to his current position in December 1995.

Name and Title	Age	Business Experience
William R. Tiefel Executive Vice President and President - Marriott Lodging Group	63	William R. Tiefel joined Marriott Corporation in 1961 and was named President of Marriott Hotels, Resorts and Suites in 1988. He had previously served as resident manager and general manager at several Marriott hotels prior to being appointed Regional Vice President and later Executive Vice President of Marriott Hotels, Resorts and Suites and Marriott Ownership Resorts. Mr. Tiefel was elected Executive Vice President of Marriott Corporation in November 1989. In March 1992, he was elected President, Marriott Lodging Group and assumed responsibility for all of Marriott International, Inc.'s lodging brands. In October 1993, he was appointed to his current position.
Stephen P. Weisz Vice President; Executive Vice President - Marriott Lodging and President - Marriott Vacation Club International	47	Stephen P. Weisz joined Marriott Corporation in 1972 and was named Regional Vice President of the Mid-Atlantic Region in 1991. Mr. Weisz had previously served as Senior Vice President of Rooms Operations before being appointed as Vice President of the Revenue Management Group. Mr. Weisz became Senior Vice President of Sales and Marketing for Marriott Hotels, Resorts and Suites in August 1992 and Executive Vice President - Lodging Brands in August 1994. In December 1996, Mr. Weisz was appointed President, Marriott Vacation Club International.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) LIST OF DOCUMENTS FILED AS PART OF THIS REPORT

(1) FINANCIAL STATEMENTS

The response to this portion of Item 14 is submitted under Item 8 of this Report on Form 10-K.

(2) FINANCIAL STATEMENT SCHEDULES

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

(3) EXHIBITS

Any shareholder who desires a copy of the following Exhibits may obtain a copy upon request from the Company at a charge that reflects the reproduction cost of such Exhibits. Requests should be made to the Secretary, Marriott International, Inc., Marriott Drive, Department 52/862, Washington, D.C. 20058.

Exhibit No.	Description	Incorporation by Reference (where a report or registration statement is indicated below, that document has been previously filed with the SEC and the applicable exhibit is incorporated by reference thereto)
2.1	Distribution Agreement dated as of September 30, 1997 between Marriott International, Inc. and the Registrant.	Appendix A in the Company's Form 10 filed on February 13, 1998.
2.2	Agreement and Plan of Merger dated as of September 30, 1997 by and among Marriott International, Inc., Marriott-ICC Merger Corp., the Registrant, Sodexho Alliance, S.A. and International Catering Corporation.	Appendix B in the Company's Form 10 filed on February 13, 1998.
2.3	Omnibus Restructuring Agreement dated as of September 30, 1997 by and among Marriott International, Inc., Marriott-ICC Merger Corp., the Registrant, Sodexho Alliance, S.A. and International Catering Corporation.	Appendix C in the Company's Form 10 filed on February 13, 1998.
2.4	Amendment Agreement dated as of January 28, 1998 by and among Marriott International, Inc., Marriott-ICC Merger Corp., the Registrant, Sodexho Alliance, S.A. and International Catering Corporation.	Appendix D in the Company's Form 10 filed on February 13, 1998.
3.1	Certificate of Incorporation of the Registrant.	Exhibit No. 3.1 to the Company's Form 10 filed on February 13, 1998.
3.2	Form of Amended and Restated Certificate of Incorporation of the Registrant (to become effective upon the Spinoff).	Appendix J in the Company's Form 10 filed on February 13, 1998.
3.3	Bylaws of the Registrant.	Exhibit No. 3.3 to the Company's Form 10 filed on February 13, 1998.
3.4	Form of Amended and Restated Bylaws of the Registrant (to become effective upon the Spinoff).	Appendix K in the Company's Form 10 filed on February 13, 1998.

Incorporation by Reference  
 (where a report or registration statement is indicated below, that document has been previously filed with the SEC and the applicable exhibit is incorporated by reference thereto)

Exhibit No.	Description	Incorporation by Reference (where a report or registration statement is indicated below, that document has been previously filed with the SEC and the applicable exhibit is incorporated by reference thereto)
4.1	Indenture with Chemical Bank, as Trustee, as supplemented.	Exhibit Nos. 4(i) and 4(ii) to Form 8-K of Marriott International, Inc. dated December 9, 1993 (Original Indenture and First Supplemental Indenture); Exhibit No. 4(ii) to Form 8-K of Marriott International, Inc. dated April 19, 1995 (Second Supplemental Indenture); Exhibit No. 4.2 to Form 8-K of Marriott International, Inc. dated June 7, 1995 (Third Supplemental Indenture); and Exhibit No. 4.2 to Form 8-K of Marriott International, Inc. dated December 11, 1995 (Fourth Supplemental Indenture)./(1)/
4.2	Indenture with The First National Bank of Chicago, as Trustee, as supplemented.	Exhibit 2.02 to RHG Finance Corporation's Annual Report on Form 20-F for the fiscal year ended June 30, 1996; and Exhibit No. 4 to Form 10-Q of Marriott International, Inc. for the fiscal quarter ended June 20, 1997 (First and Second Supplemental Indentures)./(2)/
4.3	Indenture with The Bank of New York, as Trustee, relating to Liquid Yield Option Notes, as supplemented.	Exhibit No. 4.1 to Form 8-K of Marriott International, Inc. dated March 25, 1996; and Exhibit No. 4.2 to Form 8-K of Marriott International, Inc. dated March 25, 1996 (First Supplemental Indenture).
4.4	Form of Second Supplemental Indenture relating to the Liquid Yield Option Notes.	Exhibit No. 4.4 to the Company's Form 10 filed on February 13, 1998.
10.1	Employee Benefits and Other Employment Matters Allocation Agreement dated as of September 30, 1997 by and between Marriott International, Inc. and the Registrant.	Exhibit No. 10.1 to the Company's Form 10 filed on February 13, 1998.
10.2	1998 Comprehensive Stock and Cash Incentive Plan.	Appendix L in the Company's Form 10 filed on February 13, 1998.
10.3	Form of Noncompetition Agreement by and among Marriott International, Inc. and the Registrant.	Exhibit No. 10.3 to the Company's Form 10 filed on February 13, 1998.
10.4	Form of Tax Sharing Agreement by and among Marriott International, Inc., the Registrant and Sodexho Alliance, S.A.	Appendix E in the Company's Form 10 filed on February 13, 1998.
10.5	Distribution Agreement with Host Marriott, as amended.	Exhibit No. 10.3 to Form 8-K of Marriott International, Inc. dated October 25, 1993; and Exhibit No. 10.2 to Form 10-K of Marriott International, Inc. for the fiscal year ended December 29, 1995 (First Amendment).



Incorporation by Reference  
 (where a report or registration statement is indicated below, that document has been previously filed with the SEC and the applicable exhibit is incorporated by reference thereto)

Exhibit No.	Description	
10.6	Noncompetition Agreement with Host Marriott and Host Marriott Services Corporation, as amended.	Exhibit No. 10.7 to Form 8-K of Marriott International, Inc. dated October 25, 1993; and Exhibit No. 10.4 to Form 10-K of Marriott International, Inc. for the fiscal year ended December 29, 1995 (Amendment No. 1).
10.7	Acquisition Agreement, dated as of February 17, 1997, by and between Marriott International, Inc. and Renaissance Hotel Group N.V.	Exhibit No. 10.1 to Form 8-K of Marriott International, Inc. dated February 19, 1997.
10.8	Shareholder Agreement, dated as of February 17, 1997, by and between Marriott International, Inc. and Diamant Hotel Investments N.V.	Exhibit No. 10.2 to Form 8-K of Marriott International, Inc. dated February 19, 1997.
10.9	Form of LYONs Allocation Agreement between the Registrant and Marriott International, Inc.	Exhibit No. 10.9 to the Company's Form 10 filed on February 13, 1998.
10.10	\$1.5 billion Credit Agreement with Citibank, N.A., as Administrative Agent, and certain banks, as Banks, dated February 19, 1998.	Filed herewith.
21	Subsidiaries of the Registrant (at or prior to the time at which the common stock of the Registrant is distributed to stockholders of Marriott International, Inc.).	Exhibit No. 21 to the Company's Form 10 filed on February 13, 1998.
27	Financial Data Schedule for the Registrant.	Filed herewith.
99	Forward-Looking Statements.	Filed herewith.

/(1)/ These agreements are currently between Marriott International, Inc. and Chemical Bank, as Trustee. If consent solicitations with respect to the securities evidenced by these agreements are successful, the Registrant will not become a party to the agreements. However, if any such consent solicitation is not successful, the relevant securities will become obligations of the Registrant and one or more supplemental indentures assigning the rights and obligations of Marriott International, Inc. to the Registrant will be executed.

/(2)/ The obligations of Marriott International, Inc. (as guarantor) will be assumed by the Registrant pursuant to a supplemental indenture which may include additional changes to this Indenture if the consent solicitation with respect to these securities is successful.

(b) REPORTS ON FORM 8-K

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on this 6th day of March, 1998.

NEW MARRIOTT MI, INC.

By /s/ J.W. Marriott, Jr.

-----  
J.W. Marriott, Jr.  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-K has been signed by the following persons on behalf of the Company in their capacities and on the date indicated above.

PRINCIPAL EXECUTIVE OFFICER:

/s/ J.W. Marriott Jr.

-----  
J.W. Marriott, Jr. Chief Executive Officer

PRINCIPAL FINANCIAL OFFICER:

/s/ Michael A. Stein

-----  
Michael A. Stein Executive Vice President,  
Chief Financial Officer  
and Director

PRINCIPAL ACCOUNTING OFFICER:

/s/ Stephen E. Riffie

-----  
Stephen E. Riffie Vice President, Finance and  
Chief Accounting Officer

DIRECTORS:

/s/ William J. Shaw

-----  
William J. Shaw, Chairman of  
the Board and Director

/s/ Joseph Ryan

-----  
Joseph Ryan, Director

/s/ Michael A. Stein

-----  
Michael A. Stein, Director

=====

U.S. \$1,500,000,000

CREDIT AGREEMENT

dated as of February 19, 1998

among

MARRIOTT INTERNATIONAL, INC.

THE BANKS NAMED HEREIN

CITIBANK, N.A.,  
as Administrative Agent,

THE BANK OF NOVA SCOTIA,  
as Documentation Agent

THE BANK OF NOVA SCOTIA,  
as Letter of Credit Agent

and

THE CHASE MANHATTAN BANK

and

THE FIRST NATIONAL BANK OF CHICAGO

as Managing Agents

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Exhibit B-1	-	Notice of Revolving Loan Borrowing
Exhibit B-2	-	Notice of Competitive Bid Loan Borrowing
Exhibit C-1	-	Form of Assignment and Acceptance
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CREDIT AGREEMENT

AGREEMENT dated as of February 19, 1998, among NEW MARRIOTT MI, INC. (the name of which will be changed to Marriott International, Inc., on or about the Effective Date), a Delaware corporation (the "Company"), the banks listed on the signature pages hereof under the heading "Banks" (the "Banks"), CITIBANK, N.A., as administrative agent (in such capacity, the "Administrative Agent") for the Lenders hereunder, THE CHASE MANHATTAN BANK and THE FIRST NATIONAL BANK OF CHICAGO, as managing agents (in such capacity, the "Managing Agents"), THE BANK OF NOVA SCOTIA, as documentation agent (in such capacity, the "Documentation Agent"), and THE BANK OF NOVA SCOTIA, as letter of credit agent (in such capacity, the "Letter of Credit Agent").

Marriott International, Inc., a Delaware corporation and the predecessor in interest of the Company with respect to the New Marriott Business (as hereinafter defined), which will, after the consummation of the Transactions (as defined below), be renamed Sodexho Marriott Services, Inc. ("SMS"), has entered into a Credit Agreement dated as of March 27, 1997 with certain banks, Citibank, N.A., as Administrative Agent, The Bank of Nova Scotia, as Documentation Agent, and The Bank of Nova Scotia as Letter of Credit Agent (as amended to the date hereof, the "Existing 1997 Credit Agreement"). In connection with said Transactions, SMS proposes to, on or prior to the Effective Date, repay all Loans (other than Letter of Credit Loans) under the Existing 1997 Credit Agreement and repay all of its commercial paper borrowings. The Company has requested the Banks to provide the credit facilities hereinafter referred to. Accordingly, the parties hereto agree that, effective on the Effective Date as hereinafter defined, the parties agree as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.01. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Acceptance" means an Assignment and Acceptance or a New Commitment Acceptance.

"Acquisition Agreement" means the Agreement and Plan of Merger dated as of September 30, 1997 by and among SMS, the Company, Marriott-ICC Merger Corp., Sodexho Alliance, S.A. and International Catering Corporation, as amended to the Effective Date.

"Adjusted Total Debt" means, as at any date, the sum for the Company  
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and its Subsidiaries (determined on a Consolidated basis without duplication in  
accordance with GAAP) of:

(a) the aggregate principal amount of Debt for Borrowed Money of the  
Company and its Subsidiaries (other than any such Debt for Borrowed Money  
constituting Non-Recourse Indebtedness) outstanding on such date plus  
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(b) the excess, if any, of (i) the aggregate of all Guarantees by the  
Company and its Subsidiaries of Debt for Borrowed Money of others as of  
such date over (ii) \$400,000,000.  
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"Administrative Agent" has the meaning specified in the recital of  
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parties to this Agreement.

"Administrative Agent's Account" means, in respect of any Currency,  
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such account as the Administrative Agent shall designate in a notice to the  
Company and the Lenders.

"Affected Person" has the meaning specified in Sections 2.12(j),  
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3.05(d), 3.06 and 3.08(a).

"Affiliate" means, as to any Person, any other Person that, directly  
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or indirectly, controls, is controlled by or is under common control with such  
Person or, unless the reference is to an Affiliate of a Lender, is a Marriott  
Family Member or is a partner, member, director or officer of such Person. For  
purposes of this definition, the term "control" (including the terms  
"controlling", "controlled by" and "under common control with") of a Person  
means the possession, direct or indirect, of the power to vote 5% or more of the  
Voting Stock of such Person or to direct or cause the direction of the  
management and policies of such Person, whether through the ownership of Voting  
Stock, by contract or otherwise.

"Alternate Currency" means, at any time, any currency other than  
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Dollars, provided that, at such time, (i) such Currency is dealt with in the  
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London (or, in the case of Pounds Sterling, Paris) interbank deposit market,  
(ii) such Currency is freely transferable and convertible into Dollars in the  
London foreign exchange market and (iii) no central bank or other governmental  
authorization in the country of issue of such currency is required to permit use  
of such Currency by any Lender for making any Loan and/or to permit the relevant  
Borrower to borrow and repay the principal thereof and to pay the interest  
thereon (unless such authorization has been obtained and is in full force and  
effect).



"Applicable Lending Office" means, with respect to each Lender, and

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for each Type and Currency of Loan, such Lender's Domestic Lending Office in the case of a Base Rate Loan and such Lender's Eurocurrency Lending Office in the case of a Eurocurrency Rate Loan and, in the case of a Competitive Bid Loan, the office of such Lender notified by such Lender to the Administrative Agent as its Applicable Lending Office with respect to such Competitive Bid Loan, or in any case such other office of such Lender or of an Affiliate of such Lender as such Lender may from time to time specify to the Administrative Agent and the Company.

"Applicable Margin" means, as of any date, the applicable margin set

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forth below under the Eurocurrency Rate column set forth below, based upon the Public Debt Rating in effect on such date:

Public Debt Rating S&P/Moody's	Eurocurrency Rate
Level 1 ----- A/A2 or higher	0.135%
Level 2 ----- A-/A3	0.135%
Level 3 ----- BBB+/Baa1	0.190%
Level 4 ----- BBB/Baa2	0.230%
Level 5 ----- BBB-/Baa3	0.275%
Level 6 ----- Lower than Level 5	0.450%

"Applicable Percentage" means, as of any date, the applicable

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percentage set forth below under the Facility Fee column based upon the Public Debt Rating in effect on such date:

Public Debt Rating S&P/Moody's	Facility Fee
Level 1 ----- A/A2 or higher	0.075%
Level 2 ----- A-/A3	0.100%
Level 3 ----- BBB+/Baa1	0.110%
Level 4 ----- BBB/Baa2	0.125%
Level 5 ----- BBB-/Baa3	0.150%
Level 6 ----- Lower than Level 5	0.225%

"Assignment and Acceptance" means an assignment and acceptance entered into by a Lender and an Eligible Assignee, and accepted by the Administrative Agent, in accordance with Section 9.07 and in substantially the form of Exhibit C-1 hereto.

"Available Amount" of any Letter of Credit means, at any time, the maximum amount available to be drawn under such Letter of Credit at such time (assuming compliance at such time with all conditions to drawing), provided that, if any Letter of Credit provides for future increases in the maximum amount available to be drawn under such Letter of Credit, then the "Available Amount" of such Letter of Credit shall mean, at any time, the maximum amount available to be drawn under such Letter of Credit after taking into account all increases in the availability thereunder.

"BNS" means The Bank of Nova Scotia and its successors.

"Banks" has the meaning specified in the recital of parties to this Agreement.

"Base Rate" means, for any period, a fluctuating interest rate per annum as shall be in effect from time to time which rate per annum shall at all times be equal to the highest of:

- (a) the rate of interest announced publicly by Citibank in New York, New York, from time to time, as its "base rate";

(b) the sum (adjusted to the nearest 1/4 of one percent, or, if there is no nearest 1/4 of one percent, to the next higher 1/4 of one percent) of (i) 1/2 of one percent per annum, plus (ii) the rate obtained by dividing

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(A) the latest three-week moving average of secondary market morning offering rates in the United States for three-month certificates of deposit of major United States money market banks, such three-week moving average (adjusted to the basis of a year of 365/366 days) being determined weekly on each Monday (or, if any such date is not a Business Day, on the next succeeding Business Day) for the three-week period ending on the previous Friday by Citibank on the basis of such rates reported by certificate of deposit dealers to and published by the Federal Reserve Bank of New York or, if such publication shall be suspended or terminated, on the basis of quotations for such rates received by Citibank from three New York certificate of deposit dealers of recognized standing selected by Citibank, by (B) a percentage equal to 100% minus the average of the daily percentages specified during such three-week period by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, but not limited to, any emergency, supplemental or other marginal reserve requirement) for Citibank with respect to liabilities consisting of or including (among other liabilities) three-month U.S. dollar non-personal time deposits in the United States, plus (iii) the average during such three-week period of the

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annual assessment rates for determining the then current annual assessment payable by Citibank to the FDIC for insuring U.S. dollar deposits in the United States; and

(c) 1/2 of one percent per annum above the Federal Funds Rate.

"Base Rate Loan" means a Loan which bears interest as provided in

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Section 2.08(a)(i).

"Base Rate Swing Loan" has the meaning specified in Section 3.03(b).

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"Bondable Lease Obligation" of any Person means the obligation of such

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Person as tenant under an operating lease, upon the occurrence of a significant underinsured casualty, an under-compensated governmental taking or the practical inability to operate the premises for an extended period of time due to force majeure or loss of a material permit, to make a payment to the landlord (or to make an irrevocable offer to purchase the landlord's fee interest to avoid termination of such lease) in an amount that is calculated with reference to the landlord's leasehold indebtedness.

"Borrowers" means, at any time, collectively, the Company (both as a  
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Borrower and as guarantor under Article X of Loans made to the Designated  
Borrowers) and each Designated Borrower.

"Borrowing" means a Revolving Loan Borrowing, a Swing Loan Borrowing  
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or a Competitive Bid Loan Borrowing.

"Business Day" means a day of the year on which commercial banks are  
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not required or authorized to close in New York City and, if the applicable  
Business Day relates to any Eurocurrency Rate Loans, on which dealings are  
carried on in the London (and, in the case of Pounds Sterling, Paris) interbank  
market and, if such day relates to a Borrowing of, a payment or prepayment of  
principal of or interest on, or an Interest Period for, any Loan denominated in  
an Alternate Currency, or a notice with respect to any such Borrowing, payment,  
prepayment or Interest Period, also on which foreign exchange trading is carried  
out in the London (and, in the case of Pounds Sterling, Paris) interbank market  
and on which banks are open in the place of payment in the country in whose  
Currency such Loan is denominated.

"Change of Control" means:  
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(i) any Person or two or more Persons acting in concert (other than a  
Significant Shareholder or group of Significant Shareholders) shall have  
acquired beneficial ownership (within the meaning of Rule 13d-3 of the  
Securities and Exchange Commission under the Securities Exchange Act of  
1934), directly or indirectly, of Voting Stock of the Company (or other  
securities convertible into such Voting Stock) representing not less than  
30% of the combined voting power of all Voting Stock of the Company; or

(ii) during any period of up to 24 consecutive months, commencing on  
the date of this Agreement, individuals who at the beginning of such 24-  
month period were directors of the Company (together with any new director  
whose election by the board of directors or whose nomination for election  
by the stockholders of the Company was approved by a vote of at least two-  
thirds of the directors then in office who either were directors at the  
beginning of such period or whose election or nomination for election was  
previously so approved) shall cease for any reason (other than solely as a  
result of (a) death or disability or (b) voluntary retirement of any  
individual in the ordinary course and not for reasons related to an actual  
or proposed change in control of the Company) to constitute a majority of  
the board of directors of the Company; or

(iii) any Person or two or more Persons acting in concert (other than a Significant Shareholder or group of Significant Shareholders) shall have acquired the power to exercise, directly or indirectly, effective control for any purpose over Voting Stock of the Company (or other securities convertible into such securities) representing not less than 30% of the combined voting power of all Voting Stock of the Company.

"Chase" means The Chase Manhattan Bank and its successors.  
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"Citibank" means Citibank, N.A. and its successors.  
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"Code" means the Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated and rulings issued thereunder.  
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"COLI Debt" means all Indebtedness of the Company or any of its Subsidiaries to the insurance company issuing the COLI Policies, if and for so long as:

(a) the aggregate principal amount of such Indebtedness is equal to or less than the aggregate account value of all COLI Policies at the time such Indebtedness is incurred by the Company and such Subsidiaries and at all times thereafter; and

(b) the documentation with respect to such Indebtedness limits the recourse of the insurance company issuing the COLI Policies, as lender, against the Company and such Subsidiaries for the payment of such Indebtedness directly to the ownership interest of the Company and its Subsidiaries in the COLI Policies.

"COLI Policies" means all corporate-owned life insurance policies purchased and maintained by the Company or any of its Subsidiaries to insure the lives of certain employees of the Company and its Subsidiaries.  
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"Commitment" means, as to any Lender, (i) the Dollar amount set forth opposite its name on the signature pages hereof or (ii) if such Lender has entered into one or more Acceptances, the amount set forth for such Lender in the Register, in each case as the same may be increased or reduced as expressly provided herein (including, without limitation, pursuant to Sections 2.06, 2.15(c) and 3.08).  
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"Company" has the meaning specified in the recital of parties to this Agreement.  
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"Competitive Bid Loan" means a loan by a Lender to a Borrower as part  
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of a Competitive Bid Loan Borrowing resulting from the auction bidding procedure  
described in Section 3.02.

"Competitive Bid Loan Borrowing" means a Borrowing by a Borrower from  
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each of the Lenders whose offer to make one or more Competitive Bid Loans as  
part of such borrowing has been accepted by the Company under the auction  
bidding procedure described in Section 3.02.

"Competitive Bid Loan Note" means a promissory note of a Borrower  
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payable to the order of any Lender, in substantially the form of Exhibit A-2  
hereto, evidencing the indebtedness of such Borrower to such Lender resulting  
from a Competitive Bid Loan made by such Lender.

"Competitive Bid Loan Reduction" has the meaning specified in Section  
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2.01.

"Confidential Information" means information that the Company or any  
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of its Subsidiaries or Affiliates furnishes to the Administrative Agent, any  
Managing Agent, the Documentation Agent, the Letter of Credit Agent or any  
Lender on a confidential basis by informing the recipient that such information  
is confidential or marking such information as such, but does not include any  
such information that (i) is or becomes generally available to the public or  
(ii) is or becomes available to such Person or Persons from a source other than  
the Company or any of its Subsidiaries or Affiliates, unless such Person has  
actual knowledge that (a) such source is bound by a confidentiality agreement or  
(b) such information has been previously furnished to such Person on a  
confidential basis.

"Consolidated" refers to the consolidation of accounts of the Company  
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and its Subsidiaries in accordance with GAAP.

"Conversion", "Convert" and "Converted" each refer to a conversion of  
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Revolving Loans of one Type into Revolving Loans of the other Type pursuant to  
Section 2.14.

"Currency" means Dollars or any Alternate Currency.  
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"Current Aggregate Commitment" means, at any time, the aggregate  
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amount of the Commitments as then in effect (computed without regard to any  
Competitive Bid Loan Reduction, any Swing Loan Reduction or any Letter of Credit  
Reduction).

"Debt for Borrowed Money" of any Person means:  
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- (i) all indebtedness of such Person for borrowed money;

(ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(iii) all obligations of such Person to pay the deferred purchase price of property or services (other than trade payables and accruals incurred in the ordinary course of such Person's business);

(iv) all obligations of such Person as lessee under leases which shall have been or should be, in accordance with GAAP, recorded as capital leases; and

(v) all obligations, contingent or otherwise, of such Person under acceptance, letter of credit or similar facilities to the extent that such obligations support an obligation described in clauses (i) through (iv) above.

"Default" means any Event of Default or any event that would  
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constitute an Event of Default but for the requirement that notice be given or time elapse or both.

"Designated Borrower" means any Wholly-Owned Subsidiary of the  
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Company, as to which a Designation Letter has been delivered to the Administrative Agent and as to which a Termination Letter has not been delivered to the Administrative Agent in accordance with Section 2.16.

"Designation Letter" has the meaning specified in Section 2.16(a).  
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"Distribution Agreement" means the Distribution Agreement dated as of  
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September 30, 1997 between SMS and the Company, as amended to the date hereof.

"Documentation Agent" has the meaning specified in the recital of  
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parties to this Agreement.

"Dollar Equivalent" means, with respect to any principal of or  
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interest on any Loan denominated in an Alternate Currency, the amount of Dollars that would be required to purchase the amount of the Alternate Currency of such principal or interest on the date such Loan is requested (or (x) as otherwise provided in Section 2.07(e), (y) in the case of any Competitive Bid Loan, the date of the related Notice of Competitive Bid Loan Borrowing, and (z) in the case of any redenomination under Section 2.11(e), on the date of such redenomination), based upon the arithmetic mean (rounded upwards, if necessary, to the nearest 1/100 of 1%), as determined by the Administrative Agent, of the spot selling rate at which the Reference Banks offer to sell such Alternate Currency for Dollars

in the London foreign exchange market at approximately 11:00 a.m. London time for delivery two Business Days thereafter.

"Dollars" and "\$" mean lawful money of the United States of America.  
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"Domestic Lending Office" means, with respect to any Lender, the  
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office of such Lender specified as its "Domestic Lending Office" opposite its name on Schedule I hereto or in the Acceptance pursuant to which it became a Lender, or such other office of such Lender as such Lender may from time to time specify to the Company and the Administrative Agent.

"EBITDA" means, for any period, net income (or net loss) plus the sum  
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of (a) Interest Expense, (b) income tax expense, (c) depreciation expense, (d) amortization expense and (e) non-recurring non-cash charges (including the cumulative effect of accounting changes), in each case determined in accordance with GAAP for such period; provided that for any period prior to the  
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consummation of the Spinoff, EBITDA shall be calculated based on the historical financial statements of the Company prepared on a basis consistent with the historical financial statements of the Company set forth in the Proxy Statement.

"Effective Date" has the meaning set forth in Section 4.01.  
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"Eligible Assignee" means:  
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(i) a Lender and any Affiliate of such Lender;

(ii) a commercial bank organized under the laws of the United States, or any State thereof, and having total assets in excess of \$1,000,000,000;

(iii) a savings bank organized under the laws of the United States, or any State thereof, and having total assets in excess of \$500,000,000;

(iv) a commercial bank organized under the laws of any other country which is a member of the OECD or a political subdivision of any such country, and having total assets in excess of \$1,000,000,000; and

(v) a finance company, insurance company or other financial institution or fund (whether a corporation, partnership or other entity) which is engaged in making, purchasing or otherwise investing in commercial loans in the ordinary course of its business, and having total assets in excess of \$150,000,000.



"Environmental Law" means any federal, state or local law, rule,

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regulation, order, writ, judgment, injunction, decree, determination or award relating to the environment, health, safety or hazardous materials, including, without limitation, CERCLA, the Resource Conservation and Recovery Act, the Hazardous Materials Transportation Act, the Clean Water Act, the Toxic Substances Control Act, the Clean Air Act, the Safe Drinking Water Act, the Atomic Energy Act, the Federal Insecticide, Fungicide and Rodenticide Act and the Occupational Safety and Health Act.

"ERISA" means the Employee Retirement Income Security Act of 1974, as

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amended from time to time, and the regulations promulgated and rulings issued thereunder.

"ERISA Affiliate" means any Person who for purposes of Title IV of

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ERISA is a member of the Company's controlled group, or under common control with the Company, within the meaning of Section 414(b) or 414(c) of the Code.

"ERISA Event" means, with respect to any Person, (a) the occurrence of

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a reportable event, within the meaning of Section 4043 of ERISA, with respect to any Plan of such Person or any of its ERISA Affiliates unless the 30-day notice requirement with respect to such event has been waived by the PBGC; (b) the provision by the administrator of any Plan of such Person or any of its ERISA Affiliates of a notice of intent to terminate such Plan pursuant to Section 4041(a)(2) of ERISA with respect to a termination described in Section 4041(c)(2) of ERISA (including any such notice with respect to a plan amendment referred to in Section 4041(e) of ERISA); (c) the cessation of operations at a facility of such Person or any of its ERISA Affiliates in the circumstances described in Section 4062(e) of ERISA; (d) the withdrawal by such Person or any of its ERISA Affiliates from a Multiple Employer Plan during a plan year for which it was a substantial employer, as defined in Section 4001(a)(2) of ERISA; (e) the failure by such Person or any members of its controlled group (within the meaning of Section 302(f)(6)(B) of ERISA) to make a payment to a Plan required under Section 302(f)(1)(A) and (B) of ERISA; (f) the adoption of an amendment to a Plan of such Person or any of its ERISA Affiliates requiring the provision of security to such Plan, pursuant to Section 307 of ERISA; or (g) the institution by the PBGC of proceedings to terminate a Plan of such Person or any of its ERISA Affiliates, pursuant to Section 4042 of ERISA.

"Eurocurrency Lending Office" means, with respect to any Lender, the

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office of such Lender specified as its "Eurocurrency Lending Office" opposite its name on Schedule I hereto or in the Acceptance pursuant to which it became a Lender (or, if no such office is specified, its Domestic Lending

Office), or such other office of such Lender as such Lender may from time to time specify to the Company and the Administrative Agent.

"Eurocurrency Liabilities" has the meaning assigned to that term in

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Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Eurocurrency Rate" means, for any Interest Period for each

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Eurocurrency Rate Loan in any Currency comprising part of the same Revolving Loan Borrowing, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of one percent) appearing on the Screen for such Currency as the London Interbank Offered Rate for deposits in such Currency at approximately 11:00 A.M. London time (or as soon thereafter as practicable) two Business Days prior to the first day of the Interest Period for such Loan; provided that if

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such rate does not appear on such Screen (or, if such Screen shall cease to be publicly available or if the information contained on such Screen, in the Administrative Agent's reasonable judgment, shall cease accurately to reflect such London Interbank Offered Rate, as reported by any publicly available source of similar market data selected by the Administrative Agent that, in the Administrative Agent's reasonable judgment, accurately reflects such London Interbank Offered Rate), the "Eurocurrency Rate" for such Interest Period for such Eurocurrency Rate Loan in such Currency shall be the arithmetic average (rounded to the nearest 1/100 of one percent) of the rates per annum at which deposits in such Currency are offered by the principal office of each of the Reference Banks in London, England to prime banks in the London (or, in the case of Pounds Sterling, Paris) interbank market at approximately 11:00 A.M. (London time) two Business Days before the first day of the Interest Period for such Loan in an amount substantially equal to such Reference Bank's Eurocurrency Rate Loan comprising part of such Revolving Loan Borrowing to be outstanding during such Interest Period.

The Eurocurrency Rate for any Interest Period for each Eurocurrency Rate Loan comprising part of the same Revolving Loan Borrowing shall be determined by the Administrative Agent on the basis of the applicable Screen or the applicable rates furnished to and received by the Administrative Agent from the Reference Banks, as the case may be, two Business Days before the first day of such Interest Period, subject, however, to the provisions of Section 2.09.

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"Eurocurrency Rate Loan" means a Loan which bears interest as provided

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in Section 2.08(a)(ii).

"Eurocurrency Rate Reserve Percentage" of any Lender for any Interest

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Period for any Eurocurrency Rate Loan means the

reserve percentage applicable during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for such Lender with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Interest Period.

"Events of Default" has the meaning specified in Section 7.01.  
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"Excluded Representations" means the representations and warranties  
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set forth in (i) the last sentence of Section 5.01(b) (to the extent the representations and warranties set forth in such sentence relate to matters other than the Loan Documents), (ii) the last sentence of Section 5.01(e) and (iii) Sections 5.01(g), 5.01(h), 5.01(i) and 5.01(j).

"Existing 1997 Credit Agreement" has the meaning specified in the  
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introduction hereto.

"Existing Letters of Credit" means each "Letter of Credit" issued  
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pursuant to the terms of, and as defined in, the Existing 1997 Credit Agreement and outstanding on the Effective Date.

"FDIC" means the Federal Deposit Insurance Corporation or any  
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successor.

"Federal Funds Rate" means, for any period, a fluctuating interest  
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rate per annum equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Final Termination Date" means, at any time, the latest occurring  
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Termination Date in effect at such time.

"First Chicago" means The First National Bank of Chicago and its  
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successors.

"Foreclosure Guarantee" means any guarantee of secured Indebtedness

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the obligations under which guarantee are limited to providing that following foreclosure (or sale in lieu thereof) on all such security the guarantor will pay the holder of such Indebtedness the amount (if any) by which the aggregate proceeds received by such holder from such foreclosure or sale fall short of a specified amount, provided that such specified amount does not exceed 25% of the  
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original principal amount of such secured Indebtedness.

"Foreign Currency Equivalent" means, with respect to any amount in

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Dollars, the amount of an Alternate Currency that could be purchased with such amount of Dollars using the reciprocal of foreign exchange rate(s) specified in the definition of the term "Dollar Equivalent", as determined by the Administrative Agent.

"GAAP" means generally accepted accounting principles in the United

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States of America as in effect from time to time, except that, with respect to the determination of compliance by the Company with the covenant set forth in Section 6.01(j), "GAAP" shall mean such principles in the United States of  
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America as in effect as of the date of, and used in, the preparation of the audited financial statements of the Company referred to in Section 5.01(e).

"Guarantee" of any Person means (a) any obligation, contingent or

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otherwise, directly or indirectly guaranteeing any Debt for Borrowed Money of any other Person and (b) any other arrangement having the economic effect of a Guarantee and the principal purpose of which is to assure a creditor against loss in respect of Debt for Borrowed Money, in each case other than (i) the endorsement for collection or deposit in the ordinary course of business, (ii) any Foreclosure Guarantee and (iii) any Bondable Lease Obligation. The amount of any Guarantee (other than for purposes of determining the Company's obligations under Article X) shall be deemed to be the lower of (a) an amount equal to the stated or determinable amount of the primary obligation in respect of which such Guarantee is made, and (b) the maximum amount for which such Person may be liable pursuant to the instrument embodying such Guarantee, unless such primary obligation and the maximum amount for which such guaranteeing Person may be liable are not stated or determinable, in which case the amount of such Guarantee shall be such Person's maximum reasonably anticipated liability in respect thereof as determined by the Company in good faith.

"Guaranteed Obligations" has the meaning specified in Section 10.01.

"Increasing Lender" means, in connection with any increase in the  
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aggregate amount of the Commitments pursuant to Section 2.06(b), a Lender whose  
Commitment is increased pursuant to Section 2.06(b)(vi).

"Indebtedness" of any Person means (i) all Debt for Borrowed Money of  
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such Person, (ii) all obligations of such Person created or arising under any  
conditional sale or other title retention agreement with respect to property  
acquired by such Person and (iii) all Guarantees of such Person.

"Indemnified Party" has the meaning specified in Section 9.04(b).  
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"Insufficiency" means, with respect to any Plan, the amount, if any,  
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of its unfunded benefit liabilities, as defined in Section 4001(a)(18) of ERISA.

"Interest Expense" means, for any period, gross interest expense plus  
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capitalized interest for such period, in each case determined in accordance with  
GAAP.

"Interest Period" means: (a) with respect to each Eurocurrency Rate  
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Loan, the period commencing on the date of such Eurocurrency Rate Loan and  
ending on the numerically corresponding day in the first, second, third or  
sixth (or, if requested by the Company and acceptable to each of the  
Lenders, ninth or twelfth) calendar month thereafter, as the Company (on  
its own behalf and on behalf of any other Borrower) may, upon notice  
received by the Administrative Agent not later than 12:00 noon (New York  
City time) on the third Business Day prior to the first day of such  
Interest Period, select;

(b) with respect to each Base Rate Loan, the period commencing on the  
date of such Base Rate Loan and ending on the first Quarterly Date  
thereafter; and

(c) with respect to each Competitive Bid Loan, the period commencing  
on the date of such Competitive Bid Loan and ending on the maturity date  
thereof determined in accordance with Section 2.02(c);

provided that:  
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(i) the Company may not select any Interest Period that ends after the  
Final Termination Date;

(ii) Interest Periods commencing on the same date for Revolving Loans comprising part of the same Revolving Loan Borrowing shall be of the same duration; and

(iii) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day,

provided in the case of any Interest Period for a Eurocurrency Rate Loan,

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that if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day.

"Issuing Bank" means BNS, as issuer of any Letter of Credit or such

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other Lender as shall, with the consent of BNS, the Company and the Administrative Agent, have assumed the obligations of BNS as Issuing Bank with respect to any or all Letters of Credit hereunder.

"L/C Cash Collateral Account" has the meaning specified in Section

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7.02(b).

"L/C Cash Collateral Account Collateral" has the meaning specified in

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Section 7.02(b).

"L/C Cash Collateral Account Investments" has the meaning specified in

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Section 7.02(c).

"L/C Cash Collateral Account Obligations" has the meaning specified in

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Section 7.02(e)(i).

"L/C Related Documents" has the meaning specified in Section

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3.04(c)(i).

"Lenders" means the Banks listed on the signature pages hereof and

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each Eligible Assignee that shall become a party hereto pursuant to Section 9.07.

"Letter of Credit Agent" has the meaning specified in the recital of

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parties to this Agreement.

"Letter of Credit Agreement" has the meaning specified in Section

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3.04(a).

"Letter of Credit Facility" means an aggregate amount not to exceed

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\$500,000,000 at any time outstanding.

"Letter of Credit Loan" means a payment by the Issuing Bank of a draft

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drawn under any Letter of Credit pursuant to

Section 3.04 or, without duplication, a payment by a Lender in respect thereof pursuant to Section 3.04.

"Letter of Credit Reduction" has the meaning specified in Section  
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2.01.

"Letters of Credit" has the meaning specified in Section 2.04(b).  
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"Leverage Ratio" means, as at the last day of any fiscal quarter of  
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the Company ending on or after the date hereof, the ratio of:

(a) Adjusted Total Debt as of such day, to

(b) Consolidated EBITDA for the period of four fiscal quarters ending on such day.

"Lien" means any lien, security interest or other charge or  
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encumbrance of any kind, or any other type of preferential arrangement having the practical effect of any of the foregoing, including, without limitation, the lien or retained security title of a conditional vendor and any easement, right of way or other encumbrance on title to real property.

"Loans" means all Revolving Loans, all Swing Loans, all Competitive  
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Bid Loans and all Letter of Credit Loans.

"Loan Documents" means this Agreement, the Notes, each Letter of  
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Credit Agreement, each Designation Letter and each Termination Letter.

"Local Time" means, with respect to any Loan denominated, or any  
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payment to be made, in Dollars, New York City time, and with respect to any Loan denominated, or any payment to be made, in an Alternate Currency, the local time in the Principal Financial Center for such Currency.

"Managing Agents" has the meaning specified in the recital of parties  
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to this Agreement.

"Margin Regulations" means, collectively, Regulations G, T, U and X,  
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as from time to time in effect, and any regulation replacing the same, of the Board of Governors of the Federal Reserve System, or any successor thereto.

"Marriott Family Member" means Alice Marriott, J.W. Marriott, Jr.,  
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Richard E. Marriott, any brother or sister of J.W. Marriott, Sr., any children or grandchildren of any of the foregoing, any spouses of any of the foregoing, or any trust or

other entity established primarily for the benefit of one or more of the foregoing.

"Material Adverse Change" means any material adverse change in the  
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business, condition (financial or otherwise), operations or properties of the Company and its Subsidiaries taken as a whole.

"Material Adverse Effect" means a material adverse effect on (a) the  
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business, condition (financial or otherwise), operations or properties of the Company and its Subsidiaries taken as a whole, (b) the rights and remedies of the Administrative Agent or any Lender under the Loan Documents or (c) the ability of the Company to perform its obligations under the Loan Documents.

"Material Subsidiary" means, at any time, a Subsidiary of the Company  
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having (i) at least 10% of the total Consolidated assets of the Company and its Subsidiaries (determined as of the last day of the most recent fiscal quarter of the Company) or (ii) at least 10% of the Consolidated revenues of the Company and its Subsidiaries for the fiscal year of the Company then most recently ended.

"MICC" means Marriott International Capital Corporation, a Delaware  
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corporation.

"Moody's" means Moody's Investors Service, Inc., or any successor by  
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merger or consolidation to its business.

"Multiemployer Plan" of any Person means a multiemployer plan, as  
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defined in Section 4001(a)(3) of ERISA, and which is a defined benefit plan, to which such Person or any of its ERISA Affiliates is making or accruing an obligation to make contributions, or has within any of the preceding five plan years made or accrued an obligation to make contributions.

"Multiple Employer Plan" of any Person means a single employer plan,  
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as defined in Section 4001(a)(15) of ERISA, that (a) is maintained for employees of such Person or any of its ERISA Affiliates and at least one Person other than such Person and its ERISA Affiliates or (b) was so maintained and in respect of which such Person or any of its ERISA Affiliates could have liability under Section 4064 or Section 4069 of ERISA in the event such plan has been or were to be terminated.

"MVICI" means Marriott Ownership Resorts, Inc. (d/b/a Marriott Vacation  
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Club International).

"New Commitment Acceptance" means a New Commitment Acceptance executed  
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and delivered by a New Lender, and accepted



by the Administrative Agent, in accordance with Section 9.07 and in substantially the form of Exhibit C-3 hereto.

"New Lender" means, for purposes of Sections 2.06(b), 2.15(c) and -----  
9.07(c), an Eligible Assignee (which may be a Lender) approved by the Administrative Agent (which approval shall not be unreasonably withheld) that the Company has requested to become a Lender hereunder pursuant to said Section 2.06(b) or 2.15(c).

"New Marriott Business" has the meaning specified in the Proxy -----  
Statement.

"Non-Recourse Indebtedness" means any Indebtedness of the Company or -----  
any of its Subsidiaries if, and so long as, such Indebtedness meets the requirements of clause (i), clause (ii), clause (iii) or clause (iv) below:

(i) Such Indebtedness is secured solely by Purchase Money Liens and:

(a) the instruments governing such Indebtedness limit the recourse (whether direct or indirect) of the holders thereof against the Company and its Subsidiaries for the payment of such Indebtedness to the property securing such Indebtedness (with customary exceptions, including, without limitation, recourse for fraud, waste, misapplication of insurance or condemnation proceeds, and environmental liabilities); provided that any partial Guarantee by, or -----

any other limited recourse for payment of such Indebtedness against, the Company or its Subsidiaries which is not expressly excluded from the definition of "Guarantee" in this Section 1.01 shall, to the extent thereof, constitute a Guarantee for purposes of the calculation of Adjusted Total Debt but shall not prevent the

non-guaranteed and non-recourse portion of such Indebtedness from constituting Non-Recourse Indebtedness; and

(b) if such Indebtedness is incurred after the date hereof by the Company or a Subsidiary of the Company which is organized under the laws of the United States or any of its political subdivisions, either:

(x) (1) the holders of such Indebtedness shall have irrevocably agreed that in the event of any bankruptcy, insolvency or other similar proceeding with respect to the obligor of such Indebtedness, such holders will elect (pursuant to Section 1111(b) of the Federal Bankruptcy Code or otherwise) to be treated as fully secured by, and

as having no recourse against such obligor or any property of such obligor other than, the property securing such Indebtedness, and (2) if, notwithstanding any election pursuant to clause (1) above, such holders shall have or shall obtain recourse against such obligor or any property of such obligor other than the property securing such Indebtedness, such recourse shall be subordinated to the payment in full in cash of the obligations owing to the Lenders, the Administrative Agent and the Letter of Credit Agent hereunder and under the Notes; or

(y) the property securing such Indebtedness is not material to the business, condition (financial or otherwise), operations or properties of the Company and its Subsidiaries, taken as a whole, as determined at the time such Indebtedness is incurred;

(ii) (a) The sole obligor of such Indebtedness (such obligor, a

"Specified Entity") is a corporation or other entity formed solely for the

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purpose of owning (or owning and operating) property which is (or may be) subject to one or more Purchase Money Liens, (b) such Specified Entity owns no other material property, (c) the sole collateral security provided by the Company and its Subsidiaries with respect to such Indebtedness (if any) consists of property owned by such Specified Entity and/or the capital stock of (or equivalent ownership interests in) such Specified Entity

(provided that any partial Guarantee by, or any other limited recourse for

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payment of such Indebtedness against, the Company or its Subsidiaries which is not expressly excluded from the definition of "Guarantee" in this Section 1.01 shall, to the extent thereof, constitute a Guarantee for purposes of the calculation of Adjusted Total Debt but shall not prevent the non-guaranteed and

non-recourse portion of such Indebtedness from constituting Non-Recourse Indebtedness), and (d) such Specified Entity conducts its business and operations separately from that of the Company and its other Subsidiaries;

(iii) Such Indebtedness is COLI Debt; or

(iv) Such Indebtedness is non-recourse Indebtedness in an aggregate principal amount not exceeding \$53,782,000 owing by Essex House Condominium Corporation (a Subsidiary of the Company), as Owner Participant under the Trust Indenture and Security Agreement (Delta 1993-6) dated as of June 1, 1993 with NationsBank of Georgia, N.A., as indenture trustee, which Indebtedness is secured by a Boeing 767

aircraft leased to Delta Airlines and by an assignment of such lease.

"Note" means a Revolving Loan Note or a Competitive Bid Loan Note.  
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"Notice of Competitive Bid Loan Borrowing" has the meaning specified  
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in Section 3.02(a).

"Notice of Issuance" has the meaning specified in Section 3.04(a).  
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"Notice of Revolving Loan Borrowing" has the meaning specified in  
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Section 3.01(a).

"Notice of Swing Loan Borrowing" has the meaning specified in Section  
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3.03(a).

"OECD" means the Organization for Economic Cooperation and  
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Development.

"Omnibus Agreement" means the Omnibus Restructuring Agreement dated as  
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of September 30, 1997 by and among SMS, the Company, Marriott-ICC Merger Corp.,  
Sodexo Alliance, S.A. and International Catering Corporation, as amended to the  
date hereof.

"Operating Agreement" means an agreement between the Company or one of  
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its Subsidiaries and the owner of a lodging or senior living facility pursuant  
to which the Company or such Subsidiary operates such lodging or senior living  
facility.

"Other Taxes" has the meaning specified in Section 2.12(b).  
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"Participation Agreement" means a loan participation agreement in  
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substantially the form of Exhibit C-2 hereto.

"PBGC" means the Pension Benefit Guaranty Corporation or any  
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successor.

"Permitted Liens" means any of the following:  
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(a) Liens for taxes, assessments and governmental charges or levies  
which are not yet due or are payable without penalty or of which the  
amount, applicability or validity is being contested by the Company or the  
Subsidiary whose property is subject thereto in good faith by appropriate  
proceedings as to which adequate reserves are being maintained;

(b) Liens imposed by law, such as materialmen's, mechanics', carriers', workmen's and repairmen's Liens and other similar Liens arising in the ordinary course of business which are not delinquent or remain payable without penalty or which are being contested or defended in good faith by appropriate proceedings, or which are suspended or released by the filing of lien bonds, or deposits to obtain the release of such Liens;

(c) pledges, deposits and other Liens made in the ordinary course of business to secure obligations under worker's compensation laws, unemployment insurance, social security legislation or similar legislation or to secure public or statutory obligations;

(d) Liens to secure the performance of bids, tenders, contracts, leases or statutory obligations, or Liens to secure obligations under the Self-Insurance Program, or to secure surety, stay or appeal or other similar types of deposits, Liens or pledges (to the extent such Liens do not secure obligations for the payment of Debt for Borrowed Money);

(e) attachment or judgment Liens to the extent such Liens are being contested in good faith and by proper proceedings, as to which adequate reserves are being maintained (provided that any such Liens as to which ----- enforcement has been commenced and is unstayed, by reason of pending appeal or otherwise, for a period of more than thirty consecutive days, do not, in the aggregate, secure judgments in excess of \$25,000,000);

(f) Liens on any property of any Subsidiary of the Company to secure Indebtedness owing by it to the Company or another Subsidiary of the Company;

(g) easements, rights of way and other encumbrances on title to real property that do not render title to the property encumbered thereby unmarketable or materially adversely affect the use of such property for its present purposes;

(h) Liens arising in connection with operating leases incurred in the ordinary course of business of the Company and its Subsidiaries;

(i) Liens created in connection with the L/C Cash Collateral Account;

(j) (i) subordination of any Operating Agreement to any ground lease and/or any mortgage debt of the owner or

landlord, and (ii) any agreement by the Company or any of its Subsidiaries as operator to attorn to the holder of such mortgage debt, the lessor under such ground lease or any successor to either; and

(k) additional Liens upon cash and investment securities; provided

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that (i) the only obligations secured by such Liens are obligations arising under Swap Transactions entered into with one or more counterparties who are not Affiliates of the Company or any of its Subsidiaries and (ii) the aggregate fair market value of cash and investment securities covered by such Liens does not at any time exceed the aggregate amount of the respective termination or liquidation payments that would be payable to such counterparties upon the occurrence of an event of default or other similar event as to which the Company or any of its Subsidiaries is the defaulting or affected party (subject to the application of any customary and reasonable collateral valuation discount percentages and minimum collateral transfer thresholds contained in the respective security and margin agreements).

"Person" means an individual, partnership, corporation (including a  
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business trust), joint stock company, trust, unincorporated association, limited liability company, joint venture or other entity, or a government or any political subdivision or agency thereof.

"Plan" means a Single Employer Plan or a Multiple Employer Plan.  
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"Pounds Sterling" means the lawful money of England.  
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"Principal Financial Center" means, in the case of any Currency, the  
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principal financial center of the country of issue of such Currency, as determined by the Administrative Agent.

"property" or "properties" means any right or interest in or to  
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property of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible.

"Proxy Statement" means the Schedule 14A filed by Marriott  
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International, Inc. with the Securities and Exchange Commission on February 12, 1998.

"Public Debt Rating" means, as of any date, the lowest rating that has  
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been most recently announced by either S&P or Moody's, as the case may be, for any class of long-term senior unsecured, non-credit enhanced debt issued by the Company. For purposes of the foregoing;

(a) if no Public Debt Rating shall be available from either S&P or Moody's, the Applicable Margin and the Applicable Percentage will be set in accordance with Level 6 under the definition of "Applicable Margin" or "Applicable Percentage", as the case may be;

(b) if only one of S&P and Moody's shall have in effect a Public Debt Rating, the Applicable Margin and the Applicable Percentage shall be determined by reference to the available rating;

(c) if the ratings established by S&P and Moody's shall fall within different levels, the Applicable Margin and the Applicable Percentage shall be based upon the higher rating, provided that if the lower rating falls

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more than one level below the higher rating (or in any event if the higher split rating is Level 5), then the Applicable Margin and the Applicable Percentage shall be based on the rating set forth in the level under the definition of "Applicable Margin" or "Applicable Percentage" immediately  
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above the level for such lower rating; and

(d) if any rating established by S&P or Moody's shall be changed, such change shall be effective as of the date on which such change is first announced publicly by the rating agency making such change.

"Purchase Money Lien" means any Lien on property, real or personal,  
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acquired or constructed by the Company or any Subsidiary of the Company after December 30, 1994:

(i) to secure the purchase price of such property;

(ii) that was existing on such property at the time of acquisition thereof by the Company or such Subsidiary and assumed in connection with such acquisition;

(iii) to secure Indebtedness otherwise incurred to finance the acquisition or construction of such property (including, without limitation, Indebtedness incurred to finance the cost of acquisition or construction of such property within 24 months after such acquisition or the completion of such construction); or

(iv) to secure any Indebtedness incurred in connection with any extension, refunding or refinancing of Indebtedness (whether or not secured and including Indebtedness under this Agreement) incurred, maintained or assumed in connection with, or otherwise related to, the acquisition or construction of such property;

provided in each case that (1) such Liens do not extend to or cover or otherwise  
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encumber any property other than property acquired or constructed by the Company  
and its Subsidiaries after December 30, 1994, and (2) such Liens do not cover  
current assets of the Company or any of its Subsidiaries other than current  
assets that relate solely to other property subject to such Lien.

"Quarterly Dates" means the last Business Day of each March, June,  
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September and December, commencing on the first such date to occur after the  
Effective Date.

"Quoted Rate Swing Loan" has the meaning specified in Section 3.03(b).  
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"Reference Banks" means Citibank, BNS, Chase and First Chicago.  
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"Register" has the meaning specified in Section 9.07(d).  
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"Required Lenders" means Lenders having at least 51% of the aggregate  
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amount of the Commitments or, if the Commitments shall have terminated, Lenders  
holding at least 51% of the sum of (a) the aggregate unpaid principal amount of  
the Loans plus (b) the aggregate Available Amount of all Letters of Credit  
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(provided that, for purposes hereof, neither any Borrower, nor any of its  
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Affiliates, if a Lender, shall be included in (i) the Lenders holding such  
amount of the Loans or Available Amount of Letters of Credit or having such  
amount of the Commitments or (ii) determining the aggregate unpaid principal  
amount of the Loans or Available Amount of Letters of Credit or the total  
Commitments). For purposes of this definition, the Available Amount of each  
Letter of Credit shall be considered to be owed to the Lenders ratably according  
to the amounts of their respective Revolving Loan Notes.

"Restructuring Agreements" means, collectively, the Acquisition  
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Agreement, the Distribution Agreement and the Omnibus Agreement.

"Revolving Loan" means a Loan by a Lender to a Borrower as part of a  
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Revolving Loan Borrowing and refers to a Base Rate Loan or a Eurocurrency Rate  
Loan, each of which shall be a "Type" of Revolving Loan.  
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"Revolving Loan Borrowing" means a borrowing consisting of  
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simultaneous Revolving Loans of the same Type made by each of the Lenders  
pursuant to Section 2.01.

"Revolving Loan Note" means a promissory note of a Borrower payable to  
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the order of any Lender, in substantially the

form of Exhibit A-1 hereto, evidencing the aggregate indebtedness of such Borrower to such Lender resulting from the Revolving Loans made by such Lender to such Borrower.

"S&P" means Standard & Poor's Ratings Services, a division of The  
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McGraw-Hill Companies, Inc., or any successor by merger or consolidation to its business.

"Screen" means, with respect to any Currency, the relevant display  
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page as determined by the Administrative Agent of the Dow Jones Markets Service on which appears the London Interbank Offered Rate for deposits in such Currency.

"Self-Insurance Program" means the self-insurance program (including  
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related self-funded insurance programs) established and maintained by the Company in the ordinary course of its business.

"Significant Shareholder" means any Person that:  
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(i) is either a Marriott Family Member or on the date hereof possesses, directly or indirectly, and such possession has been publicly disclosed, the power to vote 5% or more of the outstanding shares of common stock of the Company,

(ii) is or hereafter becomes a spouse of or any other relative (by blood, marriage or adoption) of a Person described in clause (i),

(iii) is or becomes a transferee of the interests of any of the foregoing Person or Persons by descent or by trust or similar arrangement intended as a method of descent, or

(iv) is (x) an employee benefit or stock ownership plan of the Company or (y) a grantor trust established for the funding, directly or indirectly, of the Company's employee benefit plans and programs.

"Single Employer Plan" of any Person means a single employer plan,  
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as defined in Section 4001(a)(15) of ERISA, that (a) is maintained for employees of such Person or any of its ERISA Affiliates and no Person other than such Person and its ERISA Affiliates or (b) was so maintained and in respect of which such Person or any of its ERISA Affiliates could have liability under Section 4069 of ERISA in the event such plan has been or were to be terminated.

"SLS Entity" means any of Marriott Senior Living Services, Inc. and  
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Marriott Senior Living Services Investment 10,



Inc. and each other Subsidiary of the Company that owns or operates a senior living services facility.

"SMS" has the meaning specified in the introduction hereto.

"Spinoff" has the meaning specified in the Proxy Statement.

"Standby Letter of Credit" means any Letter of Credit issued under the Letter of Credit Facility, other than a Trade Letter of Credit.

"Subsidiary" of any Person means any corporation, partnership, limited liability company, joint venture, trust or estate of which more than 50% of (a) the issued and outstanding capital stock having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency), (b) the interest in the capital or profits of such partnership, limited liability company or joint venture or (c) the beneficial interest in such trust or estate is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Subsidiaries or by one or more of such Person's other Subsidiaries.

"Swap Transaction" means (a) any rate, basis, commodity, currency, debt or equity swap, (b) any cap, collar or floor agreement, (c) any rate, basis, commodity, currency, debt or equity exchange or forward agreement, (d) any rate, basis, commodity, currency, debt or equity option, (e) any other similar agreement, (f) any option to enter into any of the foregoing, (g) any investment management, master or other agreement providing for any of the foregoing and (h) any combination of any of the foregoing.

"Swing Loan" means a Loan made by (a) a Swing Loan Bank pursuant to Section 3.03 or (b) any Lender pursuant to Section 3.03.

"Swing Loan Bank" means each of Citibank, The Bank of New York, Deutsche Bank AG, New York Branch/Cayman Island Branch, The First National Bank of Chicago and First Union National Bank or, as to any Swing Loan Bank, such other Lender as shall, with the consent of such Swing Loan Bank, the Administrative Agent and the Company, have assumed the obligations of such Swing Loan Bank with respect to any or all of such Swing Loan Bank's Swing Loans (and its ability to make Swing Loans) hereunder.

"Swing Loan Borrowing" means a borrowing consisting of a Swing Loan  
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made by a Swing Loan Bank.

"Swing Loan Facility" means, as to any Swing Loan Bank, an aggregate  
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amount not to exceed at any time outstanding such aggregate amount as the  
Company may separately agree in writing with such Swing Loan Bank and, as to all  
Swing Loan Banks collectively, an aggregate amount not to exceed \$150,000,000 at  
any time outstanding.

"Swing Loan Rate" has the meaning specified in Section 3.03.  
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"Swing Loan Reduction" has the meaning specified in Section 2.01.  
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"Tax Sharing Agreement" means a Tax Sharing and Indemnification  
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Agreement to be entered into among SMS, the Company and Sodexho Alliance, S.A.,  
as amended to the date hereof and in substantially the form annexed to the  
Distribution Agreement.

"Taxes" has the meaning specified in Section 2.12(a).  
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"Termination Date" of any Lender means the date five (5) years after  
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the Effective Date (as the same may be extended or changed pursuant to Section  
2.06(b), 2.15 or 9.07(a)(vi)) or, if earlier, the date of termination in whole  
of the Commitments pursuant to the second sentence of Section 2.06(a) or  
pursuant to Section 7.01.

"Trade Letter of Credit" means any Letter of Credit that is issued  
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under the Letter of Credit Facility for the benefit of a supplier to the Company  
or any of its Subsidiaries to effect payment to the supplier.

"Transactions" means the Transactions defined in the Proxy Statement.  
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"Type" has the meaning specified in the definition of "Revolving  
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Loan".

"UCC" has the meaning specified in Section 7.02(e)(ii).  
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"Unused Commitments" means, at any time, the aggregate amount of the  
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Commitments then unused and outstanding after giving effect to the Competitive  
Bid Loan Reduction, the Swing Loan Reduction and the Letter of Credit Reduction.

"Voting Stock" means capital stock issued by a corporation or  
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equivalent interests in any other Person, the

holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even though the right to so vote has been suspended by the happening of such contingency.

"Welfare Plan" means a welfare plan, as defined in Section 3(1) of  
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ERISA.

"Wholly-Owned Subsidiary" of any Person means any Subsidiary of such  
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Person 100% of the Voting Stock of which (other than directors' qualifying shares or other shares held to satisfy legal or regulatory requirements) are directly or indirectly owned by such Person, or by one or more Wholly-Owned Subsidiaries of such Person, or by such Person and one or more Wholly-Owned Subsidiaries of such Person.

"Withdrawal Liability" has the meaning specified in Part 1 of Subtitle  
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E of Title IV of ERISA.

SECTION 1.02. Computation of Time Periods. In this Agreement in the  
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computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each means "to but excluding".

SECTION 1.03. Accounting Terms. All accounting terms not  
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specifically defined herein shall be construed in accordance with GAAP.

## ARTICLE II

### AMOUNTS AND TERMS OF THE LOANS

#### SECTION 2.01. The Revolving Loans. -----

(a) Each Lender severally agrees, on the terms and conditions hereinafter set forth, to make Revolving Loans to the Company and any Designated Borrower in Dollars or (in the case of any Eurocurrency Rate Loan only) in any Alternate Currency from time to time on any Business Day during the period from the Effective Date until the Termination Date of such Lender in an aggregate amount as to all Borrowers not to exceed at any time outstanding the amount of such Lender's Commitment; provided that the  
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aggregate amount of the Commitments of the Lenders shall be deemed used from time to time to the extent of (i) the aggregate amount of Competitive Bid Loans then outstanding, (ii) the aggregate amount of Swing Loans then outstanding and (iii) the aggregate Available Amount of Letters of Credit and the aggregate amount of Letter of Credit Loans

then outstanding, and such deemed uses of the aggregate amount of the Commitments shall be applied to the Lenders ratably according to their respective Commitments as in effect from time to time (such deemed uses of the aggregate amount of the Commitments with respect to (a) Competitive Bid Loans being a "Competitive Bid Loan Reduction", (b) Swing Loans being a

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"Swing Loan Reduction" and (c) the aggregate Available Amount of Letters of  
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Credit and Letter of Credit Loans being a "Letter of Credit Reduction").  
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(b) Each Revolving Loan Borrowing shall be in an aggregate amount not less than \$10,000,000 or, in the case of Eurocurrency Rate Loans denominated in an Alternate Currency, the Foreign Currency Equivalent thereof (or, if less, an aggregate amount equal to the lesser of (x) the difference between the aggregate amount of a proposed Competitive Bid Loan Borrowing requested by the Company and the aggregate amount of Competitive Bid Loans offered to be made by the Lenders and accepted by the Company in respect of such Competitive Bid Loan Borrowing, if such Competitive Bid Loan Borrowing is made on the same date as such Revolving Loan Borrowing and (y) the then remaining Unused Commitments of the Lenders participating in such Borrowing, as applicable) and (subject to Section 2.09(d)) shall consist of Revolving Loans of the same Type in the same Currency made on the same day by the Lenders ratably according to their respective Commitments.

(c) Within the limits of each Lender's Commitment, each Borrower may from time to time borrow, repay pursuant to Section 2.07 or prepay pursuant to Section 2.10 and reborrow under this Section 2.01.

(d) For purposes of determining (i) whether the amount of any Borrowing, together with all other Loans then outstanding, would exceed the aggregate amount of the Commitments, and (ii) whether the aggregate outstanding principal amount of the Loans is such as to require prepayment under Section 2.07(e), the outstanding principal amount of any Loan that is denominated in an Alternate Currency shall be deemed to be the Dollar Equivalent of the Alternate Currency amount of such Loan.

SECTION 2.02. The Competitive Bid Loans.  
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(a) The Company may request the making of Competitive Bid Loan Borrowings to any Borrower in Dollars or in any Alternate Currency from time to time on any Business Day during the period from the Effective Date until the date occurring 30 days prior to the Final Termination Date in the

manner set forth in Section 3.02, provided that, following the making of

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each Competitive Bid Loan Borrowing, the aggregate amount of the Loans then outstanding and the aggregate Available Amount of the Letters of Credit then outstanding shall not exceed the lesser of (i) the Current Aggregate Commitment and (ii) the aggregate amount of the Commitments scheduled to be in effect on the scheduled maturity date of the Competitive Bid Loans to be made as part of such Borrowing.

(b) Within the limits and on the conditions set forth in this Section 2.02, each Borrower may from time to time borrow under this Section 2.02, repay or prepay pursuant to subsection (c) below, and reborrow under this Section 2.02, provided that a Competitive Bid Loan Borrowing shall not be

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made within three Business Days of the date of any other Competitive Bid Loan Borrowing.

(c) Each Borrower shall repay to the Administrative Agent for the account of each Lender which has made a Competitive Bid Loan to such Borrower, or each other holder of a Competitive Bid Loan Note of such Borrower, on the maturity date of each Competitive Bid Loan made to such Borrower (such maturity date being that specified by the Company for repayment of such Competitive Bid Loan in the related Notice of Competitive Bid Loan Borrowing delivered pursuant to Section 3.02 and provided in the Competitive Bid Loan Note evidencing such Competitive Bid Loan), the then unpaid principal amount of such Competitive Bid Loan. Unless otherwise agreed by the relevant Lender in its sole discretion, no Borrower shall have the right to prepay any principal amount of any Competitive Bid Loan of such Lender except, and then only on the terms, specified by the Company for such Competitive Bid Loan in the related Notice of Competitive Bid Loan Borrowing delivered pursuant to Section 3.02 and set forth in the Competitive Bid Loan Note evidencing such Competitive Bid Loan.

(d) Each Borrower shall pay interest on the unpaid principal amount of each Competitive Bid Loan made to such Borrower from the date of such Competitive Bid Loan to the date the principal amount of such Competitive Bid Loan is repaid in full, at the rate of interest for such Competitive Bid Loan specified by the Lender making such Competitive Bid Loan in its notice with respect thereto delivered pursuant to Section 3.02, payable on the interest payment date or dates specified by the Company for such Competitive Bid Loan in the related Notice of Competitive Bid Loan Borrowing delivered pursuant to Section 3.02, as provided in the Competitive Bid Loan Note evidencing such Competitive Bid Loan.

(e) The indebtedness of each Borrower resulting from each Competitive Bid Loan made to such Borrower as part of a Competitive Bid Loan Borrowing shall be evidenced by a separate Competitive Bid Loan Note of such Borrower payable to the order of the Lender making such Competitive Bid Loan.

SECTION 2.03. The Swing Loans. The Company may request each Swing

Loan Bank to make, and each Swing Loan Bank may from time to time, in its sole discretion, make, on the terms and conditions hereinafter set forth, Swing Loans to any Borrower in Dollars from time to time on any Business Day during the period from the date of the initial Borrowing until 60 days before the Final Termination Date in an aggregate amount as to all Borrowers not to exceed at any time outstanding the lesser of (i) the Swing Loan Facility and (ii) the then Unused Commitments of Lenders having Termination Dates falling on or after the proposed maturity date of such Swing Loan. Each Swing Loan Borrowing shall be in an amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof and shall bear interest at the Base Rate or at the Swing Loan Rate for such Loan as provided in Section 3.03. Within the limits of the Swing Loan Facility and the Unused Commitments as aforesaid, each Borrower may borrow under this Section 2.03, repay pursuant to Section 2.07 or prepay pursuant to Section 2.10 and reborrow under this Section 2.03.

SECTION 2.04. The Letters of Credit.

(a) Prior to the date hereof, the Issuing Bank issued each of the Existing Letters of Credit under the terms of the Existing 1997 Credit Agreement. The Company and each other Borrower agree that effective on the Effective Date, all Existing Letters of Credit shall for all purposes be deemed to have been issued under this Agreement and shall be subject to the provisions hereof (including, without limitation, this Section 2.04 and Section 3.04).

(b) (i) The Issuing Bank agrees, on the terms and conditions hereinafter set forth, to issue letters of credit (such letters of credit, together with the Existing Letters of Credit, the "Letters of Credit") for the account of the Company, or, at the direction of the Company, any of its Subsidiaries or any other Person, from time to time on any Business Day during the period from the Effective Date until 60 days before the Final Termination Date in an aggregate Available Amount for all Letters of Credit not to exceed at any time the lesser of (i) the Letter of Credit Facility and (ii) the Unused Commitments of Lenders having Termination Dates falling on or after the expiration date of such Letter of Credit. Each Letter of Credit shall be denominated in Dollars.

(ii) No Letter of Credit shall have an expiration date (including all rights of the Company or other account party or the beneficiary to require renewal of, or to have automatically renewed, such Letter of Credit) later than 30 days before the Final Termination Date (as in effect on the date of issuance of the applicable Letter of Credit).

(iii) Any Standby Letter of Credit may provide that it will be automatically renewed annually unless notice is given (1) by the Company to the Issuing Bank not less than five Business Days prior to the date of the automatic renewal of such Standby Letter of Credit, that such Letter of Credit will not be renewed, or (2) by the Issuing Bank to the Company not less than thirty Business Days prior to the date of the automatic renewal of such Standby Letter of Credit, of its election not to renew such Letter of Credit; provided, however, that

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the Issuing Bank shall not give such a notice except (A) at any time during the continuance of any Default or (B) if any automatic renewal would extend a Letter of Credit expiration date to later than 30 days prior to the Final Termination Date. In either case in which such notice is given pursuant to the preceding sentence, such Letter of Credit will expire on the date it would otherwise have been automatically renewed, provided that the terms of such Letter of

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Credit may (y) require the Issuing Bank forthwith to give to the named beneficiary of such Letter of Credit notice of any notice given pursuant to the preceding sentence and (z) permit the beneficiary, upon receipt of the notice under clause (y), to draw under such Letter of Credit prior to the date such Letter of Credit would otherwise have been automatically renewed.

(iv) Within the limits of the Letter of Credit Facility, and subject to the terms hereof, the Company may request the issuance of Letters of Credit under Section 3.04, repay or prepay before demand any Letter of Credit Loans resulting from drawings thereunder pursuant to Section 2.07(d) and request the issuance of additional Letters of Credit under Section 3.04.

SECTION 2.05. Fees.

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(a) Facility Fees. The Company agrees to pay to the Administrative

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Agent for the account of each Lender a facility fee on the average daily amount (whether used or unused) of such Lender's Commitment (computed without regard to any Competitive Bid Loan Reduction, any Swing Loan Reduction or any Letter of Credit Reduction) from the

Effective Date (in the case of each Bank), and from the effective date specified in the Acceptance pursuant to which it became a Lender (in the case of each other Lender), until the Termination Date of such Lender, payable in arrears on each Quarterly Date during the term of such Lender's Commitment, and on the Termination Date of such Lender, at a rate per annum equal to the Applicable Percentage in effect from time to time.

(b) Ticking Fees. In consideration of the Banks' and the

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Administrative Agent's entering into this Agreement, the Company agrees to pay to the Administrative Agent for the account of each Lender a ticking fee on the amount of such Lender's Commitment for the period from April 1, 1998 until the Effective Date, payable on the Effective Date or June 30, 1998, whichever shall first occur, at a rate per annum equal to (i) 0.05% per annum for the period until June 1, 1998, and (ii) 0.075% per annum for the period from June 1, 1998 until June 30, 1998.

(c) Letter of Credit Compensation.  
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(i) The Company agrees to pay to the Letter of Credit Agent for the account of each Lender a commission on such Lender's pro rata  
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share of the average daily aggregate Available Amount of (A) all Standby Letters of Credit outstanding from time to time and (B) all Trade Letters of Credit outstanding from time to time, in each case at the Applicable Margin in effect from time to time for Eurocurrency Rate borrowings, payable in arrears quarterly on each Quarterly Date and on the Termination Date of such Lender, commencing on the first Quarterly Date after the date hereof.

(ii) The Company agrees to pay to the Issuing Bank, for its own account, (x) a fronting fee with respect to each Letter of Credit issued by the Issuing Bank, payable quarterly in arrears on each Quarterly Date during which the Issuing Bank has acted in such capacity, and on the Final Termination Date (if the Issuing Bank acted in such capacity up to such date), in an amount equal to the product of 0.075% per annum of the average daily Available Amount of such Letter of Credit multiplied by the actual number of days such Letter of Credit was outstanding in such period, divided by 365 or 366, as applicable, and (y) such customary fees and charges in connection with the issuance or administration of each Letter of Credit as may be agreed in writing between them from time to time.



(d) Competitive Bid Loan Fee. The Company agrees to pay to the  
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Administrative Agent for its own account a fee in the amount of \$2,500 for  
each request made by the Company for a Competitive Bid Loan Borrowing  
pursuant to Section 3.02.

(e) Other Fees. The Company agrees to pay to the Administrative  
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Agent and the Letter of Credit Agent for each of their respective accounts  
such fees as from time to time may be separately agreed between the Company  
and the applicable Person.

SECTION 2.06. Reductions and Increases of the Commitments.  
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(a) Commitment Reductions, Etc. The Commitment of each Lender shall  
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be automatically reduced to zero on the Termination Date of such Lender.  
In addition, the Company shall have the right, upon at least three Business  
Days' notice to the Administrative Agent, to terminate in whole or reduce  
ratably in part the unused portions of the respective Commitments of the  
Lenders, provided that (i) the aggregate amount of the Commitments of the  
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Lenders shall not be reduced pursuant to this sentence to an amount which  
is less than the aggregate principal amount of the Loans then outstanding  
and the aggregate Available Amount of the Letters of Credit then  
outstanding and (ii) each partial reduction shall be in an aggregate amount  
of at least \$10,000,000. Each Commitment reduction pursuant to this  
Section 2.06(a) shall be permanent (subject, however, to the rights of the  
Company under Section 2.06(b)).

(b) Optional Increases of the Commitments.  
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(i) Not more than twice in any calendar year, the Company may propose  
to increase the Current Aggregate Commitment by an aggregate amount of not  
less than \$50,000,000 or an integral multiple of \$5,000,000 in excess  
thereof (a "Proposed Aggregate Commitment Increase") in the manner set  
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forth below, provided that:

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(1) no Default shall have occurred and be continuing either as  
of the date on which the Company shall notify the Administrative Agent  
of its request to increase the aggregate Commitments or as of the  
related Increase Date (as hereinafter defined); and

(2) after giving effect to any such increase, the aggregate  
amount of the Commitments shall not exceed \$1,750,000,000.

(ii) The Company may request an increase in the aggregate amount of the Commitments by delivering to the Administrative Agent a notice (an "Increase Notice"; the date of delivery thereof to the Administrative Agent ----- being the "Increase Notice Date") specifying (1) the Proposed Aggregate Commitment Increase, (2) the proposed date (the "Increase Date") on which ----- the Commitments would be so increased (which Increase Date may not be fewer than 30 nor more than 60 days after the Increase Notice Date) and (3) the New Lenders, if any, to whom the Company desires to offer the opportunity to commit to all or a portion of the Proposed Aggregate Commitment Increase. The Administrative Agent shall in turn promptly notify each Lender of the Company's request by sending each Lender a copy of such notice.

(iii) Not later than the date five days after the Increase Notice Date, the Administrative Agent shall notify each New Lender, if any, identified in the related Increase Notice of the opportunity to commit to all or any portion of the Proposed Aggregate Commitment Increase. Each such New Lender may irrevocably commit to all or a portion of the Proposed Aggregate Commitment Increase (such New Lender's "Proposed New Commitment") ----- by notifying the Administrative Agent (which shall give prompt notice thereof to the Company) before 11:00 A.M. (New York City time) on the date that is 10 days after the Increase Notice Date; provided that: -----

(1) the Proposed New Commitment of each New Lender shall be in an aggregate amount not less than \$15,000,000; and

(2) each New Lender that submits a Proposed New Commitment shall execute and deliver to the Administrative Agent (for its acceptance and recording in the Register) a New Commitment Acceptance in accordance with the provisions of Section 9.07 hereof, together with a processing and recordation fee of \$2,500.

(iv) If the aggregate Proposed New Commitments of all of the New Lenders shall be less than the Proposed Aggregate Commitment Increase, then (unless the Company otherwise requests) the Administrative Agent shall, on or prior to the date that is 15 days after the Increase Notice Date, notify each Lender of (x) the opportunity to so commit to all or any portion of the Proposed Aggregate Commitment Increase not committed to by New Lenders pursuant to Section 2.06(b)(iii) and (y) the then-current Final Termination Date. Each Lender may, if, in its sole

discretion, it elects to do so, irrevocably offer to commit to all or a portion of such remainder (such Lender's "Proposed Increased Commitment")

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by notifying the Administrative Agent (which shall give prompt notice thereof to the Company) no later than 11:00 A.M. (New York City time) on the date five days before the Increase Date.

(v) If the aggregate amount of Proposed New Commitments and Proposed Increased Commitments (such aggregate amount, the "Total Committed Increase") equals or exceeds \$50,000,000, then, subject to the conditions set forth in Section 2.06(b)(i):

(1) effective on and as of the Increase Date, the Current Aggregate Commitment shall be increased by the Total Committed Increase (provided that the aggregate amount of the Commitments shall -----  
in no event be increased pursuant to this Section 2.06(b) to more than \$1,750,000,000) and shall be allocated among the New Lenders and the Lenders as provided in Section 2.06(b)(vi);

(2) effective on and as of the Increase Date, the Termination Date of each New Lender that offers a Proposed New Commitment and of each Increasing Lender shall be changed to the Final Termination Date (notwithstanding any earlier Termination Date for such Lender which may then be in effect); and

(3) on the Increase Date, if any Revolving Loans are then outstanding, the Borrowers shall borrow Revolving Loans from all or certain of the Lenders and/or (subject to compliance by the Company with Section 9.04(c)) prepay Revolving Loans of all or certain of the Lenders such that, after giving effect thereto, the Revolving Loans (including, without limitation, the Types, Currencies and Interest Periods thereof) shall be held by the Lenders (including for such purposes New Lenders) ratably in accordance with their respective Commitments (subject, however, to Section 2.09(d)).  
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If the Total Committed Increase is less than \$50,000,000, then the Current Aggregate Commitment shall not be changed pursuant to this Section 2.06(b).

(vi) The Total Committed Increase shall be allocated among New Lenders having Proposed New Commitments and Lenders having Proposed Increased Commitments as follows:

(1) If the Total Committed Increase shall be at least \$50,000,000 and less than or equal to the Proposed Aggregate Commitment Increase, then (x) the initial Commitment of each New Lender shall be such New Lender's Proposed New Commitment and (y) the Commitment of each Lender shall be increased by such Lender's Proposed Increased Commitment.

(2) If the Total Committed Increase shall be greater than the Proposed Aggregate Commitment Increase, then the Total Committed Increase shall be allocated:

(x) first to New Lenders (to the extent of their  
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respective Proposed New Commitments) in such a manner as the Company and the Administrative Agent shall agree; and

(y) then to Lenders on a pro rata basis based on the ratio  
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of each Lender's Proposed Increased Commitment (if any) to the aggregate amount of the Proposed Increased Commitments of all of the Lenders.

(vii) No increase in the Commitments contemplated hereby shall become effective until the Administrative Agent shall have received (x) Revolving Loan Notes payable by each of the Borrowers to each New Lender and each Increasing Lender, and (y) evidence satisfactory to the Administrative Agent (including an update of paragraphs 2 and 4 of the opinion of counsel provided pursuant to Section 4.01(a)(iv)) that such increases in the Commitments, and borrowings thereunder, have been duly authorized.

SECTION 2.07. Repayment.  
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(a) Revolving Loans. Each Borrower shall repay the principal amount  
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of each Revolving Loan made by each Lender to such Borrower, in the Currency of such Revolving Loan, and each Revolving Loan made by such Lender shall mature, on the last day of the Interest Period for such Revolving Loan.

(b) Competitive Bid Loans. Each Borrower shall repay the principal  
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amount of each Competitive Bid Loan made by each Lender to such Borrower, in the Currency of such Loan, as provided in Section 2.02(c).

(c) Swing Loans. Each Borrower shall repay to each Swing Loan Bank  
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(with notice to the Administrative Agent), and to the Administrative Agent for the account of each other Lender that has made a Swing Loan, the outstanding

principal amount of each Swing Loan to such Borrower made by each of them on the earlier of the maturity date specified in the applicable Notice of Swing Loan Borrowing (which maturity shall be no later than the seventh day after the requested date of such Borrowing) and the Termination Date of such Lender.

(d) Letter of Credit Loans. The Company shall repay to the Letter of  
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Credit Agent for the account of the Issuing Bank and each other Lender which has made a Letter of Credit Loan (including, without limitation, any Letter of Credit Loan arising out of payment of a Letter of Credit issued for the account of a Person other than the Company) the outstanding principal amount of each Letter of Credit Loan made by each of them on demand by the holder thereof (made in writing, or orally and confirmed immediately in writing, by telecopier, telex or cable) and, in any event, on the Final Termination Date (and, with respect to each Lender, on the Termination Date of such Lender). The Company may prepay any Letter of Credit Loan at any time. The Issuing Bank shall give notice to the Company of the making of any Letter of Credit Loan by the Issuing Bank and of the sale or assignment of any Letter of Credit Loan by it pursuant to Section 3.04(b), and each Lender shall give notice to the Company of any sale or assignment of any Letter of Credit Loan by it, in each case on the date on which such transaction takes place.

(e) Certain Prepayments.  
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(i) If at any time (1) the sum of (x) the aggregate amount of all Loans (for which purpose the amount of any Loan that is denominated in an Alternate Currency shall be deemed to be the Dollar Equivalent thereof as of the date of determination) plus (y) the  
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Available Amount of all Letters of Credit exceeds (2) 103% of the then Current Aggregate Commitment, the Administrative Agent shall use all reasonable efforts to give prompt written notice thereof to the Company, specifying the amount to be prepaid under this clause (i), and the Company shall, within two Business Days of the date of such notice, prepay the Loans, or cause Loans to be prepaid, in an amount so that after giving effect thereto the aggregate outstanding principal amount of the Loans (determined as aforesaid) plus the  
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Available Amount of all Letters of Credit does not exceed the aggregate amount of the Commitments; provided that any such payment  
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shall be accompanied by any amounts payable under Section 9.04(c). The determinations of the Administrative Agent hereunder

shall be conclusive and binding on the Company and the other Borrowers in the absence of manifest error.

(ii) In addition, if on the last day of any Interest Period the aggregate outstanding principal amount of the Loans (after giving effect to any Loans being made to repay Loans maturing on that date)

plus the Available Amount of all Letters of Credit would exceed 100%

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of the aggregate amount of the Commitments, the Administrative Agent shall use all reasonable efforts to give prompt written notice thereof to the Company, specifying the amount to be prepaid under this clause (ii), and the Company shall, within two Business Days of the date of such notice, prepay the Loans, or cause Loans to be prepaid, or reduce the requested Loans in such amounts that after giving effect to such action the aggregate outstanding principal amount of the Loans (after giving effect to any Loans being made to repay Loans maturing on that date) plus the Available Amount of all Letters of Credit does not

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exceed the aggregate amount of the Commitments; provided that any such

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payment shall be accompanied by any amounts payable under Section 9.04(c). The determinations of the Administrative Agent hereunder shall be conclusive and binding on the Company and the other Borrowers in the absence of manifest error.

SECTION 2.08. Interest.  
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(a) Ordinary Interest. Each Borrower shall pay interest on the

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unpaid principal amount of each Loan made by each Lender to such Borrower, in the Currency of such Loan, from the date of such Loan until such principal amount shall be paid in full, at the following rates per annum:

(i) Base Rate Loans, Swing Loans and Letter of Credit Loans. If

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such Loan is a Revolving Loan, a Swing Loan (other than a Quoted Rate Swing Loan) or a Letter of Credit Loan which bears interest at the Base Rate, a rate per annum equal at all times to the Base Rate in effect from time to time, payable on (A) each Quarterly Date while such Revolving Loan or Swing Loan is outstanding or (B) the last day of each month such Letter of Credit Loan is outstanding, and, in each case, on the date such Revolving Loan, Swing Loan or Letter of Credit Loan shall be paid in full.

(ii) Eurocurrency Rate Loans. If such Revolving Loan is a

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Eurocurrency Rate Loan, a rate per annum equal at all times during each Interest Period for such Revolving Loan to the sum of the Eurocurrency Rate for

such Interest Period plus the Applicable Margin, payable on the last  
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day of such Interest Period and, if such Interest Period has a  
duration of more than three months, at three-month intervals following  
the first day of such Interest Period.

(b) Default Interest. Notwithstanding the foregoing, each Borrower  
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shall pay interest on (x) the unpaid principal amount of each Loan made by  
each Lender to such Borrower that is not paid when due, payable in arrears  
on the dates referred to in clause (a)(i) or (a)(ii) above, at a rate per  
annum equal at all times to two percentage points (2%) per annum above the  
rate per annum required to be paid on such Loan pursuant to said clause  
(a)(i) or (a)(ii) and (y) the amount of any interest, fee or other amount  
payable hereunder that is not paid when due, from the date such amount  
shall be due until such amount shall be paid in full, payable in arrears on  
the date such amount shall be paid in full and on demand, at a rate per  
annum equal at all times to two percentage points (2%) per annum above the  
rate per annum required to be paid on Base Rate Loans pursuant to clause  
(a)(i) above.

SECTION 2.09. Interest Rate Determinations.  
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(a) Each Reference Bank agrees to furnish to the Administrative Agent  
timely information for the purpose of determining each Eurocurrency Rate.  
If any one or more of the Reference Banks shall not furnish such timely  
information to the Administrative Agent for the purpose of determining any  
such interest rate, the Administrative Agent shall determine such interest  
rate on the basis of timely information furnished by the remaining  
Reference Banks.

(b) The Administrative Agent shall give prompt notice to the Company  
and the Lenders of the applicable interest rate determined by the  
Administrative Agent for purposes of Section 2.08(a)(i) or (ii), and the  
applicable rate, if any, displayed on the relevant Screen or furnished by  
each Reference Bank, as the case may be, for the purpose of determining the  
applicable interest rate under Section 2.08(a)(ii).

(c) If prior to 10:00 A.M. (New York City time) on any date on which  
an interest rate is to be determined pursuant to the proviso to the  
definition of "Eurocurrency Rate", the Administrative Agent receives notice  
from two or more of the Reference Banks that deposits in the relevant  
Currency are not being offered by such Reference Bank or Banks to prime  
banks in the London (or, in the case of Pounds Sterling, Paris) interbank  
market for the applicable Interest Period

or in the applicable amounts, the Administrative Agent shall so notify the Company of such circumstances, whereupon the right of the Company to select Eurocurrency Rate Loans in such Currency for any requested Revolving Loan Borrowing or any subsequent Revolving Loan Borrowing shall be suspended until the first date on which the circumstances causing such suspension cease to exist. If the Company shall not, in turn, before 11:00 a.m. (New York City time) on such date notify the Administrative Agent that its Notice of Revolving Loan Borrowing with respect to which such Eurocurrency Rate was to be determined shall be converted to a Notice of Revolving Loan Borrowing for Eurocurrency Rate Loan in a different Currency or a Base Rate Loan, such Notice of Revolving Loan Borrowing shall be deemed to be canceled and of no force or effect, and Company shall not be liable to the Administrative Agent or any Lender with respect thereto except as set forth in Section 3.01(c). In the event of such a suspension, the Administrative Agent shall review the circumstances giving rise to such suspension at least weekly and shall notify the Company and the Lenders promptly of the end of such suspension, and thereafter the Borrowers shall be entitled, on the terms and subject to the conditions set forth herein, to borrow Eurocurrency Rate Loans in such Currency.

(d) Notwithstanding anything in this Agreement to the contrary, no Lender whose Termination Date falls prior to the last day of any Interest Period for any Eurocurrency Rate Loan (a "Relevant Lender") shall

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participate in such Loan. Without limiting the generality of the foregoing, no Relevant Lender shall (i) participate in a Borrowing of any Eurocurrency Rate Loan having an initial Interest Period ending after such Lender's Termination Date, (ii) have any outstanding Eurocurrency Rate Loan continued for a subsequent Interest Period if such subsequent Interest Period would end after such Lender's Termination Date or (iii) have any outstanding Base Rate Loan Converted into a Eurocurrency Rate Loan if such Eurocurrency Rate Loan would have an initial Interest Period ending after such Lender's Termination Date. If any Relevant Lender has outstanding a Eurocurrency Rate Loan that cannot be continued for a subsequent Interest Period pursuant to clause (ii) above or has outstanding a Base Rate Loan that cannot be Converted into a Eurocurrency Rate Loan pursuant to clause (iii) above, such Lender's ratable share of such Eurocurrency Rate Loan (in the case of said clause (ii)) shall be repaid by the relevant Borrower on the last day of its then current Interest Period and such Lender's ratable share of such Base Rate Loan (in the case of said clause (iii)) shall be repaid by the relevant Borrower on the day on which the Loans of Lenders unaffected by said clause (iii) are so Converted.



Subject to the terms and conditions of this Agreement, the Borrowers may fund the repayment of the Relevant Lenders' ratable shares of such Eurocurrency Rate Loans and Base Rate Loans by borrowing from Lenders hereunder that are not Relevant Lenders.

SECTION 2.10. Prepayments.  
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(a) The Borrowers shall have no right to prepay any principal amount of any Revolving Loan or Swing Loan other than as provided in subsection (b) below.

(b) Each Borrower may, (i) upon at least the number of Business Days' prior notice specified in the first sentence of Section 3.01(a) with respect to any Revolving Loan of the same Type, or (ii) upon notice by no later than 11:00 A.M. (New York time) on the date of prepayment of any Swing Loan, in either case given to the Administrative Agent stating the proposed date and aggregate principal amount of the prepayment, and if such notice is given, such Borrower shall, prepay the outstanding principal amounts of the Loans made to such Borrower comprising part of the same Revolving Loan Borrowing or Swing Loan Borrowing in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount prepaid; provided, however, that (x) each partial

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prepayment shall be in an aggregate principal amount not less than \$10,000,000 (or \$5,000,000 in the case of Swing Loans) or an integral multiple of \$1,000,000 in excess thereof (or the Foreign Currency Equivalent of such respective amounts) and (y) if any prepayment of any Eurocurrency Rate Loans shall be made on a date which is not the last day of an Interest Period for such Loans (or on a date which is not the maturity date of such Swing Loans), such Borrower shall also pay any amounts owing to each Lender pursuant to Section 9.04(c) so long as such Lender makes written demand upon such Borrower therefor (with a copy of such demand to the Administrative Agent) within 20 Business Days after such prepayment.

(c) Upon the occurrence of a Change of Control, if so requested in writing by the Required Lenders through the Administrative Agent within sixty (60) days after the Company notifies the Administrative Agent of the occurrence of such Change of Control, (i) the Company shall, on a day not later than five Business Days after the date of such request, prepay and/or cause to be prepaid the full principal of and interest on the Loans and the Notes and all other amounts whatsoever payable under this Agreement (including without limitation amounts payable under Section 9.04(c) as a result of such prepayment) and provide cash collateral for all outstanding Letters of Credit as

provided in Section 7.02 (as if an Event of Default had occurred and were continuing) and (ii) the Commitments shall, on the date of such request, forthwith terminate.

(d) If (i) the obligations of the Company under Article X with respect to any outstanding Guaranteed Obligations owing by any Designated Borrower (herein, the "Affected Borrower") shall for any reason (x) be

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terminated, (y) cease to be in full force and effect or (z) not be the legal, valid and binding obligations of the Company enforceable against the Company in accordance with its terms, and (ii) such condition continues unremedied for 15 days after written notice thereof shall have been given to the Company by the Administrative Agent or any Lender, then the Affected Borrower shall, no later than the 15th day after the date of such notice, prepay (and the Company shall cause to be prepaid) the full principal of and interest on the Loans owing by, and the Notes payable by, such Affected Borrower and all other amounts whatsoever payable hereunder by such Affected Borrower (including, without limitation, all amounts payable under Section 9.04(c) as a result of such prepayment).

SECTION 2.11. Payments and Computations.  
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(a) (i) Except to the extent otherwise provided herein, all payments of principal of and interest on Loans made in Dollars, and all other amounts (other than the principal of and interest on any Loan denominated in an Alternate Currency) payable by a Borrower under this Agreement and the Notes, shall be made in Dollars, and all payments of principal of and interest on Loans denominated in an Alternate Currency shall (subject to Section 2.11(e)) be made in such Alternate Currency, in each case in immediately available funds, without deduction, setoff or counterclaim, to the Administrative Agent's Account for the relevant Currency, not later than 11:00 A.M. (New York City time) (in the case of Loans denominated in Dollars and other amounts payable in Dollars) or 11:00 A.M. Local Time in the location of the Administrative Agent's Account (in the case of Loans denominated in an Alternate Currency), on the day when due, provided

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that if a new Loan is to be made by any Lender to any Borrower on a date on which such Borrower is to repay any principal of an outstanding Loan of such Lender in the same Currency, such Lender shall apply the proceeds of such new Loan to the payment of the principal to be repaid and only an amount equal to the difference between the principal to be borrowed and the principal to be repaid shall be made available by

such Lender to the Administrative Agent as provided in Article III or paid by such Borrower to the Administrative Agent pursuant to this Section 2.11, as the case may be.

(ii) The Administrative Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal or interest or facility fees ratably (other than amounts payable pursuant to Section 2.02, 2.09(d), 2.12, 2.15(c) or 3.05) to the Lenders entitled thereto for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Lender to such Lender for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement.

(iii) Upon its acceptance of an Acceptance and recording of the information contained therein in the Register pursuant to Section 9.07(d), from and after the effective date specified in such Acceptance the Administrative Agent shall make all payments hereunder and under the Notes in respect of the interest assigned or assumed thereby to the Lender assignee or New Lender thereunder (as the case may be). The parties to each Assignment and Acceptance shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves.

(b) All computations of interest based on the Base Rate and of fees and letter of credit commission shall be made by the Administrative Agent on the basis of a year of 365 or 366 days, as the case may be, and all computations of interest based on the Eurocurrency Rate or the Federal Funds Rate shall be made by the Administrative Agent on the basis of a year of 360 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest or facility fees are payable. Each determination by the Administrative Agent of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error.

(c) Whenever any payment hereunder or under the Notes shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest, facility fee or letter of credit commission, as the case may be; provided, however, if such

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extension would cause payment of interest on or principal of Eurocurrency Rate Loans to be

made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(d) Unless the Administrative Agent shall have received notice from a Borrower prior to the date on which any payment is due to the Lenders hereunder that such Borrower will not make such payment in full, the Administrative Agent may assume that such Borrower has made such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent that such Borrower shall not have so made such payment in full to the Administrative Agent, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate.

(e) Anything in Sections 2.07 or 2.08 to the contrary notwithstanding, and without prejudice to Sections 2.08(b) or 7.01(a), if any Borrower shall fail to pay any principal or interest denominated in an Alternate Currency within one Business Day after the due date therefor in the case of principal and three Business Days after the due date therefor in the case of interest (without giving effect to any acceleration of maturity under Article VII), the amount so in default shall automatically be redenominated in Dollars on the day one Business Day after the due date therefor in the case of a principal payment and three Business Days after the due date therefor in the case of an interest payment in an amount equal to the Dollar Equivalent of such principal or interest.

SECTION 2.12. Taxes.

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(a) Any and all payments by each Borrower hereunder or under the Notes shall be made, in accordance with Section 2.11, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of each Lender, the Issuing Bank, each

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Managing Agent, the Documentation Agent, the Letter of Credit Agent and the Administrative Agent, taxes imposed on or measured by its net income (including alternative minimum taxable income), and franchise taxes imposed on it, by any jurisdiction under the laws of which such Person is organized or in which such Person is resident or doing business, or any political

subdivision thereof (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If any Borrower shall be required by law to

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deduct any Taxes from or in respect of any sum payable hereunder or under any Notes to any such Person, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.12) such Person receives an amount equal to the sum it would have received had no such deductions been made, (ii) such Borrower shall make such deductions and (iii) such Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, each Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or under the Notes or from the execution, delivery or registration of, or otherwise with respect to, this Agreement, the Notes or the other Loan Documents (hereinafter referred to as "Other Taxes").

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(c) Each Borrower will indemnify each Lender and the Administrative Agent for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 2.12) paid in good faith by such Lender or the Administrative Agent (as the case may be) and any liability (including, without limitation, penalties, additions to tax, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted; provided, however, that (i)

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no Borrower shall be liable to any Person for any liability arising from or with respect to Taxes or Other Taxes, which results from the gross negligence or willful misconduct of the Administrative Agent or such Lender, (ii) so long as no Event of Default has occurred and is continuing, the Administrative Agent or such Lender, as applicable, shall use its reasonable best efforts to cooperate with each Borrower in contesting any Taxes or Other Taxes which such Borrower reasonably deems to be not correctly or legally asserted or otherwise not due and owing and (iii) no Borrower shall be liable to the Administrative Agent or such Lender (as the case may be) for any such liability arising prior to the date 120 days prior to the date on which such Person first makes written demand upon such Borrower for indemnification therefor. This indemnification shall be made within 30 days from the date

such Lender or the Administrative Agent (as the case may be) makes written demand therefor.

(d) Within 30 days after the date of any payment of Taxes by a Borrower, such Borrower will furnish to the Administrative Agent, at its address referred to in Section 9.02, the original or a certified copy of a receipt evidencing payment thereof.

(e)(i) Each Lender organized under the laws of a jurisdiction outside the United States, on or prior to the date of its execution and delivery of this Agreement in the case of each Bank and on the date of the Acceptance pursuant to which it becomes a Lender in the case of each other Lender, on or before the date that such form expires or becomes obsolete or after the occurrence of any event within the control of such Lender (including a change in Applicable Lending Office but not including a change in law) requiring a change in the most recent form so delivered by it, and from time to time thereafter if requested in writing by the Company (but only so long thereafter as such Lender remains lawfully able to do so), shall provide the Company with Internal Revenue Service Form 1001 or 4224, as appropriate, or any successor form prescribed by the Internal Revenue Service, certifying that such Lender is entitled to benefits under an income tax treaty to which the United States is a party which reduces the rate of withholding tax on payments of interest by any Borrower that is organized under the laws of the United States or any State thereof (a "U.S.

Borrower") or certifying that the income receivable pursuant to this

Agreement from any U.S. Borrower is effectively connected with the conduct of a trade or business in the United States. If the form provided by a Lender at the time such Lender first becomes a party to this Agreement indicates a United States interest withholding tax rate in excess of zero, withholding tax at such rate shall be considered excluded from "Taxes" as defined in Section 2.12(a) unless and until such Lender provides the appropriate form certifying that a lesser rate applies, whereupon withholding tax at such lesser rate only shall be considered excluded from Taxes for periods governed by such form; provided, however, that, if at the

date of the Assignment and Acceptance pursuant to which a Lender assignee becomes a party to this Agreement, the Lender assignor was in compliance with the provisions of Section 9.07(h) and was entitled to payments under Section 2.12(a) in respect of United States withholding tax with respect to interest paid at such date, then, to such extent, the term "Taxes" shall

include (in addition to withholding taxes that may be imposed in the future or other amounts otherwise includable in Taxes) United States

interest withholding tax, if any, applicable with respect to the Lender assignee on such date. If any form or document referred to in this Section 2.12(e) requires the disclosure of information, other than information necessary to compute the tax payable and information required on the date hereof by Internal Revenue Service form 1001 or 4224, that the relevant Lender considers to be confidential, such Lender shall give notice thereof to the Company and shall not be obligated to include in such form or document such confidential information.

(ii) In addition, upon the reasonable request of the Company (through the Administrative Agent) on behalf of any Borrower that is not a U.S. Borrower, each Lender will use all reasonable efforts to provide to such Borrower (if it can do so without material cost to such Lender) such forms or other documentation as may be requested by such Borrower in order to cause interest on Loans to such Borrower, to the fullest extent permitted by applicable law, to be subject to a reduced rate of withholding under the laws of the jurisdiction of organization of such Borrower; and if any such form or document requires the disclosure of information, other than information necessary to compute the tax payable and information required on the date hereof, that the relevant Lender considers to be confidential, such Lender shall give notice thereof to the Company and shall not be obligated to include in such form or document such confidential information.

(f) For any period with respect to which a Person that is required pursuant to Section 2.12(e) to provide a Borrower with any documentation described therein but has failed to provide a Borrower with such documentation or notice that it cannot provide such form or other documentation (other than if such failure is due to a change in law

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occurring subsequent to the date on which a form or other documentation originally was required to be provided, or if such form or other documentation otherwise is not required under the first sentence of subsection (e) above), such Person shall not be entitled to indemnification under Section 2.12(a) with respect to Taxes; provided, however, that should

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a Lender become subject to Taxes because of its failure to deliver a form or other documentation required hereunder, the relevant Borrower shall take such steps as the Lender shall reasonably request to assist the Lender to recover such Taxes.

(g) Any Lender claiming any additional amounts payable pursuant to this Section 2.12 shall use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to change the jurisdiction of its

Applicable Lending Office if the making of such a change would avoid the need for, or reduce the amount of, any such additional amounts that may thereafter accrue and would not, in the reasonable judgment of such Lender, be otherwise disadvantageous to such Lender.

(h) Notwithstanding any contrary provisions of this Agreement, in the event that a Lender that originally provided such form or other documentation as may be required under Section 2.12(e) thereafter ceases to qualify for complete exemption from withholding tax, such Lender may assign its interest under this Agreement to any Eligible Assignee and such assignee shall be entitled to the same benefits under this Section 2.12 as the assignor provided that the rate of withholding tax applicable to such assignee shall not exceed the rate then applicable to the assignor.

(i) Without prejudice to the survival of any other agreement of the Borrowers hereunder, the agreements and obligations of the Borrowers contained in this Section 2.12 shall survive the payment in full of principal and interest hereunder and under the Notes and the termination of the Commitments.

(j) If a Borrower is required to pay any Lender any Taxes under Section 2.12(c), such Lender shall be an "Affected Person", and the Company shall have the rights set forth in Section 3.08 to replace such Affected Person.

SECTION 2.13. Sharing of Payments, Etc. If any Lender shall obtain

any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of the Revolving Loans, the Swing Loans or the Letter of Credit Loans made by it (other than pursuant to Section 2.09(d), 2.12, 2.15(c), 3.05, 3.08 or 9.04(c)) in excess of its ratable share of payments on account of the Revolving Loans, the Swing Loans or the Letter of Credit Loans obtained by all the Lenders, such Lender shall forthwith purchase from the other Lenders such participations in the Revolving Loans, the Swing Loans or the Letter of Credit Loans made by them as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them,

provided, however, that, if all or any portion of such excess payment is

thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such Lender's ratable share (according to the proportion of (i) the amount of such Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. Each



Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section 2.13 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Lender were the direct creditor of such Borrower in the amount of such participation.

SECTION 2.14. Conversion of Revolving Loans.  
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(a) Optional. Each Borrower may on any Business Day, upon notice  
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given to the Administrative Agent not later than 12:00 noon (New York City time) on (x) the third (or the fourth, in the case of Eurocurrency Rate Loans denominated in an Alternate Currency) Business Day prior to the date of the proposed Conversion into Eurocurrency Rate Loans and (y) the first Business Day prior to the date of the proposed Conversion into Base Rate Loans, and, in each case, subject to the provisions of Section 3.05, Convert all or any portion of the Revolving Loans of one Type in the same Currency comprising the same Revolving Loan Borrowing into Revolving Loans of the other Type in the same Currency; provided, however, that any  
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Conversion of Eurocurrency Rate Loans into Base Rate Loans shall be made only on the last day of an Interest Period for such Eurocurrency Rate Loans and any Conversion of Base Rate Loans into Eurocurrency Rate Loans shall be in an amount not less than the minimum amount specified in Section 3.01(b). Each such notice of Conversion shall, within the restrictions specified above, specify (i) the date of such Conversion, (ii) the Revolving Loans to be Converted and (iii) if such Conversion is into Eurocurrency Rate Loans, the duration of the initial Interest Period for such Revolving Loans. Each notice of Conversion shall be irrevocable and binding on the Borrowers.

(b) Mandatory. If the Company shall fail to select the duration of  
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any Interest Period for any Eurocurrency Rate Loans in accordance with the provisions contained in the definition of "Interest Period" in Section 1.01, the Administrative Agent will forthwith so notify the Company and the Lenders, whereupon each such Eurocurrency Rate Loan will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Loan.

(c) Conversions Generally. Each Borrower and the Lenders hereby  
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acknowledge that Conversions pursuant to this Section 2.14 do not constitute Borrowings and, accordingly, do not result in the remaking of any of the Company's representations and warranties pursuant to Section 4.02 or Section 4.03.

SECTION 2.15. Extension of Termination Date.

(a) The Company may, by notice to the Administrative Agent (which shall promptly notify the Lenders) not less than 45 days and not more than 60 days prior to each anniversary (each such anniversary, an "Anniversary Date") of the Effective Date, request that each Lender extend such Lender's Termination Date to the date (the "New Termination Date") that is one year after the then Final Termination Date. Each Lender, acting in its sole discretion, shall, by written notice to the Administrative Agent given no later than the date (the "Consent Date") that is the earlier of (i) 15 days after the date of the notice referred to in the preceding sentence and (ii) 30 days prior to the Anniversary Date (provided that, if such earlier date is not a Business Day, the Consent Date shall be the next succeeding Business Day), advise the Administrative Agent as to:

(1) whether or not such Lender agrees to such extension of its Termination Date (each Lender so agreeing to such extension being an "Extending Lender"); and

(2) only if such Lender is an Extending Lender, whether or not such Lender also irrevocably offers to increase the amount of its Commitment (each Lender so offering to increase its Commitment being an "Increasing Lender" as well as an Extending Lender) and, if so, the amount of the additional Commitment such Lender so irrevocably offers to assume hereunder (such Lender's "Proposed Additional Commitment").

Each Lender that determines not to extend its Termination Date (a "Non-Extending Lender") shall notify the Administrative Agent (which shall notify the Lenders) of such fact promptly after such determination but in any event no later than the Consent Date, and any Lender that does not advise the Administrative Agent in writing on or before the Consent Date shall be deemed to be a Non-Extending Lender. The election of any Lender to agree to such extension shall not obligate any other Lender to so agree. The Administrative Agent shall notify the Company of each Lender's determination under this Section 2.15(a) no later than the date 25 days prior to the Anniversary Date (or, if such date is not a Business Day, on the next preceding Business Day).

(b) (i) If all of the Lenders are Extending Lenders, then, effective as of the Consent Date, the Termination Date of each Lender shall be extended to the New Termination Date, and the respective Commitments of the Lenders will not

be subject to change at such Consent Date pursuant to this Section 2.15.

(ii) If and only if the sum of (x) the aggregate amount of the Commitments of the Extending Lenders plus (y) the aggregate amount of

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the Proposed Additional Commitments of the Increasing Lenders (such sum, the "Extending Commitments") shall be equal to at least 80% of

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the then Current Aggregate Commitment, then:

(1) effective as of the Consent Date, the Termination Date of each Extending Lender shall be extended to the New Termination Date; and

(2) the Company shall (so long as no Default shall have occurred and be continuing) have the right, but not the obligation, to take either of the following actions with respect to each

Non-Extending Lender during the period commencing on the Consent Date and ending on the immediately succeeding Anniversary Date:

(X) the Company may elect by notice to the Administrative Agent and such

Non-Extending Lender that the Termination Date of such Non-Extending Lender be changed to a date (which date shall be specified in such notice) on or prior to the Anniversary Date (and, upon the giving of such notice, the Termination Date of such Non-Extending Lender shall be so changed); or

(Y) the Company may replace such Non-Extending Lender as a party to this Agreement in accordance with Section 2.15(c).

(iii) If neither of the conditions specified in clause (i) or clause (ii) of this Section 2.15(b) is satisfied, then neither the Termination Date nor the Commitment of any Lender will change pursuant to this Section 2.15 on such Consent Date, and the Company will not have the right to take any of the actions specified in Section 2.15(b)(ii)(2).

(c) Replacement by the Company of Non-Extending Lenders pursuant to Section 2.15(b)(ii)(2)(Y) shall be effected as follows (certain terms being used in this Section 2.15(c) having the meanings assigned to them in Section 2.15(d)) on the relevant Assignment Date:

(1) the Assignors shall severally assign and transfer to the Assignees, and the Assignees shall severally purchase and assume from the Assignors, all of the Assignors' rights and obligations (including, without limitation, the Assignors' respective Commitments) hereunder and under the Notes;

(2) each Assignee shall pay to the Administrative Agent, for account of the Assignors, an amount equal to such Assignee's Share of the aggregate outstanding principal amount of the Loans then held by the Assignors;

(3) the Company shall pay to the Administrative Agent, for account of the Assignors, all interest, fees and other amounts (other than principal of outstanding Loans) then due and owing to the Assignors by the Company hereunder (including, without limitation, payments due such Assignors, if any, under Sections 2.12, 3.05 and 9.04(c)); and

(4) the Company shall pay to the Administrative Agent for account of the Administrative Agent the \$2,500 processing and recordation fee for each assignment effected pursuant to this Section 2.15(c).

The assignments provided for in this Section 2.15(c) shall be effected on the relevant Assignment Date in accordance with Section 9.07 and pursuant to one or more Assignments and Acceptances. After giving effect to such assignments, each Assignee shall have a Commitment hereunder (which, if such Assignee was a Lender hereunder immediately prior to giving effect to such assignment, shall be in addition to such Assignee's existing Commitment) in an amount equal to the amount of its Assumed Commitment.

(d) For purposes of this Section 2.15 the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Assigned Commitments" means the Commitments of Non-Extending  
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Lenders to be replaced pursuant to Section 2.15(b)(ii)(2)(Y).

"Assignees" means, at any time, Increasing Lenders and, if the  
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Assigned Commitments exceed the aggregate amount of the Proposed Additional Commitments, one or more New Lenders.

"Assignment Date" means the Anniversary Date or such earlier date  
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as shall be acceptable to the Company, the relevant Assignors, the  
relevant Assignees and the Administrative Agent.

"Assignors" means, at any time, the Lenders to be replaced by the  
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Company pursuant to Section 2.15(b)(ii)(2)(Y).

The "Assumed Commitment" of each Assignee shall be determined as  
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follows:

(a) If the aggregate amount of the Proposed Additional  
Commitments of all of the Increasing Lenders shall exceed the  
aggregate amount of the Assigned Commitments, then (i) the amount  
of the Assumed Commitment of each Increasing Lender shall be  
equal to (x) the aggregate amount of the Assigned Commitments

multiplied by (y) a fraction, the numerator of which is equal to  
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such Increasing Lender's Commitment as then in effect and the  
denominator of which is the aggregate amount of the Commitments  
of all Increasing Lenders as then in effect; and (ii) no New  
Lender shall be entitled to become a Lender hereunder pursuant to  
Section 2.15(c) (and, accordingly, each New Lender shall have an  
Assumed Commitment of zero).

(b) If the aggregate amount of the Proposed Additional  
Commitments of all of the Increasing Lenders shall be less than  
or equal to the aggregate amount of the Assigned Commitments,  
then: (i) the amount of the Assumed Commitment of each  
Increasing Lender shall be equal to such Increasing Lender's  
Proposed Additional Commitment; and (ii) the excess, if any, of  
the aggregate amount of the Assigned Commitments over the

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aggregate amount of the Proposed Additional Commitments shall be  
allocated among New Lenders in such a manner as the Company and  
the Administrative Agent may agree.

"Share" means, as to any Assignee, a fraction the numerator of  
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which is equal to such Assignee's Assumed Commitment and the  
denominator of which is the aggregate amount of the Assumed  
Commitments of all the Assignees.

SECTION 2.16. Borrowings by Designated Borrowers.  
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(a) The Company may, at any time or from time to time, designate one or more Wholly-Owned Subsidiaries as Borrowers hereunder by furnishing to the Administrative Agent a letter (a "Designation Letter") in duplicate, in substantially the form of Exhibit F-1, duly completed and executed by the Company and such Subsidiary. Upon any such designation of a Subsidiary, such Subsidiary shall be a Designated Borrower and a Borrower entitled to borrow Revolving Loans and Competitive Bid Loans on and subject to the terms and conditions of this Agreement.

(b) So long as all principal of and interest on all Loans made to any Designated Borrower have been paid in full, the Company may terminate the status of such Borrower as a Borrower hereunder by furnishing to the Administrative Agent a letter (a "Termination Letter") in substantially the form of Exhibit F-2, duly completed and executed by the Company. Any Termination Letter furnished hereunder shall be effective upon receipt by the Administrative Agent, which shall promptly notify the Lenders, whereupon the Lenders shall promptly deliver to the Company (through the Administrative Agent) the Notes, if any, of such former Borrower. Notwithstanding the foregoing, the delivery of a Termination Letter with respect to any Borrower shall not terminate (i) any obligation of such Borrower that remains unpaid at the time of such delivery (including without limitation any obligation arising thereafter in respect of such Borrower under Section 2.12 or 3.05) or (ii) the obligations of the Company under Article X with respect to any such unpaid obligations.

ARTICLE III

MAKING THE LOANS AND ISSUING THE  
LETTERS OF CREDIT

SECTION 3.01. Making the Revolving Loans.  
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(a) Each Revolving Loan Borrowing shall be made on notice, given not later than (x) 12:00 noon (New York City (or, in the case of a Borrowing in an Alternate Currency, London) time) on the third (or, in the case of a Borrowing to be denominated in an Alternate Currency, fourth) Business Day prior to the date of a Eurocurrency Rate Loan Borrowing, and (y) 11:00 A.M. (New York City time) on the day of a Base Rate Loan Borrowing, by the Company (on its own behalf and on behalf of any Designated Borrower) to the Administrative Agent, which shall give to each Lender prompt notice thereof by telecopier, telex or cable. Each such notice of a Revolving Loan

Borrowing (a "Notice of Revolving Loan Borrowing") shall be made in

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writing, or orally and confirmed immediately in writing, by telecopier, telex or cable, in substantially the form of Exhibit B-1 hereto, specifying therein the requested (i) date of such Revolving Loan Borrowing (which shall be a Business Day), (ii) Currency and Type of Revolving Loan comprising such Revolving Loan Borrowing, (iii) aggregate amount of such Revolving Loan Borrowing, (iv) in the case of a Revolving Loan Borrowing comprised of Eurocurrency Rate Loans, the Interest Period for each such Revolving Loan and (v) the name of the Borrower (which shall be the Company or a Designated Borrower). Each Lender shall (A) before 11:00 A.M. Local Time on the date of such Borrowing (in the case of a Eurocurrency Rate Loan Borrowing) and (B) before 1:00 P.M. (New York City time) on the date of such Borrowing (in the case of a Base Rate Loan Borrowing), make available for the account of its Applicable Lending Office to the Administrative Agent at the Administrative Agent's Account for the relevant Currency in same day funds, such Lender's ratable portion of such Revolving Loan Borrowing; provided that, with respect to Borrowings of Eurocurrency Rate

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Loans, no Lender having a Termination Date prior to the last day of the initial Interest Period for such Eurocurrency Rate Loans shall participate in such Borrowing. After the Administrative Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article IV, the Administrative Agent will make such funds available to the relevant Borrower in such manner as the Administrative Agent and the Company may agree; provided, however, that the Administrative Agent shall first make a

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portion of such funds equal to the aggregate principal amount of any Swing Loan and Letter of Credit Loans as to which a Borrower has received timely notice made by the Swing Loan Bank or the Issuing Bank, as the case may be, and by any other Lender and outstanding on the date of such Revolving Loan Borrowing, plus interest accrued and unpaid thereon to and as of such date, available to the Swing Loan Bank or the Issuing Bank, as the case may be, and such other Lenders for repayment of such Swing Loans and Letter of Credit Loans.

(b) Anything in subsection (a) above to the contrary notwithstanding, the Company may not select Eurocurrency Rate Loans for any Revolving Loan Borrowing if the aggregate amount of such Revolving Loan Borrowing is less than \$10,000,000 or the Foreign Currency Equivalent thereof.

(c) Subject to Sections 2.09(c) and 3.06, each Notice of Revolving Loan Borrowing shall be irrevocable and binding on the Company and the relevant Borrower. In the case of

any Revolving Loan Borrowing by a Borrower which the related Notice of Revolving Loan Borrowing specifies is to be comprised of Eurocurrency Rate Loans, such Borrower shall indemnify each Lender against any loss, cost or expense incurred by such Lender as a result of any failure to fulfill on or before the date specified in such Notice of Revolving Loan Borrowing for such Revolving Loan Borrowing the applicable conditions set forth in Article IV, including, without limitation, any loss (excluding loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Revolving Loan to be made by such Lender as part of such Revolving Loan Borrowing when such Revolving Loan, as a result of such failure, is not made on such date.

(d) Unless the Administrative Agent shall have received notice from a Lender prior to the time any Revolving Loan Borrowing is required to be made that such Lender will not make available to the Administrative Agent such Lender's ratable portion of such Revolving Loan Borrowing, the Administrative Agent may assume that such Lender has made such portion available to the Administrative Agent on the date of such Revolving Loan Borrowing in accordance with subsection (a) of this Section 3.01 and the Administrative Agent may, in reliance upon such assumption, make available to the relevant Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such ratable portion available to the Administrative Agent, such Lender and the relevant Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to such Borrower until the date such amount is repaid to the Administrative Agent, at (i) in the case of such Borrower, the interest rate applicable at the time to Revolving Loans comprising such Revolving Loan Borrowing and (ii) in the case of such Lender, the Federal Funds Rate, provided that such Borrower retains its

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rights against such Lender with respect to any damages it may incur as a result of such Lender's failure to fund, and notwithstanding anything herein to the contrary, in no event shall such Borrower be liable to such Lender or any other Person for the interest payable by such Lender to the Administrative Agent pursuant to this sentence. If such Lender shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Lender's Revolving Loan as part of such Revolving Loan Borrowing for purposes of this Agreement.



(e) The failure of any Lender to make the Revolving Loan to be made by it as part of any Revolving Loan Borrowing shall not relieve any other Lender of its obligation, if any, hereunder to make its Revolving Loan on the date of such Revolving Loan Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Revolving Loan to be made by such other Lender on the date of any Revolving Loan Borrowing.

SECTION 3.02. Making the Competitive Bid Loans.  
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(a) The Company (on its own behalf and on behalf of any Designated Borrower) may request a Competitive Bid Loan Borrowing under this Section 3.02 by delivering to the Administrative Agent a notice (made in writing, or orally and confirmed immediately in writing, by telecopier, telex or cable) of a Competitive Bid Loan Borrowing (a "Notice of Competitive Bid

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Loan Borrowing"), in substantially the form of Exhibit B-2 hereto,  
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specifying the date (which shall be a Business Day) and aggregate amount of the proposed Competitive Bid Loan Borrowing, the Currency thereof, the maturity date for repayment of each Competitive Bid Loan to be made as part of such Competitive Bid Loan Borrowing (which maturity date may not be later than 180 days or six months, as applicable, after the date of such Competitive Bid Loan Borrowing (or, if earlier, the Final Termination Date)), the interest payment date or dates relating thereto, the name of the Borrower (which shall be the Company or a Designated Borrower), and any other terms to be applicable to such Competitive Bid Loan Borrowing, not later than (i) 10:00 A.M. New York (or, in the case of a Borrowing in an Alternate Currency, London) time at least one Business Day prior to the date of the proposed Competitive Bid Loan Borrowing, if the Company shall specify in the Notice of Competitive Bid Loan Borrowing that the rates of interest to be offered by the Lenders shall be fixed rates per annum and (ii) 12:00 noon New York (or, in the case of a Borrowing in an Alternate Currency, London) time at least four Business Days prior to the date of the proposed Competitive Bid Loan Borrowing, if the Company shall instead specify in the Notice of Competitive Bid Loan Borrowing the basis to be used by the Lenders in determining the rates of interest to be offered by them. The Administrative Agent shall in turn promptly notify each Lender of each request for a Competitive Bid Loan Borrowing received by it from the Company by sending such Lender a copy of the related Notice of Competitive Bid Loan Borrowing.

(b) Each Lender may, if, in its sole discretion, it elects to do so, irrevocably offer to make one or more Competitive Bid Loans to a Borrower as part of such proposed

Competitive Bid Loan Borrowing at a rate or rates of interest specified by such Lender in its sole discretion, by notifying the Administrative Agent (which shall give prompt notice thereof to the Company), before 10:00 A.M. New York (or, in the case of a Borrowing in an Alternate Currency, London) time (i) on the date of such proposed Competitive Bid Loan Borrowing, in the case of a Notice of Competitive Bid Loan Borrowing delivered pursuant to clause (i) of paragraph (a) above and (ii) three Business Days before the date of such proposed Competitive Bid Loan Borrowing, in the case of a Notice of Competitive Bid Loan Borrowing delivered pursuant to clause (ii) of paragraph (a) above, of the minimum amount and maximum amount of each Competitive Bid Loan which such Lender would be willing to make as part of such proposed Competitive Bid Loan Borrowing (which amounts may, subject to the proviso to the first sentence of Section 2.02(a), exceed such Lender's Commitment), the rate or rates of interest therefor and such Lender's Applicable Lending Office with respect to such Competitive Bid Loan; provided that if the Administrative Agent in its capacity as a Lender

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shall, in its sole discretion, elect to make any such offer, it shall notify the Company of such offer before 9:00 A.M. New York (or, in the case of a Borrowing in an Alternate Currency, London) time on the date on which notice of such election is to be given to the Administrative Agent by the other Lenders. If any Lender shall elect not to make such an offer, such Lender shall so notify the Administrative Agent, before 10:00 A.M. New York (or, in the case of a Borrowing in an Alternate Currency, London) time on the date on which notice of such election is to be given to the Administrative Agent by the other Lenders, and such Lender shall not be obligated to, and shall not, make any Competitive Bid Loan as part of such Competitive Bid Borrowing; provided that the failure by any Lender to give

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such notice shall not cause such Lender to be obligated to make any Competitive Bid Loan as part of such proposed Competitive Bid Loan Borrowing.

(c) The Company shall, in turn, (i) before 11:30 A.M. New York (or, in the case of a Borrowing in an Alternate Currency, London) time on the date of such proposed Competitive Bid Loan Borrowing, in the case of a Notice of Competitive Bid Loan Borrowing delivered pursuant to clause (i) of paragraph (a) above and (ii) before 1:00 P.M. New York (or, in the case of a Borrowing in an Alternate Currency, London) time three Business Days before the date of such proposed Competitive Bid Loan Borrowing, in the case of a Notice of Competitive Bid Loan Borrowing delivered pursuant to clause (ii) of paragraph (b) above, either:

(A) cancel such Competitive Bid Loan Borrowing by giving the Administrative Agent notice to that effect, or

(B) accept one or more of the offers made by any Lender or Lenders pursuant to paragraph (b) above, in its sole discretion, by giving notice to the Administrative Agent of the amount of each Competitive Bid Loan (which amount shall be equal to or greater than the minimum amount, and equal to or less than the maximum amount, notified to the Company by the Administrative Agent on behalf of such Lender for such Competitive Bid Loan pursuant to paragraph (b) above) to be made by each Lender as part of such Competitive Bid Loan Borrowing, and reject any remaining offers made by Lenders pursuant to paragraph (b) above by giving the Administrative Agent notice to that effect.

(d) If the Company notifies the Administrative Agent that such Competitive Bid Loan Borrowing is canceled pursuant to paragraph (c)(A) above, the Administrative Agent shall give prompt notice thereof to the Lenders and such Competitive Bid Loan Borrowing shall not be made.

(e) If the Company accepts one or more of the offers made by any Lender or Lenders pursuant to paragraph (c)(B) above, the Administrative Agent shall in turn promptly notify (i) each Lender that has made an offer as described in paragraph (b) above, of the date and aggregate amount of such Competitive Bid Loan Borrowing and whether or not any offer or offers made by such Lender pursuant to paragraph (b) above have been accepted by the Company, (ii) each Lender that is to make a Competitive Bid Loan as part of such Competitive Bid Loan Borrowing, of the amount of each Competitive Bid Loan to be made by such Lender as part of such Competitive Bid Loan Borrowing, and (iii) each Lender that is to make a Competitive Bid Loan as part of such Competitive Bid Loan Borrowing, upon receipt, that the Administrative Agent has received forms of documents appearing to fulfill the applicable conditions set forth in Article IV. Each Lender that is to make a Competitive Bid Loan as part of such Competitive Bid Loan Borrowing shall, before 1:00 P.M. New York (or, in the case of a Borrowing in an Alternate Currency, London) time on the date of such Competitive Bid Loan Borrowing specified in the notice received from the Administrative Agent pursuant to clause (i) of the preceding sentence or any later time when such Lender shall have received notice from the Administrative Agent pursuant to clause (iii) of the preceding sentence, make available for the account of its Applicable Lending Office to the Administrative Agent at the

Administrative Agent's Account for the relevant Currency such Lender's portion of such Competitive Bid Loan Borrowing, in same day funds. Upon fulfillment of the applicable conditions set forth in Article IV and after receipt by the Administrative Agent of such funds, the Administrative Agent will make such funds available to the relevant Borrower at the Administrative Agent's aforesaid address. Promptly after each Competitive Bid Loan Borrowing the Administrative Agent will notify each Lender of the amount of the Competitive Bid Loan Borrowing, the consequent Competitive Bid Loan Reduction and the dates upon which such Competitive Bid Loan Reduction commenced and will terminate.

(f) Following the making of each Competitive Bid Loan Borrowing, the Company shall be in compliance with the limitation set forth in the proviso to the first sentence of Section 2.02(a).

(g) Notwithstanding anything to the contrary in Section 2.02 or in the foregoing provisions of this Section 3.02, no Lender whose Termination Date occurs prior to the maturity date for any Competitive Bid Loan requested in a Notice of Competitive Bid Loan Borrowing shall be entitled to receive or to make a quote pursuant to such Notice of Competitive Bid Loan Borrowing or otherwise to participate in such Competitive Bid Loan Borrowing.

SECTION 3.03. Making the Swing Loans, Etc.  
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(a) The Company (on its own behalf and on behalf of any Designated Borrower) may request a Swing Loan Borrowing from a Swing Loan Bank under this Section 3.03 by delivering to the Administrative Agent and such Swing Loan Bank, no later than 2:00 p.m. (New York City time) on the date of the proposed Swing Loan Borrowing, a notice of a Swing Loan Borrowing (a

"Notice of Swing Loan Borrowing"), which shall be made in writing, or  
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orally and confirmed immediately in writing, by telecopier, telex or cable, and shall specify therein (i) the Borrower (which shall be the Company or a Designated Borrower), (ii) the requested Swing Loan Bank, (iii) the date of such Borrowing (which shall be a Business Day), (iv) the amount of such Borrowing, (v) the maturity of such Borrowing (which maturity shall be no later than the seventh day after the requested date of such Borrowing) and (vi) the account of the relevant Borrower to which the proceeds of such Borrowing are to be made available.

(b) The relevant Swing Loan Bank may, if, in its sole discretion, it elects to do so, irrevocably offer to make such Swing Loan to the relevant Borrower by telephonic notice, such notice specifying whether such Swing

Loan will bear interest (i) at the rate of interest specified in Section 2.08(a)(i) (such Swing Loan, a "Base Rate Swing Loan") or (ii) at a  
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different rate of interest specified in such notice by such Swing Loan Bank in its sole discretion (such Swing Loan, a "Quoted Rate Swing Loan"). If  
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such Swing Loan Bank shall elect not to make such an offer, such Swing Loan Bank shall so notify the Administrative Agent and the Company; provided  
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that the failure by such Swing Loan Bank to give such notice shall not cause such Swing Loan Bank to be obligated to make such Swing Loan.

(c) If such Swing Loan Bank shall have offered to make a Swing Loan as provided in paragraph (b) above, the Company shall, in turn, before the earlier of one hour after its receipt of such offer and 2:30 P.M. (New York City time) on the date of the proposed Swing Loan Borrowing either (A) cancel such Swing Loan Borrowing or (B) accept such offer, in each case by giving notice to such effect to the Administrative Agent and such Swing Loan Bank.

(d) If the Company cancels such Swing Loan Borrowing pursuant to paragraph (c)(A) above, such Swing Loan Borrowing shall not be made. If the Company accepts such offer pursuant to paragraph (c)(B) above, the relevant Swing Loan Bank will (subject to the applicable conditions set forth in Article IV) make the amount of such Swing Loan available to the relevant Borrower at the account specified in the relevant Notice of Swing Loan Borrowing. In the case of any Borrowing of Quoted Rate Swing Loans, the Company shall indemnify the relevant Swing Loan Bank against any loss, cost or expense incurred by such Swing Loan Bank as a result of any failure to fulfill on or before the date of such Swing Loan the applicable conditions set forth in Article IV, including, without limitation, any loss (excluding loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Swing Loan Bank to fund the Quoted Rate Swing Loan to be made by such Swing Loan Bank as part of such Borrowing when such Quoted Rate Swing Loan, as a result of such failure, is not made on such date.

(e) If the Company accepts an offer by a Swing Loan Bank for a Quoted Rate Swing Loan as provided above, such Swing Loan Bank will provide the Company and the Administrative Agent with written confirmation (a "Swing  
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Loan Rate Confirmation") of the agreed interest rate (the "Swing Loan  
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Rate") for such Quoted Rate Swing Loan by the Business Day next succeeding the date on which the related Notice of Swing Loan Borrowing was given, and the rate specified in such Swing Loan Rate Confirmation shall for all

purposes be the interest rate payable in respect of such Quoted Rate Swing Loan notwithstanding any disagreement by the Company with the contents of such written confirmation.

(f) Upon demand by a Swing Loan Bank through the Administrative Agent, each other Lender having a Termination Date on or after the scheduled maturity date of such Swing Loan shall purchase from such Swing Loan Bank, and such Swing Loan Bank shall sell and assign to each other Lender, such other Lender's pro rata share (determined based on the aggregate Commitments of all Lenders having Termination Dates on or after the scheduled maturity date of such Swing Loan) of each outstanding Base Rate Swing Loan made by such Swing Loan Bank (and related claims for accrued and unpaid interest), by making available for the account of its Applicable Lending Office to the Administrative Agent for the account of such Swing Loan Bank by deposit to the Administrative Agent at its aforesaid address, in same day funds, an amount equal to the sum of (x) the portion of the outstanding principal amount of such Base Rate Swing Loans to be purchased by such Lender plus (y) interest accrued and unpaid to and

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as of such date on such portion of the outstanding principal amount of such Base Rate Swing Loans (it being understood that this sentence shall not apply to any Quoted Rate Swing Loan). Each Lender's obligations to make such payments to the Administrative Agent for account of the Swing Loan Banks under this paragraph (f), and each Swing Loan Bank's right to receive the same, shall be absolute and unconditional and shall not be affected by any circumstance whatsoever, including, without limitation, the failure of any other Lender to make its payment under this paragraph (f), the financial condition of the Company (or any other Person), the existence of any Default, the failure of any of the conditions set forth in Article IV to be satisfied, or the termination of the Commitments. Each such payment to a Swing Loan Bank shall be made without any offset, abatement, withholding or reduction whatsoever. Each Lender agrees to purchase its pro rata share of such outstanding Base Rate Swing Loans on (i) the Business Day on which demand therefor is made by such Swing Loan Bank, provided that

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notice of such demand is given not later than 11:00 a.m. (New York City time) on such Business Day or (ii) the first Business Day next succeeding such demand if notice of such demand is given after such time. Upon any such assignment by a Swing Loan Bank to any other Lender of a portion of such Swing Loan Bank's Base Rate Swing Loans, such Swing Loan Bank represents and warrants to such other Lender that such Swing Loan Bank is the legal and beneficial owner of such interest being assigned by it, but makes no other representation or warranty and assumes no responsibility with respect to such Swing Loan, the Loan

Documents or any party thereto. If and to the extent that any Lender shall not have so made the amount of such Swing Loan available to the Administrative Agent, such Lender agrees to pay to the Administrative Agent for the account of such Swing Loan Bank forthwith on demand such amount together with interest thereon, for each day from the date of demand by such Swing Loan Bank until the date such amount is paid to the Administrative Agent, at the Federal Funds Rate. If such Lender shall pay to the Administrative Agent such amount for the account of such Swing Loan Bank, such amount so paid in respect of principal shall constitute a Swing Loan by such Lender for purposes of this Agreement, and the outstanding principal amount of the Swing Loans made by such Swing Loan Bank shall be reduced by such amount.

SECTION 3.04. Issuance of Letters of Credit.  
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(a) Request for Issuance.  
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(i) Each Letter of Credit issued after the date hereof shall be issued upon notice, given not later than 11:00 A.M. (New York City time) on the third Business Day prior to the proposed issuance of such Letter of Credit, by the Company to the Issuing Bank, which shall give to the Letter of Credit Agent and each Lender prompt notice thereof by telex, telecopier or cable. Each such notice of issuance of a Letter of Credit (a "Notice of Issuance") shall be by telex, telecopier or

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cable, confirmed immediately in writing, specifying therein the requested (A) date of such issuance (which shall be a Business Day), (B) Available Amount of such Letter of Credit, (C) expiration date of such Letter of Credit, (D) name and address of the beneficiary of such Letter of Credit and (E) form of such Letter of Credit, and shall be accompanied by such application and agreement for letter of credit (each such application and agreement, and each application and agreement executed and delivered in respect of an Existing Letter of Credit, a "Letter of Credit Agreement") as the Issuing Bank may

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specify to the Company for use in connection with such requested Letter of Credit.

(ii) If the requested form of such Letter of Credit is for the account of any entity permitted under Section 2.04 and is acceptable to the Issuing Bank, the Issuing Bank will, upon fulfillment of the applicable conditions set forth in Article IV, make such Letter of Credit available to the Company at its office referred to in Section 9.02 or as otherwise agreed with the Company in connection with such issuance. In the event

and to the extent that the provisions of any Letter of Credit Agreement shall conflict with this Agreement, the provisions of this Agreement shall govern.

(iii) The Letter of Credit Agent shall furnish (A) to the Issuing Bank on the first Business Day of each week a written report summarizing issuance and expiration dates of Letters of Credit issued during the previous week and drawings during such week under all Letters of Credit, (B) to each Lender and the Company on the first Business Day of each month a written report summarizing issuance and expiration dates of Letters of Credit issued during the preceding month and drawings during such month under all Letters of Credit and (C) to the Administrative Agent, the Company and each Lender on the first Business Day of each fiscal quarter a written report setting forth the average daily aggregate Available Amount during the preceding fiscal quarter of all Letters of Credit.

(b) Drawing and Reimbursement.  
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(i) The payment by the Issuing Bank of a draft drawn under any Letter of Credit shall constitute for all purposes of this Agreement the making by the Issuing Bank of a Letter of Credit Loan, which shall be a loan bearing interest at the Base Rate, in the amount of such draft.

(ii) Upon written demand by the Issuing Bank with a copy of such demand to the Administrative Agent, each other Lender shall purchase from the Issuing Bank, and the Issuing Bank shall sell and assign to each such other Lender, such other Lender's pro rata share of such outstanding Letter of Credit Loan as of the date of such purchase, by making available for the account of its Applicable Lending Office to the Administrative Agent for the account of the Issuing Bank, by deposit to the Administrative Agent's Account for Dollars, in same day funds, an amount equal to the portion of the outstanding principal amount of such Letter of Credit Loan to be purchased by such Lender. The Company (for itself and on behalf of each other account party) hereby agrees to each such sale and assignment.

(iii) Each Lender's obligations to make such payments to the Administrative Agent for account of the Issuing Bank under this paragraph (b), and the Issuing Bank's right to receive the same, shall be absolute and unconditional and shall not be affected by any circumstance whatsoever, including, without limitation,



the failure of any other Lender to make its payment under this paragraph (b), the financial condition of the Company (or any other account party), the existence of any Default, the failure of any of the conditions set forth in Article IV to be satisfied, or the termination of the Commitments. Each such payment to the Issuing Bank shall be made without any offset, abatement, withholding or reduction whatsoever.

(iv) Each Lender agrees to purchase its pro rata share of an outstanding Letter of Credit Loan on (i) the Business Day on which demand therefor is made by the Issuing Bank, provided notice of such demand is given not later than 11:00 A.M. (New York City time) on such Business Day or (ii) the first Business Day next succeeding such demand if notice of such demand is given after such time.

(v) Upon any such assignment by the Issuing Bank to any other Lender of a portion of a Letter of Credit Loan, the Issuing Bank represents and warrants to such other Lender that the Issuing Bank is the legal and beneficial owner of such interest being assigned by it, but makes no other representation or warranty and assumes no responsibility with respect to such Letter of Credit Loan, the Loan Documents or any party hereto.

(vi) If and to the extent that any Lender shall not have so made the amount of such Loan available to the Administrative Agent, such Lender agrees to pay to the Administrative Agent forthwith on demand such amount together with interest thereon, for each day from the date of demand by the Issuing Bank until the date such amount is paid to the Administrative Agent, at the Federal Funds Rate.

(vii) If such Lender shall pay to the Administrative Agent such amount for the account of the Issuing Bank on any Business Day, such amount so paid in respect of principal shall constitute a Letter of Credit Loan made by such Lender on such Business Day for purposes of this Agreement, and the outstanding principal amount of the Letter of Credit Loan made by the Issuing Bank shall be reduced by such amount on such Business Day.

(c) Obligations Absolute. The obligations of the Company under this

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Agreement, any Letter of Credit Agreement and any other agreement or instrument relating to any Letter of Credit (and the obligations of each Lender to purchase portions of Letter of Credit Loans pursuant to paragraph (b) above) shall be unconditional and irrevocable, and shall be paid

strictly in accordance with the terms of this Agreement, such Letter of Credit Agreement and such other agreement or instrument under all circumstances, including, without limitation, the following circumstances (it being understood that any such payment by the Company is without prejudice to, and does not constitute a waiver of, any rights the Company might have or might acquire as a result of the payment by the Issuing Bank or any Lender of any draft or the reimbursement by the Company thereof):

(i) any lack of validity or enforceability of this Agreement, any Letter of Credit Agreement, any Letter of Credit or any other agreement or instrument relating thereto (this Agreement and all of the other foregoing being, collectively, the "L/C Related Documents");  
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(ii) any change in the time, manner or place of payment of, or in any other term of, all or any of the obligations of the Company in respect of any L/C Related Document or any other amendment or waiver of or any consent to departure from all or any of the L/C Related Documents;

(iii) the existence of any claim, set-off, defense or other right that the Company (or any other account party) may have at any time against any beneficiary or any transferee of a Letter of Credit (or any Persons for whom any such beneficiary or any such transferee may be acting), the Issuing Bank or any other Person, whether in connection with the transactions contemplated by the L/C Related Documents or any unrelated transaction;

(iv) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(v) payment by the Issuing Bank under a Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit; or

(vi) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including, without limitation, any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Company.

SECTION 3.05. Increased Costs.  
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(a) If, due to either (i) the introduction of or any change (other than any change by way of imposition or increase of reserve requirements included in the Eurocurrency Rate Reserve Percentage, in each case as of the date of determination thereof) in or in the interpretation of any law or regulation, in each case as of the date hereof or (ii) the compliance with any guideline or request from any central bank or other governmental authority (whether or not having the force of law) which implements any introduction or change specified in clause (i) above, there shall be any increase in the cost to any Lender of agreeing to make or making, funding or maintaining Eurocurrency Rate Loans, then the Company shall from time to time, within ten Business Days after written demand by such Lender (with a copy of such demand to the Administrative Agent), pay to the Administrative Agent for the account of such Lender additional amounts sufficient to compensate such Lender for such increased cost incurred during the 90-day period prior to the date of such demand. A certificate as to the amount of such increased cost, submitted to the Company and the Administrative Agent by such Lender and showing in reasonable detail the basis for the calculation thereof, shall be prima facie evidence of such costs.  
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(b) If any Lender determines that compliance with (i) the introduction of or any change in or in the interpretation of, any law or regulation, in each case after the date hereof, or (ii) any guideline or request from any central bank or other governmental authority (whether or not having the force of law) which implements any introduction or change specified in clause (i) above, affects or would affect the amount of capital required or expected to be maintained by such Lender or any corporation controlling such Lender and that the amount of such capital is increased by or based upon the existence of such Lender's commitment to lend hereunder and other commitments of this type, then, within ten Business Days after written demand by such Lender (with a copy of such demand to the Administrative Agent), the Company shall from time to time pay to the Administrative Agent for the account of such Lender, additional amounts sufficient to compensate such Lender or such corporation in the light of such circumstances incurred during the 90-day period prior to the date of such demand, to the extent that such Lender reasonably determines such increase in capital to be allocable to the existence of such Lender's commitment to lend hereunder. A certificate as to such amounts submitted to the Company and the Administrative

Agent by such Lender and showing in reasonable detail the basis for the calculation thereof shall be prima facie evidence of such costs.

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(c) Without limiting the effect of the foregoing, the Company shall pay to each Lender on the last day of each Interest Period so long as such Lender is maintaining reserves against Eurocurrency Liabilities (or so long as such Lender is maintaining reserves against any other category of liabilities that includes deposits by reference to which the interest rate on Eurocurrency Rate Loans is determined as provided in this Agreement or against any category of extensions of credit or other assets of such Lender that includes any Eurocurrency Rate Loans) an additional amount (determined by such Lender and notified to the Company through the Administrative Agent) equal to the product of the following for each Eurocurrency Rate Loan for each day during such Interest Period:

(i) the principal amount of such Eurocurrency Rate Loan outstanding on such day; and

(ii) the remainder of (x) a fraction the numerator of which is the rate (expressed as a decimal) at which interest accrues on such Eurocurrency Rate Loan for such Interest Period as provided in this Agreement (less the Applicable Margin) and the denominator of which is one minus the Eurocurrency Rate Reserve Percentage in effect on such

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day minus (y) such numerator; and  
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(iii) 1/360.

(d) If the Company is required to pay any Lender any amounts under this Section 3.05, the applicable Lender shall be an "Affected Person", and  
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the Company shall have the rights set forth in Section 3.08 to replace such Affected Person.

SECTION 3.06. Illegality. Notwithstanding any other provision of

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this Agreement, if any Lender shall notify the Administrative Agent that the introduction of or any change in or in the interpretation of any law or regulation makes it unlawful, or any central bank or other governmental authority asserts that it is unlawful, for such Lender or its Eurocurrency Lending Office to perform its obligations hereunder to make Eurocurrency Rate Loans or to fund or maintain Eurocurrency Rate Loans hereunder, then, subject to the provisions of Section 3.08, (i) the obligation of such Lender to make Eurocurrency Rate Loans hereunder shall be suspended until the first date on which the circumstances causing such suspension cease to exist, (ii) any

Eurocurrency Rate Loans made or to be made by such Lender shall be converted automatically to Base Rate Loans and (iii) such Lender shall be an "Affected Person", and the Company shall have the right set forth in Section 3.08 to

replace such Affected Person. In the event of such a suspension, such Lender shall review the circumstances giving rise to such suspension at least weekly and shall notify the Company, the Administrative Agent and the Lenders promptly of the end of such suspension, and thereafter the Company shall be entitled to borrow Eurocurrency Rate Loans from such Lender.

SECTION 3.07. Reasonable Efforts to Mitigate. Each Lender shall use its reasonable best efforts (consistent with its internal policy and legal and regulatory restrictions) to minimize any amounts payable by the Company under Section 3.05 and to minimize any period of illegality described in Section 3.06. Without limiting the generality of the foregoing, each Lender agrees that, to the extent reasonably possible to such Lender, it will change its Eurocurrency Lending Office if such change would eliminate or reduce amounts payable to it under Section 3.05 or eliminate any illegality of the type described in Section 3.06, as the case may be. Each Lender further agrees to notify the Company promptly, but in any event within five Business Days, after such Lender learns of the circumstances giving rise to such a right to payment or such illegality have changed such that such right to payment or such illegality, as the case may be, no longer exists.

SECTION 3.08. Right to Replace Affected Person or Lender.

(a) Replacement by the Company. In the event the Company is required to pay any Taxes with respect to an Affected Person pursuant to Section 2.12(c) or any amounts with respect to an Affected Person pursuant to Section 3.05, or receives a notice from an Affected Person pursuant to Section 3.06, or is required to make a payment to any Lender (which Lender shall be deemed to be an "Affected Person" for purposes of this Section 3.08(a) under Section 9.15, the Company may elect, if such amounts continue to be charged or such notice is still effective, to replace such Affected Person as a party to this Agreement, provided that, concurrently therewith, (i) another financial institution which is an Eligible Assignee and is reasonably satisfactory to the Company and the Administrative Agent (or if the Lender then serving as Administrative Agent is the Person to be replaced and the Administrative Agent has resigned its position, the Lender becoming the successor Administrative Agent) shall agree, as of such date, to purchase for cash and at par the Loans of the Affected Person, pursuant to an Assignment and Acceptance and to become a Lender for all purposes under this Agreement and to assume all obligations (including all

outstanding Loans) of the Affected Person to be terminated as of such date and to comply with the requirements of Section 9.07 applicable to assignments (other than clause (a)(iv) thereof), and (ii) the Company shall pay to such Affected Person in same day funds on the day of such replacement all interest, fees and other amounts then due and owing to such Affected Person by the Company hereunder to and including the date of termination, including without limitation payments due such Affected Person under Section 2.12, costs incurred under Section 3.05 or Section 9.15 and payments owing under Section 9.04(c).

(b) Replacement by the Letter of Credit Agent or the Issuing Bank.

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In the event that S&P and Moody's shall, after the date that any Person becomes a Lender, downgrade the long-term certificate of deposit ratings of such Lender, and the resulting ratings shall be below BBB- and Baa3, respectively, or the equivalent, then each of the Letter of Credit Agent and the Issuing Bank shall in consultation with the Company have the right, but not the obligation, at its own expense, upon notice to such Lender and the Administrative Agent, to replace such Lender with an Eligible Assignee, and such Lender hereby agrees to transfer and assign without recourse (in accordance with and subject to the restrictions contained in Section 9.07 (other than clause (a)(iv) thereof)) all the interests, rights and obligations in respect of its Commitment to an Eligible Assignee; provided, however, that (x) no such assignment shall conflict with any

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law, rule or regulation or order of any governmental authority and (y) the Letter of Credit Agent, the Issuing Bank or such Eligible Assignee, as the case may be, shall pay to such Lender in same day funds on the date of such assignment the principal of and interest accrued to the date of payment on the Loans made by such Lender hereunder and all other amounts accrued for such Lender's account or owed to it hereunder. Upon any such termination or assignment, such Lender shall cease to be a party hereto but shall continue to be obligated under Section 8.05 and be entitled to the benefits of Section 9.04, as well as to any fees and other amounts accrued for its account under Sections 2.05, 2.12 or 3.05 and not yet paid.

SECTION 3.09. Use of Proceeds. The proceeds of the Loans shall be

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available (and each Borrower agrees that it shall use such proceeds) for general corporate purposes (including, without limitation, commercial paper backup and to finance acquisitions) of the Company and its Subsidiaries; provided that

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neither any Lender, any Managing Agent, the Documentation Agent, the Letter of Credit Agent nor the Administrative Agent shall have any responsibility for the use of any of the proceeds of Loans.

ARTICLE IV

CONDITIONS OF LENDING

SECTION 4.01. Conditions Precedent to Initial Borrowing. The

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obligation of each Lender to make a Loan on the occasion of the initial  
Borrowing shall be subject to the conditions precedent that, on a date (the

"Effective Date") not later than June 30, 1998, the Administrative Agent shall  
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have received each of the following:

(a) Each of the following documents, which shall be in form and  
substance satisfactory to the Administrative Agent and (except for the  
Notes) in sufficient copies for each Lender:

(i) The Revolving Loan Notes payable by the Company and any  
Designated Borrower to the order of the Lenders, respectively.

(ii) Certified copies of (x) the charter and

by-laws of the Company, (y) the resolutions of the Board of Directors  
of the Company authorizing and approving this Agreement and the Notes,  
and (z) all documents evidencing other necessary corporate action and  
governmental approvals, if any, with respect to this Agreement and the  
Notes.

(iii) A certificate of the Secretary or an Assistant Secretary of  
the Company certifying the names and true signatures of the officers  
of the Company authorized to sign this Agreement and the Notes and the  
other documents to be delivered hereunder.

(iv) A favorable opinion of the Company's Law Department,  
substantially in the form of Exhibit D and covering such other matters  
relating hereto as any Lender, through the Administrative Agent, may  
reasonably request.

(v) A favorable opinion of Milbank, Tweed, Hadley & McCloy,  
special New York counsel to the Administrative Agent, substantially in  
the form of Exhibit E.

(vi) Certified copies of the Proxy Statement, the Restructuring  
Agreements and the Tax Sharing Agreement.

(vii) A certificate of a senior officer of the Company to the  
effect that (x) the representations and warranties contained in  
Section 5.01 are correct (other

than any such representations or warranties which, by their terms, refer to a prior date) and (y) no event has occurred and is continuing which constitutes a Default.

(b) Confirmation that (1) the Company has paid all accrued fees and expenses of the Administrative Agent and the fees of the Managing Agents, the Documentation Agent, the Letter of Credit Agent and the Lenders hereunder (including the fees and expenses of counsel to the Administrative Agent to the extent then payable), including without limitation all accrued but unpaid fees and expenses under the Existing 1997 Credit Agreement, to the extent the same have been invoiced to the Company at least two (2) Business Days prior to the Effective Date, and (2) the Company has paid in full the principal of and interest on the Loans and the Notes as defined in, and all other amounts whatsoever payable under, the Existing 1997 Credit Agreement and has terminated the Commitments as defined therein.

(c) Evidence satisfactory to the Administrative Agent that all of the assets and liabilities of the New Marriott Business have been transferred to the Company and that the Spinoff has occurred, or is occurring substantially simultaneously with the Effective Date, in each case substantially in accordance with the Proxy Statement.

SECTION 4.02. Conditions Precedent to Each Revolving Loan Borrowing,

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Swing Loan Borrowing and Letter of Credit Issuance. The obligation of each  
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Lender to make a Loan (other than a Swing Loan or a Letter of Credit Loan made by a Lender pursuant to Section 3.03 or 3.04(b) or a Competitive Bid Loan) on the occasion of each Borrowing (including the initial Borrowing), and the right of the Company to request a Swing Loan Borrowing or the issuance of a Letter of Credit, shall be subject to the further conditions precedent that:

(i) in the case of the first Borrowing by a Designated Borrower the Company shall have furnished to the Administrative Agent such Revolving Loan Notes, corporate documents, resolutions and legal opinions relating to such Designated Borrower as the Administrative Agent may reasonably require, and

(ii) on the date of such Borrowing or issuance of a Letter of Credit the following statements shall be true (and the acceptance by a Borrower of the proceeds of such Borrowing or of such Letter of Credit shall constitute a representation and warranty by the Company and such Borrower that on the date of such Borrowing or issuance such statements are true):



(a) The representations and warranties contained in Section 5.01 (except the Excluded Representations) are correct on and as of the date of such Borrowing or issuance, before and after giving effect to such Borrowing or issuance and to the application of the proceeds therefrom, as though made on and as of such date other than any such representations or warranties that, by their terms, refer to a date other than the date of such Borrowing or issuance; and

(b) No event has occurred and is continuing, or would result from such Borrowing or issuance or from the application of the proceeds therefrom, which constitutes a Default;

provided that the conditions set forth in clause (ii) of this Section 4.02 shall

not be applicable to a Borrowing if, as a result of and immediately after giving effect to such Borrowing and to the application of proceeds thereof, the aggregate outstanding principal amount of the Revolving Loans, Swing Loans and Letter of Credit Loans is not increased thereby.

SECTION 4.03. Conditions Precedent to Each Competitive Bid Loan

Borrowing. The obligation of each Lender which is to make a Competitive Bid

Loan on the occasion of a Competitive Bid Loan Borrowing (including the initial Competitive Bid Loan Borrowing) to make such Competitive Bid Loan as part of such Competitive Bid Loan Borrowing is subject to the conditions precedent that:

(a) the Administrative Agent shall have received the written confirmatory Notice of Competitive Bid Loan Borrowing with respect thereto;

(b) on or before the date of such Competitive Bid Loan Borrowing, but prior to such Competitive Bid Loan Borrowing, the Administrative Agent shall have received a Competitive Bid Loan Note payable to the order of such Lender for each of the one or more Competitive Bid Loans to be made by such Lender as part of such Competitive Bid Loan Borrowing, in a principal amount equal to the principal amount of the Competitive Bid Loan to be evidenced thereby and otherwise on such terms as were agreed to for such Competitive Bid Loan in accordance with Sections 2.02 and 3.02; and

(c) on the date of such Competitive Bid Loan Borrowing the following statements shall be true (and the acceptance by the Company of the proceeds of such Competitive Bid Loan Borrowing shall constitute a representation and warranty by the Company that on the date of such Competitive Bid Loan Borrowing such statements are true):

(i) The representations and warranties contained in Section 5.01 (except the Excluded Representations) are correct on and as of the date of such Competitive Bid Loan Borrowing, before and after giving effect to such Competitive Bid Loan Borrowing and to the application of the proceeds therefrom, as though made on and as of such date other than any such representations or warranties which, by their terms, refer to a date other than the date of such Competitive Bid Loan Borrowing;

(ii) No event has occurred and is continuing, or would result from such Competitive Bid Loan Borrowing or from the application of the proceeds therefrom, which constitutes a Default; and

(iii) No event has occurred and no circumstance exists as a result of which the information concerning the Company that has been provided to the Administrative Agent and each Lender by the Company in connection herewith would include an untrue statement of a material fact or omit to state any material fact or any fact necessary to make the statements contained therein taken as a whole, in the light of the time and circumstances under which they were made, not misleading.

#### ARTICLE V

#### REPRESENTATIONS AND WARRANTIES

SECTION 5.01. Representations and Warranties of the Company. The

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Company represents and warrants as follows:

(a) The Company (i) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, (ii) is duly qualified and in good standing as a foreign corporation in each other jurisdiction in which it owns or leases property or in which the conduct of its business requires it to so qualify or be licensed except where the failure to so qualify or be licensed would not have a Material Adverse Effect and (iii) has all the requisite corporate power and authority to own or lease and operate its properties and to carry on its business as now conducted except where the failure to do so would not have a Material Adverse Effect.

(b) The execution, delivery and performance by the Company of the Loan Documents, and the consummation of the transactions contemplated hereby, are within the Company's corporate powers, have been duly authorized by all necessary

corporate action, and do not (i) contravene the Company's certificate of incorporation or by-laws, (ii) violate any law, rule or regulation (including, without limitation, the Securities Act of 1933 and the Securities Exchange Act of 1934 and the regulations thereunder, and Regulations U and X issued by the Board of Governors of the Federal Reserve System, each as amended from time to time), or order, writ, judgment, injunction, decree, determination or award, (iii) conflict with or result in the breach of, or constitute a default under, any contract, loan agreement, indenture, mortgage, deed of trust, lease or other instrument binding on or affecting the Company or any of its Subsidiaries or any of their properties, except if such conflict, breach or default would not have a Material Adverse Effect, or (iv) result in or require the creation or imposition of any Lien upon or with respect to any of the properties of the Company or its Subsidiaries. The Company is not in violation of any such law, rule, regulation, order, writ, judgment, injunction, decree, determination or award or in breach of any contract, loan agreement, indenture, mortgage, deed of trust, lease or other instrument, except for such violation or breach which would not have a Material Adverse Effect.

(c) Except as have been obtained, no authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other third party is required for the due execution, delivery and performance by the Company of the Loan Documents, or for consummation of the transactions contemplated hereby, except and to the extent that any failure to obtain such authorization, approval or other action would not have a Material Adverse Effect.

(d) Each of the Loan Documents is, and the Notes when delivered hereunder will be, legal, valid and binding obligations of the Company enforceable against the Company in accordance with its terms.

(e) (i) The Company has heretofore furnished to each of the Lenders unaudited consolidated balance sheets of the Company and its Subsidiaries as at September 12, 1997 and the related unaudited consolidated statements of income, retained earnings and cash flows of the Company and its Subsidiaries for the period of 36 weeks ended on said date, and consolidated balance sheets of the Company and its Subsidiaries as at January 3, 1997 and the related consolidated statements of income, retained earnings and cash flows of the Company and its Subsidiaries for the fiscal year ended January 3, 1997, with the opinion thereon (in the case of said consolidated balance sheet and

statements for the fiscal year ended January 3, 1997) of Arthur Andersen LLP. All such financial statements are complete and correct and fairly present the consolidated financial condition of the Company and its Subsidiaries as at said respective dates and the consolidated results of their operations for the respective periods so presented all in accordance with GAAP. Since September 12, 1997, there has been no Material Adverse Change.

(f) No information, exhibit or report furnished by or on behalf of the Company to the Administrative Agent or any Lender in connection with the execution of the Loan Documents contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements made therein taken as a whole, in the light of the time and circumstances under and the time at which they were made, not misleading.

(g) There is no pending or threatened action or proceeding affecting the Company or any of its Subsidiaries before any court, governmental agency or arbitrator which (i) is reasonably likely to have a Material Adverse Effect or (ii) purports to affect this Agreement or the transactions contemplated hereby.

(h) No ERISA Event has occurred or is reasonably expected to occur with respect to any Plan that has resulted or could reasonably be expected to result in a liability to the Company or its ERISA Affiliates in excess of \$5,000,000.

(i) Neither the Company nor any of its ERISA Affiliates has been notified by the sponsor of a Multiemployer Plan that it has incurred any Withdrawal Liability, and neither the Company nor any of its ERISA Affiliates, to the best of the Company's knowledge and belief, is reasonably expected to incur any Withdrawal Liability to any Multiemployer Plan, in each case other than any Withdrawal Liability that would not have a Material Adverse Effect.

(j) Neither the Company nor any of its ERISA Affiliates has been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or has been terminated, within the meaning of Title IV of ERISA, except where such reorganization or termination would not have a Material Adverse Effect.

(k) The Company and each of its Subsidiaries have filed, have caused to be filed or have been included in all tax returns (federal, state, local and foreign) required to be filed and have paid (or have accrued any taxes shown that

are not due with the filing of such returns) all taxes shown thereon to be due, together with applicable interest and penalties, except in any case where the failure to file any such return or pay any such tax is not in any respect material to the Company or the Company and its Subsidiaries taken as a whole.

ARTICLE VI

COVENANTS OF THE COMPANY

SECTION 6.01 Affirmative Covenants. So long as any obligations

under this Agreement or any Note shall remain unpaid, any Letter of Credit shall be outstanding or any Lender shall have any Commitment hereunder, the Company will, unless the Required Lenders shall otherwise consent in writing:

(a) Compliance with Laws, Etc. Comply, and cause each of its

Subsidiaries to comply, in all material respects, with all applicable laws, rules, regulations and orders, such compliance to include, without limitation, compliance with ERISA, the Securities Act of 1933 and all Environmental Laws, except, in each case, any non-compliance which would not have a Material Adverse Effect.

(b) Payment of Taxes, Etc. Pay and discharge, and cause each of its

Subsidiaries to pay and discharge, before the same shall become delinquent, all taxes, assessments, claims and governmental charges or levies imposed upon it or upon its property, except to the extent that any failure to do so would not have a Material Adverse Effect; provided, however, that

neither the Company nor any of its Subsidiaries shall be required to pay or discharge any such tax, assessment, claim or charge that is being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained.

(c) Maintenance of Insurance. Maintain, and cause each of its

Subsidiaries to maintain, appropriate and adequate insurance with responsible and reputable insurance companies or associations or with self-insurance programs to the extent consistent with prudent practices of the Company and its Subsidiaries or otherwise customary in their respective industries in such amounts and covering such risks as is customary in the industries in which the Company or such Subsidiary operates.

(d) Payment of Welfare Plans. Pay, and cause each of its Material

Subsidiaries to pay, the aggregate annualized cost (including, without limitation, the cost of insurance premiums) with respect to post-retirement benefits under

Welfare Plans for which the Company and its Material Subsidiaries are liable.

(e) Preservation of Corporate Existence, Etc. Preserve and maintain, -----  
and cause each of its Material Subsidiaries to preserve and maintain, its corporate existence, rights (charter and statutory) and franchises;  
provided, however, that (i) the Company and its Material Subsidiaries may -----  
consummate any transaction permitted under Section 6.02(b) and (ii) neither the Company nor such Subsidiary shall be required to preserve any right or franchise (other than the corporate existence of each Borrower) when, in the good faith business judgment of the Company, such preservation or maintenance is neither necessary nor appropriate for the prudent management of the business of the Company.

(f) Visitation Rights. At any reasonable time during normal business -----  
hours and upon reasonable prior notice and from time to time, permit the Administrative Agent or any of the Lenders or any agents or representatives thereof, to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, the Company and any of its Subsidiaries, and to discuss the affairs, finances and accounts of the Company and any of its Subsidiaries with any of their officers or directors and with their independent certified public accountants.

(g) Keeping of Books. Keep, and cause each of its Subsidiaries to -----  
keep, proper books of record and account as are necessary to prepare Consolidated financial statements in accordance with GAAP, in which full and correct entries shall be made of all financial transactions and the assets and business of the Company and each such Subsidiary in accordance with GAAP.

(h) Maintenance of Properties, Etc. Maintain and preserve, and cause -----  
each of its Subsidiaries to maintain and preserve, all of its properties that are used or useful in the conduct of its business in good working order and condition, ordinary wear and tear excepted, except where failure to do so would not have a Material Adverse Effect.

(i) Reporting Requirements. Furnish to the Lenders: -----

(i) as soon as available and in any event within 60 days after the end of each of the first three quarters of each fiscal year of the Company, quarterly condensed and consolidated balance sheets and consolidated statement of cash flows of the Company as of the end of such quarter and statements of income of

the Company for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, certified by the chief accounting officer of the Company (or another appropriate officer of the Company designated by said chief accounting officer) and certificates as to compliance with the terms of this Agreement and setting forth in reasonable detail the calculations necessary to demonstrate compliance with Section 6.01(j), provided that in the

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event of any change in GAAP used in preparation of such financial statements, the Company shall also provide, if necessary for the determination of compliance with Section 6.01(j), a statement of reconciliation conforming any information in such certificates with GAAP;

(ii) (x) as soon as available and in any event within 105 days after the end of fiscal year 1997, historical consolidated financial statements of the Company in detail comparable to the historical financial statements set forth in the Proxy Statement with respect to fiscal years prior to 1997, certified by a senior financial officer of the Company, and (y) as soon as available and in any event within 105 days after the end of each fiscal year of the Company commencing with fiscal year 1998 of the Company, certificates as to compliance with the terms of this Agreement which are otherwise provided under clause (i) above at the end of each fiscal quarter other than the last fiscal quarter of the fiscal year and a copy of the annual report for such year for the Company, containing audited financial statements for such year certified by (a) Arthur Andersen LLP, (b) any other "Big Six" accounting firm or (c) other independent public accountants acceptable to the Required Lenders;

(iii) as soon as possible and in any event within five days after the Company obtains notice of the occurrence of each Event of Default and each Default continuing on the date of such statement, a statement of the chief accounting officer of the Company setting forth details of such Event of Default or Default and the action which the Company has taken and proposes to take with respect thereto;

(iv) promptly after request therefor, copies of all regular and periodic financial and/or other reports which the Company may from time to time make available to any of its public security holders or bond holders;

(v) promptly after the commencement thereof, notice of any action or proceeding of the kind referred to in Section 5.01(g);

(vi) promptly and in any event within 15 days after the Company or any ERISA Affiliate knows or should reasonably know that any ERISA Event has occurred with respect to which the liability or potential liability of the Company or any of its ERISA Affiliates exceeds or could reasonably be expected to exceed \$10,000,000, a statement of a principal financial officer of the Company describing such ERISA Event and the action, if any, which the Company or such ERISA Affiliate proposes to take with respect thereto;

(vii) promptly and in any event within 10 Business Days after receipt thereof by the Company or any ERISA Affiliate, copies of each notice from the PBGC stating its intention to terminate any Plan or to have a trustee appointed to administer any Plan where such action would have a Material Adverse Effect;

(viii) with respect to liabilities or potential liabilities of the Company or any of its ERISA Affiliates of \$10,000,000 or more, promptly and in any event within 20 Business Days after receipt thereof by the Company or any ERISA Affiliate from the sponsor of a Multiemployer Plan, a copy of each notice received by the Company or any ERISA Affiliate concerning (1) the imposition of Withdrawal Liability by a Multiemployer Plan, (2) the reorganization or termination, within the meaning of Title IV of ERISA, of any Multiemployer Plan or (3) the amount of liability incurred, or which may be incurred, by the Company or any ERISA Affiliate in connection with any event described in clause (1) or (2) above;

(ix) forthwith upon the occurrence of a Change of Control, notice thereof with a reasonable description thereof; and

(x) promptly after request therefor, such other business and financial information respecting the condition or operations, financial or otherwise, of the Company or any of its Subsidiaries that any Lender through the Administrative Agent may from time to time reasonably request.

(j) Leverage Ratio. Maintain, as at the last day of each fiscal  
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quarter of the Company beginning with the second



fiscal quarter in 1998, a Leverage Ratio of not greater than 4.0 to 1.0.

SECTION 6.02 Negative Covenants. So long as any obligations under

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this Agreement or any Note shall remain unpaid, any Letter of Credit shall be outstanding or any Lender shall have any Commitment hereunder, the Company, unless the Required Lenders shall otherwise consent in writing:

(a) Liens, Etc. Will not create, incur, assume or suffer to exist,

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or permit any of its Subsidiaries to create, incur, assume or suffer to exist, any Lien on or with respect to any of its properties, whether now owned or hereafter acquired, or assign, or permit any of its Subsidiaries to assign, any right to receive income, other than:

(i) Permitted Liens;

(ii) Liens outstanding on the Effective Date and described on Schedule II as of the Effective Date ("Existing Liens"), and any

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renewal, extension or replacement (or successive renewals, extensions or replacements) thereof which does not encumber any property of the Company or its Subsidiaries other than (1) the property encumbered by the Lien being renewed, extended or replaced, (2) property acquired by the Company or its Subsidiaries in the ordinary course of business to replace property covered by Existing Liens, and (3) de minimis other property incidental to the property referred to in clause (1) or (2) above;

(iii) Purchase Money Liens;

(iv) Liens on properties of (X) MVCI, any SLS Entity or any of their respective Subsidiaries, and (Y) MICC and any other Subsidiary of the Company principally engaged in the business of finance, banking, credit, leasing, insurance or other similar operations;

(v) Liens on properties of Subsidiaries of the Company, which properties are located outside the United States of America;

(vi) Liens securing COLI Debt; and

(vii) other Liens securing an aggregate principal amount of Indebtedness or other obligations not to exceed \$300,000,000 at any time outstanding.

(b) Restrictions on Fundamental Changes. Will not, and will not  
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permit any of its Material Subsidiaries to:

(i) merge or consolidate with or into, or

(ii) convey, transfer, lease or otherwise dispose of (whether in one transaction or a series of transactions) all or substantially all of the property (whether now owned or hereafter acquired) of the Company and its Subsidiaries, taken as a whole, to, or

(iii) convey, transfer, lease or otherwise dispose of (whether in one transaction or a series of transactions, and whether by or pursuant to merger, consolidation or any other arrangement), any property (whether now owned or hereafter acquired) essential to the conduct of the lodging group of the Company and its Subsidiaries, taken as a whole, to, or

(iv) enter into any partnership, joint venture, syndicate, pool or other combination with,

any Person, in each case unless:

(w) no Default shall have occurred and then be continuing or would result therefrom, and

(x) in the case of a merger or consolidation of the Company, (1) the Company is the surviving entity or (2) the surviving entity expressly assumes by an amendment to this Agreement duly executed by such surviving entity all of the Company's obligations hereunder and under the other the Loan Documents in a manner satisfactory to the Administrative Agent and the Required Lenders.

(c) Transactions with Affiliates. Will not enter into, or permit any  
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of its Subsidiaries to enter into, any transaction with an Affiliate of the Company (other than the Company's Subsidiaries) that would be material in relation to the Company and its Subsidiaries, taken as a whole, even if otherwise permitted under this Agreement, except on terms that are fair and reasonable to the Company and its Subsidiaries and on terms no less favorable to the Company or such Subsidiary (considered as a whole in conjunction with all other existing arrangements and relationships with such Affiliate) than the Company or such Subsidiary would obtain in a comparable arm's-length transaction with a Person not an Affiliate;  
provided that the agreements, transfers and other transactions provided for  
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by the terms of the Restructuring Agreements and the Tax Sharing

Agreement and the other agreements and arrangements among the Company, SMS, Sodexo Alliance, S.A. and their respective Subsidiaries existing on the Effective Date which are described in the Proxy Statement shall not be deemed to contravene this Section 6.02(c).

(d) Dividends, Etc. Will not declare or make any dividend payment or  
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other distribution of assets, properties, cash, rights, obligations or securities on account of any shares of any class of capital stock of the Company, or purchase, redeem or otherwise acquire for value (or permit any of its Subsidiaries to do so) any shares of any class of capital stock of the Company or any warrants, rights or options to acquire any such shares, now or hereafter outstanding, in each case if, at the time thereof or after giving effect thereto, an Event of Default has occurred and is continuing.

(e) Change in Nature of Business. Will not engage in, or permit any  
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of its Subsidiaries to engage in, any business that is material to the Company and its Subsidiaries, taken as a whole, that is not carried on by the Company or its Subsidiaries as of the Effective Date (or directly related to a business carried on as of such date) and which would have a Material Adverse Effect.

(f) Accounting Changes. Will not make or permit, or permit any of  
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its Subsidiaries to make or permit, any change in accounting policies or reporting practices, except as required or permitted by GAAP.

(g) Margin Stock. Will not directly or indirectly use, or permit any  
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other Borrower or any Subsidiary to use, any of the proceeds of any Loan in a manner that violates or contravenes the Margin Regulations. Without limiting the foregoing, the Company (i) will promptly notify the Administrative Agent if at any time more than 20% of the value of the assets of the Company and its Subsidiaries (as determined in good faith by the Company) that are subject to Section 6.02(a) or Section 6.02(b) consist of or are represented by margin stock within the meaning of the Margin Regulations, and (ii) will give the Administrative Agent at least 15 Business Days' prior written notice of any direct or indirect use of any of the proceeds of any Loan to buy or carry margin stock within the meaning of the Margin Regulations if, after giving effect thereto, more than 20% of the value of the assets of the Company and its Subsidiaries (as determined in good faith by the Company) that are subject to Section 6.02(a) or Section 6.02(b) consist of or are represented by margin stock within the meaning of the Margin Regulations, and will, if requested by

the Administrative Agent, provide to the Administrative Agent prior to the making of such Loan a legal opinion of counsel reasonably acceptable to the Administrative Agent confirming that such use of proceeds will not contravene this Section 6.02(g) together with appropriately executed and completed purpose statements on Form FR U-1; provided that in lieu of such

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legal opinion and purpose statements, the Company may provide to the Administrative Agent, together with such written notice, a certificate of the Company stating that at the date of such certificate and after applying the proceeds of such Loan not more than 25% of the value of the assets of the Company and its Subsidiaries (as determined in good faith by the Company) that are subject to Section 6.02(a) or Section 6.02(b) consist of or are represented by margin stock within the meaning of the Margin Regulations. Each Lender hereby confirms to the Company and to the Administrative Agent that in extending or maintaining credit hereunder it has not relied upon such margin stock as collateral.

ARTICLE VII

EVENTS OF DEFAULT

SECTION 7.01. Events of Default. If any of the following events

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("Events of Default") shall occur and be continuing:  
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(a) (i) Any Borrower shall fail to pay any principal of any Loan when the same becomes due and payable; or (ii) any Borrower shall fail to pay any interest on any Loan, or any other payment under any Loan Document, for a period of three Business Days after the same becomes due and payable; or

(b) Any representation or warranty made by any Borrower herein or by any Borrower (or any of its officers) under or in connection with any Loan Document shall prove to have been incorrect in any material respect when made; or

(c) The Company shall fail to perform or observe (i) any term, covenant or agreement contained in Section 6.01(j) or in Section 6.02(b), (c), (d), (e) or (g), or (ii) any other term, covenant or agreement contained in this Agreement on its part to be performed or observed if the failure to perform or observe such other term, covenant or agreement shall remain unremedied for 30 days after written notice thereof shall have been given to the Company by the Administrative Agent or the Required Lenders; or

(d) The Company or any of its Material Subsidiaries shall fail to pay any principal of or premium or interest on any Indebtedness which is outstanding in a principal amount of at least \$50,000,000 in the aggregate (but excluding Indebtedness evidenced by the Notes and Non-Recourse Indebtedness) of the Company or such Subsidiary (as the case may be), when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Indebtedness; or any such Indebtedness shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment, including, without limitation, a prepayment required in connection with the sale of the sole asset or all assets securing such Indebtedness), redeemed, purchased or defeased, or an offer to prepay, redeem, purchase or defease such Indebtedness shall be required to be made, in each case prior to the stated maturity thereof; provided, however, that if there is acceleration

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of any Indebtedness which is included under this clause (d) solely because of a Guarantee by the Company or one of its Material Subsidiaries, an Event of Default will not exist under this clause (d) so long as the Company or such Material Subsidiary, as the case may be, fully performs its obligations in a timely manner under such Guarantee upon demand therefor by the beneficiary thereof; or

(e) The Company or any of its Material Subsidiaries shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against the Company or any of its Material Subsidiaries seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 60 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its property) shall occur; or the

Company or any of its Material Subsidiaries shall take any corporate action to authorize any of the actions set forth above in this subsection (e); or

(f) Any judgment or order for the payment of money in excess of \$25,000,000 shall be rendered against the Company or any of its Material Subsidiaries and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) there shall be any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(g) Any ERISA Event shall have occurred with respect to a Plan and the sum (determined as of the date of occurrence of such ERISA Event) of the Insufficiency of such Plan and the Insufficiency of any and all other Plans with respect to which an ERISA Event shall have occurred and then exist (or the liability of the Company or any ERISA Affiliate related to such ERISA Event) exceeds \$20,000,000; or

(h) The Company or any ERISA Affiliate shall have been notified by the sponsor of a Multiemployer Plan that it has incurred Withdrawal Liability to such Multiemployer Plan in an amount which, when aggregated with all other amounts required to be paid to Multiemployer Plans by the Company and its ERISA Affiliates as Withdrawal Liability (determined as of the date of such notification), exceeds \$20,000,000 or requires payments exceeding \$10,000,000 per annum; or

(i) The Company or any ERISA Affiliate shall have been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or is being terminated, within the meaning of Title IV of ERISA, and as a result of such reorganization or termination the aggregate annual contributions of the Company and its ERISA Affiliates to all Multiemployer Plans which are then in reorganization or being terminated have been or will be increased over the amounts contributed to such Multiemployer Plans for the respective plan years of such Multiemployer Plans immediately preceding the plan year in which the reorganization or termination occurs by an amount exceeding \$20,000,000;

then, and in any such event, the Administrative Agent (i) shall at the request, or may with the express consent, of the Required Lenders, by notice to the Company, declare the obligation of each Lender to make Loans and of the Issuing Bank to issue Letters of Credit to be terminated, whereupon the same shall forthwith terminate, and (ii) shall at the request, or may with the express

consent, of the Required Lenders, by notice to the Company, declare the Notes, all interest thereon and all other amounts payable under this Agreement and the other Loan Documents to be forthwith due and payable, whereupon the Notes, all such interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by each Borrower; provided, however, that

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in the event of an actual or deemed entry of an order for relief with respect to the Company or any of its Material Subsidiaries under the Federal Bankruptcy Code, (A) the obligation of each Lender to make Loans and of the Issuing Bank to issue Letters of Credit shall automatically be terminated and (B) the Notes, all such interest and all such amounts shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by each Borrower.

SECTION 7.02. Actions in Respect of the Letters of Credit Upon Event

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of Default; L/C Cash Collateral Account; Investing of Amounts in the L/C Cash  
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Collateral Account; Release.  
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(a) Upon (i) the occurrence and during the continuance of any Event of Default and (ii) the making of the request or the granting of the consent specified by Section 7.01 to authorize the Administrative Agent to declare the Notes due and payable pursuant to the provisions of Section 7.01, the Administrative Agent may, and at the request of the Required Lenders shall, irrespective of whether it is taking any of the actions described in Section 7.01 or otherwise, make demand upon the Company to, and forthwith upon such demand the Company will, pay to the Administrative Agent on behalf of the Lenders in same day funds at the Administrative Agent's office designated in such demand, for deposit in the L/C Cash Collateral Account, an amount equal to the aggregate Available Amount of all Letters of Credit then outstanding. If at any time the Administrative Agent determines that any funds held in the L/C Cash Collateral Account are subject to any equal or prior right or claim of any Person other than the Administrative Agent, the Letter of Credit Agent, the Managing Agents, the Documentation Agent and the Lenders pursuant to this Agreement or that the total amount of such funds is less than the aggregate Available Amount of all Letters of Credit, the Company will, forthwith upon demand by the Administrative Agent, pay to the Administrative Agent, as additional funds to be deposited and held in the L/C Cash Collateral Account, an amount equal to the excess of (1) such aggregate Available Amount over (2) the total amount of funds, if any, then held in the L/C Cash Collateral Account that the Administrative Agent determines to be free and clear of any such equal or prior right and claim.

(b) The Company hereby authorizes the Administrative Agent to open at any time upon the occurrence and during the

continuance of an Event of Default a non-interest bearing account with the Administrative Agent at its address designated in Section 9.02 in the name of the Company but under the sole control and dominion of the Administrative Agent (the "L/C Cash Collateral Account"), and hereby pledges and assigns and grants

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to the Administrative Agent on behalf of the Lenders a security interest in the following collateral (the "L/C Cash Collateral Account Collateral"):  
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- (i) the L/C Cash Collateral Account, all funds held therein and all certificates and instruments, if any, from time to time representing or evidencing the investment of funds held therein,
- (ii) all L/C Cash Collateral Account Investments from time to time, and all certificates and instruments, if any, from time to time representing or evidencing the L/C Cash Collateral Account Investments,
- (iii) all notes, certificates of deposit, deposit accounts, checks and other instruments from time to time delivered to or otherwise possessed by the Administrative Agent for or on behalf of the Company in substitution for or in addition to any or all of the then existing L/C Cash Collateral Account Collateral,
- (iv) all interest, dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the then existing L/C Cash Collateral Account Collateral, and
- (v) all proceeds of any and all of the foregoing L/C Cash Collateral Account Collateral.

(c) If requested by the Company, the Administrative Agent will, subject to the provisions of clause (e) below, from time to time (i) invest amounts on deposit in the L/C Cash Collateral Account in such notes, certificates of deposit and other debt instruments as the Company may select and the Administrative Agent may approve and (ii) invest interest paid on the notes, certificates of deposit and other instruments referred to in clause (i) above, and reinvest other proceeds of any such notes, certificates of deposit and other instruments which may mature or be sold, in each case in such notes, certificates of deposit and other debt instruments as the Company may select and the Administrative Agent may approve (the notes, certificates of deposit and other instruments referred to in clauses (i) and (ii) above being collectively "L/C Cash Collateral Account Investments"). Interest and proceeds that are not

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invested or reinvested in L/C Cash Collateral Account Investments as provided



above shall be deposited and held in the L/C Cash Collateral Account.

(d) Upon such time as (i) the aggregate Available Amount of all Letters of Credit is reduced to zero and such Letters of Credit are expired or terminated by their terms and all amounts payable in respect thereof, including but not limited to principal, interest, commissions, fees and expenses, have been paid in full in cash, and (ii) no Event of Default has occurred and is continuing under this Agreement, the Administrative Agent will pay and release to the Company or at its order (a) accrued interest due and payable on the L/C Cash Collateral Account Investments and in the L/C Cash Collateral Account, and (b) the balance remaining in the L/C Cash Collateral Account after the application, if any, by the Administrative Agent of funds in the L/C Cash Collateral Account to the payment of amounts described in clause (i) of this subsection (d).

(e) (i) The Administrative Agent may, without notice to the Company except as required by law and at any time or from time to time, charge, set-off and otherwise apply all or any part of the L/C Cash Collateral Account against the obligations of the Company in respect of Letters of Credit (collectively, the "L/C Cash Collateral Account Obligations") or any part thereof. The

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Administrative Agent agrees to notify the Company promptly after any such set-off and application, provided that the failure of the Administrative Agent to

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give such notice shall not affect the validity of such set-off and application.

(ii) The Administrative Agent may also exercise in respect of the L/C Cash Collateral Account Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the Uniform Commercial Code in effect in the State of New York at that time (the "UCC") (whether or not the UCC applies to

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the affected L/C Cash Collateral Account Collateral), and may also, without notice except as specified below, sell the L/C Cash Collateral Account Collateral or any part thereof in one or more parcels at public or private sale, at any of the Administrative Agent's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Administrative Agent may deem commercially reasonable. Each Borrower agrees that, to the extent notice of sale shall be required by law, at least ten days' notice to such Borrower of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Administrative Agent shall not be obligated to make any sale of L/C Cash Collateral Account Collateral regardless of notice of sale having been given. The Administrative Agent may adjourn any public or private sale from time to time by announcement at the time and place fixed

therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

(iii) Any cash held by the Administrative Agent as L/C Cash Collateral Account Collateral and all cash proceeds received by the Administrative Agent in respect of any sale of, collection from, or other realization upon all or any part of the L/C Cash Collateral Account Collateral may, in the discretion of the Administrative Agent, be held by the Administrative Agent as collateral for, and/or then or at any time thereafter be applied in whole or in part by the Administrative Agent against, all or any part of the L/C Cash Collateral Account Obligations in such order as the Administrative Agent shall elect. Any surplus of such cash or cash proceeds held by the Administrative Agent and remaining after payment in full of all the L/C Cash Collateral Account Obligations shall be paid over to the Company or to whomsoever may be lawfully entitled to receive such surplus.

(f) Upon the permanent reduction from time to time of the aggregate Available Amount of all Letters of Credit in accordance with the terms thereof, the Administrative Agent shall release to the Company amounts from the L/C Cash Collateral Account in an amount equal to each such permanent reduction; provided

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that the Administrative Agent shall not be obligated to reduce the funds or other L/C Cash Collateral Account Collateral then held in the L/C Cash Collateral Account below that level that the Administrative Agent reasonably determines is required to be maintained after taking into consideration any rights or claims of any Persons other than the Administrative Agent.

(g) In furtherance of the grant of the pledge and security interest pursuant to this Section 7.02, the Company hereby agrees with each Lender, the Issuing Bank and the Administrative Agent that the Company shall give, execute, deliver, file and/or record any financing statement, notice, instrument, document, agreement or other papers that may be necessary or desirable (in the reasonable judgment of the Administrative Agent) to create, preserve, perfect or validate the security interest granted pursuant hereto or to enable the Administrative Agent to exercise and enforce its rights hereunder with respect to such pledge and security interest.

ARTICLE VIII

THE ADMINISTRATIVE AGENT, THE MANAGING AGENTS,  
THE DOCUMENTATION AGENT AND THE LETTER OF CREDIT AGENT

SECTION 8.01. Authorization and Action. Each Lender hereby appoints

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and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Administrative Agent by the terms hereof, together with such powers as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement (including, without limitation, enforcement or collection of the Notes), the Administrative Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders, and such instructions shall be binding upon all Lenders and all holders of Notes; provided that the

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Administrative Agent shall not be required to take any action which exposes the Administrative Agent to personal liability or which is contrary to this Agreement or applicable law. The Administrative Agent agrees to give to each Lender prompt notice of each notice given to it by any Borrower pursuant to the terms of this Agreement.

SECTION 8.02. Reliance, Etc.

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(a) None of the Administrative Agent, any Managing Agent, the Documentation Agent, the Letter of Credit Agent or any of their respective directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with the Loan Documents, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, the Administrative Agent: (i) may treat the payee of any Note as the holder thereof until the Administrative Agent receives and accepts an Assignment and Acceptance entered into by the Lender which is the payee of such Note, as assignor, and an Eligible Assignee, as assignee, as provided in Section 9.07; (ii) may consult with legal counsel (including counsel for any Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (iii) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations (whether written or oral) made in or in connection with this Agreement; (iv) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of

this Agreement on the part of any Borrower or to inspect the property (including the books and records) of any Borrower; (v) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; and (vi) shall incur no liability under or in respect of this Agreement by acting upon any notice, consent, certificate or other instrument or writing (which may be by telecopier, telegram, cable or telex) believed by it to be genuine and signed or sent by the proper party or parties.

(b) The Managing Agents, as such, and the Documentation Agent, as such, shall have no duties or obligations whatsoever with respect to this Agreement, the Notes or any other document or any matter related thereto.

SECTION 8.03. Citibank, BNS, Chase and First Chicago and Affiliates.  
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With respect to its respective Commitment, the Loans made by it and the Notes issued to it, each of Citibank, BNS, Chase and First Chicago shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though it were not the Administrative Agent, a Managing Agent or the Documentation Agent, as the case may be; and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated, include each of Citibank, BNS, Chase and First Chicago in its individual capacity. Citibank, BNS, Chase and First Chicago and their respective affiliates may accept deposits from, lend money to, act as trustee under indentures of, and generally engage in any kind of business with, any Borrower, any of its Subsidiaries and any Person who may do business with or own securities of any Borrower or any such Subsidiary, all as if each of Citibank, BNS, Chase and First Chicago were not the Administrative Agent, a Managing Agent or the Documentation Agent, as the case may be, and without any duty to account therefor to the Lenders.

SECTION 8.04. Lender Credit Decision. Each Lender acknowledges that  
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it has, independently and without reliance upon the Administrative Agent, any Managing Agent, the Documentation Agent, the Letter of Credit Agent or any other Lender and based on the financial statements referred to in Section 5.01 and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent, any Managing Agent, the Documentation Agent, the Letter of Credit Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

SECTION 8.05. Indemnification. The Lenders agree to indemnify the

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Administrative Agent, the Managing Agents, the Documentation Agent and the Letter of Credit Agent (in each case to the extent not reimbursed by the Company), ratably according to their respective pro rata share, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Administrative Agent, any Managing Agent, the Documentation Agent or the Letter of Credit Agent in any way relating to or arising out of this Agreement or any action taken or omitted by the Administrative Agent, any Managing Agent, the Documentation Agent or the Letter of Credit Agent under this Agreement in their respective capacities as an agent hereunder, provided that no Lender shall be

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liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Administrative Agent's, any Managing Agent's, the Documentation Agent's or the Letter of Credit Agent's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender agrees to reimburse the Administrative Agent, any Managing Agent, the Documentation Agent and the Letter of Credit Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including counsel fees but excluding normal administrative expenses expressly excluded under Section 9.04(a)) incurred by the Administrative Agent, each Managing Agent, the Documentation Agent or the Letter of Credit Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, to the extent that the Administrative Agent, any Managing Agent, the Documentation Agent or the Letter of Credit Agent is not reimbursed for such expenses by the Company as required under Section 9.04(a).

SECTION 8.06. Successor Administrative Agent. The Administrative

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Agent may resign at any time by giving written notice thereof to the Lenders and the Company and may be removed at any time with or without cause by the Required Lenders. Upon any such resignation or removal, the Required Lenders shall have the right to appoint a successor Administrative Agent with the consent of the Company, which consent shall not be unreasonably withheld. If no successor Administrative Agent shall have been so appointed by the Required Lenders, and shall have accepted such appointment, within 30 days after the retiring Administrative Agent's giving of notice of resignation or the Required Lenders' removal of the retiring Administrative Agent, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, which shall be an Eligible Assignee and a commercial bank organized under the

laws of the United States of America or of any State thereof and having a combined capital and surplus of at least \$50,000,000. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Administrative Agent's resignation or removal hereunder as Administrative Agent, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement.

ARTICLE IX

MISCELLANEOUS

SECTION 9.01. Amendments, Etc. No amendment or waiver of any

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provision of this Agreement or the Revolving Loan Notes, nor consent to any departure by any Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver

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or consent shall, unless in writing and signed by all the Lenders, do any of the following: (a) waive any of the conditions specified in Section 4.01, (b) increase the Commitments of the Lenders or subject the Lenders to any additional obligations, (c) reduce the principal of, or interest on, the Revolving Loan Notes or any fees or other amounts payable hereunder, (d) postpone any date fixed for any payment of principal of, or interest on, the Revolving Loan Notes or any fees or other amounts payable hereunder, (e) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Revolving Loan Notes, or the number of Lenders, which shall be required for the Lenders or any of them to take any action hereunder, (f) release the guarantee set forth in Section 10.01 or (g) amend this Section 9.01; and provided further that (1) no

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amendment, waiver or consent shall, unless in writing and signed by the Administrative Agent, the Letter of Credit Agent, the Documentation Agent, a Managing Agent or a Swing Loan Bank, as the case may be, in addition to the Lenders required above to take such action, affect the rights or duties of the Administrative Agent, the Letter of Credit Agent, the Documentation Agent, such Managing Agent or such Swing Loan Bank, as the case may be, under this Agreement or any Note and (2) no amendment, waiver or consent shall, unless in writing and signed by a Lender that has made a Competitive Bid Loan, in addition to the Lenders required above to take such action, affect the rights or duties of such Lender in respect of such Competitive Bid Loan.

SECTION 9.02. Notices, Etc. All notices and other communications

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provided for hereunder shall be in writing (including telecopy, telegraphic, telex or cable communication) and mailed, telegraphed, teletyped, telexed, cabled or delivered, if to any Borrower, to the Company at 10400 Fernwood Road, Bethesda, Maryland 20817, Attention: Assistant Treasurer, Dept. 52/924.11, with a copy to the same address, Attention: Assistant General Counsel - Corporate Finance, Dept. 52/923; if to any Bank, to its Domestic Lending Office specified opposite its name on Schedule I hereto; if to any other Lender, to its Domestic Lending Office specified in the Acceptance pursuant to which it became a Lender; if to any Managing Agent, the Documentation Agent or the Letter of Credit Agent, to its address specified on the signature pages hereto; and if to the Administrative Agent, at its address at 2 Penns Way, Suite 200, New Castle, Delaware 19720, Attention: Savas Divan, telephone no. 302-894-6030, telecopier

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no. 302-894-6120, with copies to Jackie Lai, telephone no. 302-894-6022, telecopier no. 302-894-6120; or to the Company or the Administrative Agent, at such other address as shall be designated by such party in a written notice to the other parties and, to each other party, at such other address as shall be designated by such party in a written notice to the Company and the Administrative Agent. All such notices and communications shall, (a) when mailed, be effective three Business Days after the same is deposited in the mails, (b) when mailed for next day delivery by a reputable freight company or reputable overnight courier service, be effective one Business Day thereafter, and (c) when sent by telegraph, telecopy, telex or cable, be effective when the same is telegraphed, teletyped and receipt thereof is confirmed by telephone or return telecopy, confirmed by telex answerback or delivered to the cable company, respectively, except that notices and communications to the Administrative Agent pursuant to Article II, III or VIII shall not be effective until received by the Administrative Agent.

SECTION 9.03. No Waiver; Remedies. No failure on the part of any

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Lender or the Administrative Agent to exercise, and no delay in exercising, any right hereunder or under any Note shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 9.04. Costs and Expenses.

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(a) The Company agrees to pay, whether or not any of the transactions contemplated hereby are consummated, on demand (x) all reasonable costs and expenses in connection with the preparation (excluding normal travel and related expenses incurred by the personnel of the Administrative

Agent), execution, delivery, administration (excluding those which are customarily borne by the Administrative Agent), modification and amendment of this Agreement, the Notes and the other documents to be delivered hereunder, and (y) the reasonable fees and expenses of counsel to the Administrative Agent and with respect to advising the Administrative Agent as to its rights and responsibilities under this Agreement. The Company further agrees to pay on demand all reasonable expenses of the Lenders (including, without limitation, reasonable counsel (including, without duplication, internal counsel) fees and expenses) in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of this Agreement, the Notes and the other documents to be delivered hereunder, including, without limitation, reasonable counsel fees and expenses in connection with the enforcement of rights under this Section 9.04(a).

(b) The Company agrees to indemnify and hold harmless the Administrative Agent, the Letter of Credit Agent, each Managing Agent, the Documentation Agent, each Lender and each of their Affiliates and their officers, directors, employees, agents and advisors (each, an "Indemnified

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Party") from and against any and all claims, damages, losses, liabilities

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and expenses (including, without limitation, reasonable fees and expenses of counsel) that may be incurred by or asserted or awarded against any Indemnified Party in its agent or lending capacity under, or otherwise in connection with, the Loan Documents, in each case arising out of or in connection with or by reason of, or in connection with the preparation for a defense of, any investigation, litigation or proceeding arising out of, related to or in connection with the Loan Documents, the proposed or actual use of the proceeds therefrom or any of the other transactions contemplated hereby, whether or not such investigation, litigation or proceeding is brought by the Company, its shareholders or creditors or an Indemnified Party or any other person or an Indemnified Party is otherwise a party thereto and whether or not the transactions contemplated hereby are consummated, except to the extent such claim, damage, loss, liability or expense is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or willful misconduct.

(c) If (i) any payment of principal of any Eurocurrency Rate Loan is made other than on the last day of the Interest Period for such Loan (or any payment of principal of any Quoted Rate Swing Loan is made other than on the maturity date of such Swing Loan), as a result of a payment pursuant to Section 2.15(c) or 3.05 or acceleration



of the maturity of the Notes pursuant to Section 7.01 or for any other reason, or (ii) the Company gives notice of a Loan conversion pursuant to Section 2.09(c), then the Company shall, upon demand by any Lender (with a copy of such demand to the Administrative Agent), pay to the Administrative Agent for the account of such Lender any amounts required to compensate such Lender for any additional losses, costs or expenses which it may reasonably incur as a result of such payment, including, without limitation, any loss (excluding loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Lender to fund or maintain such Loan.

SECTION 9.05. Right of Set-off. Upon (i) the occurrence and during

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the continuance of any Event of Default and (ii) the making of the request or the granting of the consent specified by Section 7.01 to authorize the Administrative Agent to declare the Notes due and payable pursuant to the provisions of Section 7.01, each Lender is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held (other than deposits at any account with respect to which such account states that the Company is acting in a fiduciary capacity) and other indebtedness at any time owing by such Lender to or for the credit or the account of the Company against any and all of the obligations of the Company now or hereafter existing under this Agreement and any Note held by such Lender, whether or not such Lender shall have made any demand under this Agreement or such Note and although such obligations may be unmatured. Each Lender agrees promptly to notify the Company after any such set-off and application made by such Lender, provided that the failure to give such notice shall not affect the

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validity of such set-off and application. The rights of each Lender under this Section are in addition to other rights and remedies (including, without limitation, other rights of set-off) which such Lender may have.

SECTION 9.06. Binding Effect. This Agreement shall become effective

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when it shall have been executed by the Company, each Managing Agent, the Documentation Agent, the Letter of Credit Agent and the Administrative Agent and when the Administrative Agent shall have been notified by each Bank that such Bank has executed it and thereafter shall be binding upon and inure to the benefit of the Borrowers, the Administrative Agent, each Managing Agent, the Documentation Agent, the Letter of Credit Agent and each Lender and their respective successors and assigns, except that no Borrower shall have the right to assign its rights hereunder or any interest herein without the prior written consent of the Lenders.

SECTION 9.07. Assignments and Participations.  
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(a) Each Lender may assign to one or more banks or other entities all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment, the Loans owing to it and the Note or Notes held by it); provided, however, that:  
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(i) each such assignment shall be of a constant, and not a varying, percentage of all rights and obligations under this Agreement (other than any Competitive Bid Loans or Competitive Bid Loan Notes),

(ii) the amount of the Commitment of the assigning Lender being assigned pursuant to each such assignment other than an assignment to another Lender (determined as of the date of the Assignment and Acceptance with respect to such assignment) shall in no event be less than \$10,000,000 and shall be an integral multiple of \$1,000,000 in excess thereof,

(iii) each such assignment shall be to an Eligible Assignee, and (unless such assignment shall be to a Subsidiary of the assigning Lender or to a Subsidiary of the bank holding company of which the assigning Lender is a Subsidiary) the Company and the Administrative Agent shall have consented to such assignment (which consents shall not be unreasonably withheld or delayed),

(iv) after giving effect to such assignment, the assigning Lender (together with all Affiliates of such Lender) shall continue to hold no less than 25% of its original Commitment hereunder and of the Loans owing to it, unless the Company shall otherwise agree,

(v) the parties to each such assignment shall execute and deliver to the Administrative Agent, for its acceptance and recording in the Register, an Assignment and Acceptance, together with any Note or Notes subject to such assignment and a processing and recordation fee of \$2,500, and

(vi) unless the Company and the Administrative Agent otherwise agree, the Termination Date of the assignee under each such assignment shall be deemed to be the then Final Termination Date.

Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have

been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Lender hereunder and (y) the Lender assignor thereunder shall relinquish its rights and be released from its obligations under this Agreement, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance.

(b) By executing and delivering an Assignment and Acceptance, the Lender assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; (ii) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of any Borrower or the performance or observance by any Borrower of any of its obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the financial statements referred to in Section 5.01 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon the Administrative Agent, any Managing Agent, the Documentation Agent, the Letter of Credit Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee confirms that it is an Eligible Assignee; (vi) such assignee appoints and authorizes the Administrative Agent and the Letter of Credit Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Administrative Agent and the Letter of Credit Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(c) Each New Lender shall submit a New Commitment Acceptance in accordance with the provisions of Section 2.06(b). Upon the execution, delivery, acceptance and recording of a New Commitment Acceptance, from and after the Increase Date related thereto such New Lender shall be a party hereto and have the rights and obligations of a Lender hereunder having the

Commitment specified therein (or such lesser Commitment as shall be allocated to such New Lender in accordance with Section 2.06(b)(vi) or 2.15(d)). By executing and delivering a New Commitment Acceptance, the New Lender thereunder confirms to and agrees with the other parties hereto as follows: (i) such New Lender hereby agrees that no Lender has made any representation or warranty, or assumes any responsibility with respect to, (x) any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto or (y) the financial condition of any Borrower or the performance or observance by any Borrower of any of its obligations under this Agreement or any other instrument or document furnished pursuant hereto; (ii) such New Lender confirms that it has received a copy of this Agreement, together with copies of the financial statements referred to in Section 5.01 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such New Commitment Acceptance; (iii) such New Lender will, independently and without reliance upon the Administrative Agent, any Managing Agent, the Documentation Agent, the Letter of Credit Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (iv) such New Lender confirms that it is an Eligible Assignee; (v) such New Lender appoints and authorizes the Administrative Agent and the Letter of Credit Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Administrative Agent and the Letter of Credit Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vi) such New Lender agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(d) The Administrative Agent shall maintain at its address referred to in Section 9.02 a copy of each Assignment and Acceptance and each New Commitment Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and the Commitment of, and principal amount of the Revolving Loans owing to, each Lender from time to time (the "Register"). The entries in the Register shall be conclusive and binding

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for all purposes, absent manifest error, and each Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Company or any Lender at any reasonable time and from time to time upon

reasonable prior notice. The Administrative Agent shall provide the Company with a copy of the Register upon request.

(e) (i) Upon its receipt of an Assignment and Acceptance executed by an assigning Lender and an assignee representing that it is an Eligible Assignee, together with any Revolving Loan Note or Notes subject to such assignment, the Administrative Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit C-1 hereto, (1) accept such Assignment and Acceptance, (2) record the information contained therein in the Register and (3) give prompt notice thereof to the Company. Within five Business Days after its receipt of such notice, the relevant Borrower, at its own expense, shall execute and deliver to the Administrative Agent in exchange for the surrendered Revolving Loan Note or Notes a new Revolving Loan Note to the order of such Eligible Assignee in an amount equal to the Commitment assumed by it pursuant to such Assignment and Acceptance and a new Revolving Loan Note to the order of the assigning Lender in an amount equal to the Commitment retained by it hereunder. Such new Revolving Loan Notes shall be in an aggregate principal amount equal to the aggregate principal amount of such surrendered Revolving Loan Note or Notes, shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of Exhibit A-1 hereto. Such surrendered Revolving Note or Notes shall be marked "canceled" and shall be returned promptly to the Company.

(ii) Upon its receipt of a New Commitment Acceptance executed by a New Lender representing that it is an Eligible Assignee, the Administrative Agent shall, if such New Commitment Acceptance has been completed and is in substantially the form of Exhibit C-3 hereto, (1) accept such New Commitment Acceptance, (2) record the information contained therein in the Register and (3) give prompt notice thereof to the Company. Within five Business Days after its receipt of such notice, the relevant Borrower, at its own expense, shall execute and deliver to the Administrative Agent a new Revolving Loan Note to the order of such New Lender in an amount equal to the Commitment assumed by it pursuant to such New Commitment Acceptance. Such new Revolving Loan Note shall be dated the relevant Increase Date and shall otherwise be in substantially the form of Exhibit A-1 hereto.

(f) Each Lender may sell participations to one or more banks or other entities in or to a portion of its rights and obligations under this Agreement (including, without limitation, a portion of its Commitment, the Loans owing to it and the Note or Notes held by it); provided, however, that (i) such Lender's ----- obligations under this Agreement (including, without limitation, its Commitment hereunder) shall remain unchanged, (ii) such

Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Lender shall remain the holder of any such Note for all purposes of this Agreement, (iv) the Borrowers, the Administrative Agent, the Managing Agents, the Documentation Agent, the Letter of Credit Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement, (v) except in the case of a participation involving a Lender and one of its Affiliates (and this exception shall apply only so long as the participant remains an Affiliate of such Lender), the parties to each such participation shall execute a participation agreement in substantially the form of the Participation Agreement, and (vi) no participant under any such participation shall have any right to approve any amendment to or waiver of any provision of any Loan Document, or any consent to any departure by any Borrower therefrom, except to the extent that such amendment, waiver or consent would alter the principal of, or interest on, the Loan or Loans in which such participant is participating or any fees or other amounts payable to the Lenders hereunder, or postpone any date fixed for any payment of principal of, or interest on, the Loans or any fees or other amounts payable hereunder. Each Lender shall provide the Company with a list of entities party to all Participation Agreements with such Lender upon request.

(g) Any Lender may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 9.07, disclose to the assignee or participant or proposed assignee or participant, any information, including Confidential Information, relating to the Borrowers furnished to such Lender by or on behalf of the Borrowers;

provided that, prior to any such disclosure of Confidential Information, the

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assignee or participant or proposed assignee or participant shall be informed of the confidential nature of such Confidential Information and shall agree to (i) preserve the confidentiality of any Confidential Information relating to the Borrowers received by it from such Lender and (ii) be bound by the provisions of Section 9.11.

(h) Notwithstanding any other provision in this Section 9.07, no Lender may assign its interest to an Eligible Assignee if, as of the effective date of such assignment, such assignment would increase the amount of Taxes, Other Taxes or increased costs payable under Sections 2.12 or 3.05, respectively.

(i) Notwithstanding any other provision set forth in this Agreement, any Lender may at any time and without the consent of the Administrative Agent or any Borrower create a security interest in all or any portion of its rights under this

Agreement (including, without limitation, the Loans owing to it and the Notes held by it) in favor of any Federal Reserve Bank in accordance with Regulation A of the Board of Governors of the Federal Reserve System.

SECTION 9.08. No Liability of the Issuing Bank or the Letter of

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Credit Agent. Each Borrower assumes all risks of the acts or omissions of any

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beneficiary or transferee of any Letter of Credit with respect to its use of such Letter of Credit. Neither the Issuing Bank, the Letter of Credit Agent, nor any of their respective officers or directors shall be liable or responsible for: (a) the use that may be made of any Letter of Credit or any acts or omissions of any beneficiary or transferee in connection therewith; (b) the validity, sufficiency or genuineness of documents, or of any endorsement thereon, even if such documents should prove to be in any or all respects invalid, insufficient, fraudulent or forged; (c) payment by the Issuing Bank against presentation of documents that do not comply with the terms of a Letter of Credit, including failure of any documents to bear any reference or adequate reference to the Letter of Credit; or (d) any other circumstances whatsoever in making or failing to make payment under any Letter of Credit, except that each

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Borrower shall have a claim against the Issuing Bank, and the Issuing Bank shall be liable to such Borrower, to the extent of any direct, but not consequential, damages suffered by such Borrower that were caused by (i) the Issuing Bank's willful misconduct or gross negligence in determining whether documents presented under any Letter of Credit comply with the terms of the Letter of Credit or (ii) the Issuing Bank's willful failure to make lawful payment under a Letter of Credit after the presentation to it of a draft and certificates strictly complying with the terms and conditions of the Letter of Credit. In furtherance and not in limitation of the foregoing, the Issuing Bank acting in good faith may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary.

SECTION 9.09. Governing Law. This Agreement and the Notes shall be

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governed by, and construed in accordance with, the laws of the State of New York.

SECTION 9.10. Execution in Counterparts. This Agreement may be

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executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of this Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 9.11. Confidentiality. None of the Administrative Agent,

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any Managing Agent, the Documentation Agent, the Letter of Credit Agent or any Lender shall disclose any Confidential Information to any Person without the consent of the Company, other than (a) to such Person's Affiliates and their officers, directors, employees, agents, counsel, auditors and advisors of such Person or such Person's Affiliates, (b) to a proposed assignee or to a proposed participant; provided that prior to any such disclosure, the proposed assignee

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or the participant shall deliver to the Company a written agreement to preserve the confidentiality of any Confidential Information to the extent required by this Agreement, and then only on a confidential basis, (c) as required by any law, rule or regulation or judicial process, (d) in connection with any litigation to which any Lender or the Administrative Agent is a party or in connection with the exercise of any remedy hereunder or under any Note (provided

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that, in the case of this clause (d), such Lender or the Administrative Agent, as the case may be, uses reasonable efforts under the circumstances to obtain reasonable assurances that confidential treatment will be accorded to such information in connection with such litigation or exercise) and (e) as requested or required by any state, federal or foreign authority or examiner regulating banks or banking or any aspects of any Lender's activities.

SECTION 9.12. Jurisdiction, Etc.

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(a) Each of the parties hereto (and each Designated Borrower, by its acceptance of the proceeds of Loans made to it) hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto and each Designated Borrower hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in any such New York State or, to the extent permitted by law, in such federal court. Each of the parties hereto and each Designated Borrower agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that any party may otherwise have to bring any action or proceeding relating to this Agreement or the other Loan Documents in the courts of any jurisdiction.

(b) Each of the parties hereto and each Designated Borrower irrevocably and unconditionally waives, to the fullest



extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the other Loan Documents in any New York State or federal court. Each of the parties hereto and each Designated Borrower hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

SECTION 9.13. WAIVER OF JURY TRIAL. EACH BORROWER, THE

ADMINISTRATIVE AGENT, THE MANAGING AGENTS, THE DOCUMENTATION AGENT, THE LETTER OF CREDIT AGENT AND THE LENDERS HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO ANY OF THE LOAN DOCUMENTS, THE LOANS OR THE ACTIONS OF THE ADMINISTRATIVE AGENT, THE MANAGING AGENTS, THE DOCUMENTATION AGENT, THE LETTER OF CREDIT AGENT OR ANY LENDER IN THE NEGOTIATION, ADMINISTRATION, PERFORMANCE OR ENFORCEMENT THEREOF.

SECTION 9.14. Judgment Currency. This is an international loan

transaction in which the specification of Dollars or an Alternate Currency, as the case may be (the "Specified Currency"), any payment in New York City or the country of the Specified Currency, as the case may be (the "Specified Place"),

is of the essence, and the Specified Currency shall be the currency of account in all events relating to Loans denominated in the Specified Currency. The payment obligations of the Borrowers under this Agreement and the Notes shall not be discharged by an amount paid in another currency or in another place, whether pursuant to a judgment or otherwise, to the extent that the amount so paid on conversion to the Specified Currency and transfer to the Specified Place under normal banking procedures does not yield the amount of the Specified Currency at the Specified Place due hereunder. If for the purpose of obtaining judgment in any court it is necessary to convert a sum due hereunder in the Specified Currency into another currency (the "Second Currency"), the rate of

exchange which shall be applied shall be that at which in accordance with normal banking procedures the Administrative Agent could purchase the Specified Currency with the Second Currency on the Business Day next preceding that on which such judgment is rendered. The obligation of each Borrower in respect of any such sum due from it to the Administrative Agent or any Lender hereunder (an "Entitled Person") shall, notwithstanding the rate of exchange actually applied

in rendering such judgment, be discharged only to the extent that on the Business Day following receipt by such Entitled Person of any sum adjudged to be due hereunder or under the Notes in the Second Currency such Entitled Person may in accordance with normal banking procedures purchase and transfer to the Specified Place the Specified Currency with the amount of

the Second Currency so adjudged to be due; and each Borrower hereby, as a separate obligation and notwithstanding any such judgment, agrees to indemnify such Entitled Person against, and to pay such Entitled Person on demand in the Specified Currency, any difference between the sum originally due to such Entitled Person in the Specified Currency and the amount of the Specified Currency so purchased and transferred.

SECTION 9.15. European Monetary Union. (a) If, as a result of the

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implementation of European monetary union, (i) any European Currency ceases to be lawful currency of the nation issuing the same and is replaced by a European common currency (the "Euro"), or (ii) any European Currency and the Euro are at

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the same time recognized by the governmental authority which is responsible for issuance or regulation of the relevant European Currency in the nation issuing such European Currency as lawful currency of such nation and the Administrative Agent or the Required Lenders shall so request in a notice delivered to the Company, then any amount payable hereunder by any party hereto in such European Currency shall instead be payable in the Euro or, to the extent then permitted by applicable law, in the Euro or such European Currency at the election of the Company, and the amount so payable shall, if payable in the Euro, be determined by translating the amount payable in such European Currency to the Euro at the exchange rate recognized by the European Central Bank for the purpose of implementing European monetary union. Prior to the occurrence of the event or events described in clause (i) or (ii) of the preceding sentence, each amount payable hereunder in any European Currency will, except as otherwise provided herein, continue to be payable only in that European Currency.

(b) The Company agrees, at the request of any Lender, to compensate such Lender for any loss, cost, expense or reduction in return, incurred or suffered by such Lender upon or after any of the occurrence of any of the events referred to in clauses (i) or (ii) of the first sentence of Section 9.15(a), that such Lender shall reasonably determine shall be incurred or sustained by such Lender as a result of the implementation of European monetary union and that would not have been incurred or sustained but for the transactions provided for herein, and that was incurred or sustained during the 90-day period prior to the date of demand therefor by such Lender. A certificate of a Lender setting forth in reasonable detail such Lender's calculation of the amount or amounts necessary to compensate such Lender shall be delivered to the Company and shall be conclusive absent manifest error so long as such determination is made on a reasonable basis. The Company shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

(c) The parties hereto agree, at the time of or at any time following the implementation of European monetary union, to use reasonable efforts to enter into an agreement amending this Agreement in order to reflect the implementation of such monetary union, to permit (if feasible) the Euro to qualify as an Alternate Currency under the terms and conditions of the definition of such term and to place the parties hereto in the position with respect to the settlement of payments of the Euro as they would have been with respect to the settlement of the Currencies it replaced.

(d) Each Lender shall use its reasonable best efforts (consistent with its internal policy and legal and regulatory restrictions) to minimize any amounts payable by the Company under this Section 9.15.

ARTICLE X

GUARANTEE

SECTION 10.01. Guarantee. The Company hereby guarantees to each

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Lender and the Administrative Agent and their respective successors and assigns the prompt payment in full when due (whether at stated maturity, by acceleration, by optional prepayment or otherwise) of the principal of and interest on the Loans made by the Lender to, and the Notes held by each Lender of, each Designated Borrower and all other amounts from time to time owing to the Lenders or the Administrative Agent by any Designated Borrower under this Agreement pursuant to its Designation Letter and under the Notes, in each case strictly in accordance with the terms thereof (such obligations being herein collectively called the "Guaranteed Obligations"). The Company hereby further

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agrees that if any Designated Borrower shall fail to pay in full when due (whether at stated maturity, by acceleration, by optional prepayment or otherwise) any of the Guaranteed Obligations, the Company will promptly pay the same, without any demand or notice whatsoever, and that in the case of any extension of time of payment or renewal of any of the Guaranteed Obligations, the same will be promptly paid in full when due (whether at extended maturity, by acceleration or otherwise) in accordance with the terms of such extension or renewal.

SECTION 10.02. Obligations Unconditional.

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(a) The obligations of the Company hereunder are unconditional irrespective of (i) the value, genuineness, validity, regularity or enforceability of any of the Guaranteed Obligations, (ii) any modification, amendment or variation in or addition to the terms of any of the Guaranteed Obligations or any covenants in respect thereof

or any security therefor, (iii) any extension of time for performance or waiver of performance of any covenant of any Designated Borrower or any failure or omission to enforce any right with regard to any of the Guaranteed Obligations, (iv) any exchange, surrender, release of any other guaranty of or security for any of the Guaranteed Obligations, or (v) any other circumstance with regard to any of the Guaranteed Obligations which may or might in any manner constitute a legal or equitable discharge or defense of a surety or guarantor, it being the intent hereof that the obligations of the Company hereunder shall be absolute and unconditional under any and all circumstances.

(b) The Company hereby expressly waives diligence, presentment, demand, protest, and all notices whatsoever with regard to any of the Guaranteed Obligations and any requirement that the Administrative Agent or any Lender exhaust any right, power or remedy or proceed against any Designated Borrower hereunder or under the Designation Letter of such Designated Borrower or any Note of such Designated Borrower or any other guarantor of or any security for any of the Guaranteed Obligations.

SECTION 10.03. Reinstatement. The guarantee in this Article X shall

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be automatically reinstated if and to the extent that for any reason any payment by or on behalf of any Designated Borrower in respect of the Guaranteed Obligations is rescinded or must be otherwise restored by any holder(s) of any of the Guaranteed Obligations, whether as a result of any proceedings in bankruptcy or reorganization or otherwise.

SECTION 10.04. Subrogation. Until the termination of the

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Commitments and the payment in full of the principal of and interest on the Loans and all other amounts payable to the Administrative Agent or any Lender hereunder, the Company hereby irrevocably waives all rights of subrogation or contribution, whether arising by operation of law (including, without limitation, any such right arising under the Federal Bankruptcy Code) or otherwise, by reason of any payment by it pursuant to the provisions of this Article X.

SECTION 10.05. Remedies. The Company agrees that, as between the

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Company on the one hand and the Lenders and the Administrative Agent on the other hand, the obligations of any Designated Borrower guaranteed under this Agreement may be declared to be forthwith due and payable, or may be deemed automatically to have been accelerated, as provided in Article VII, for purposes of Section 10.01 hereof notwithstanding any stay, injunction or other prohibition (whether in a bankruptcy proceeding affecting such Designated Borrower or otherwise) preventing such declaration as against such Designated

Borrower and that, in the event of such declaration or automatic acceleration such obligations (whether or not due and payable by such Designated Borrower) shall forthwith become due and payable by the Company for purposes of said Section 10.01.

SECTION 10.06. Continuing Guarantee. The guarantee in this Article

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X is a continuing guarantee and shall apply to all Guaranteed Obligations whenever arising.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

The Borrower  
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NEW MARRIOTT MI, INC.  
(to be renamed Marriott  
International, Inc.)

By /s/ Carolyn B. Handlon

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Name: Carolyn B. Handlon  
Title: Vice President, Finance  
and Assistant Treasurer

The Administrative Agent  
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CITIBANK, N.A.,  
as Administrative Agent

By /s/ Theodore J. Beck

-----  
Name: Theodore J. Beck  
Title: Attorney-In-Fact

The Managing Agents  
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THE CHASE MANHATTAN BANK,  
as Managing Agent

By /s/ Karen M. Sharf

-----  
Name: Karen M. Sharf  
Title: Vice President

Address:

270 Park Avenue  
New York, New York 10017

THE FIRST NATIONAL BANK OF  
CHICAGO, as Managing Agent

By /s/ Michael A. Parisi

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Name: Michael A. Parisi  
Title: Corporate Banking  
Officer

Address:

One First National Plaza,  
Suite 0318  
Chicago, Illinois 60670

The Documentation Agent  
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THE BANK OF NOVA SCOTIA,  
as Documentation Agent

By /s/ J.R. Trimble

-----  
Name: J.R. Trimble  
Title: Senior Relationship  
Manager

Address:

One Liberty Plaza  
New York, New York 10006

The Letter of Credit Agent  
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THE BANK OF NOVA SCOTIA,  
as Letter of Credit Agent

By /s/ J.R. Trimble  
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Name: J.R. Trimble  
Title: Senior Relationship  
Manager

Address:

One Liberty Plaza  
New York, New York 10006

COMMITMENT  
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\$84,000,000.00

BANKS  
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CITIBANK, N.A.

By /s/ Theodore J. Beck  
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Name: Theodore J. Beck  
Title: Attorney-In-Fact

\$84,000,000.00

THE BANK OF NOVA SCOTIA

By /s/ J.R. Trimble  
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Name: J.R. Trimble  
Title: Senior Relationship  
Manager

\$72,000,000.00

THE CHASE MANHATTAN BANK

By /s/ Karen M. Sharf  
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Name: Karen M. Sharf  
Title: Vice President



\$72,000,000.00

THE FIRST NATIONAL BANK OF CHICAGO

By /s/ Michael A. Parisi  
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Name: Michael A. Parisi  
Title: Corporate Banking Officer

\$57,000,000.00

BANK OF AMERICA NATIONAL TRUST  
AND SAVINGS ASSOCIATION, as a  
Bank and as Co-Agent

By /s/ W. L. Hess  
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Name: W. L. Hess  
Title: Managing Director

\$57,000,000.00

THE BANK OF NEW YORK, as a Bank and  
as Co-Agent

By /s/ Ronald R. Reedy  
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Name: Ronald R. Reedy  
Title: Vice President

\$57,000,000.00

BANK OF TOKYO - MITSUBISHI  
TRUST COMPANY, as a Bank and as Co-Agent

By /s/ J. Andrew Don  
-----  
Name: J. Andrew Don  
Title: Vice President & Manager

\$57,000,000.00

COMERICA BANK, as a Bank and as  
Co-Agent

By /s/ Tamara J. Gurne  
-----  
Name: Tamara J. Gurne  
Title: Vice President

\$57,000,000.00

DEUTSCHE BANK AG NEW YORK BRANCH  
AND/OR CAYMAN ISLANDS BRANCH, as  
a Bank and as Co-Agent

By /s/ Stephan A. Wiedemann  
-----  
Name: Stephan A. Wiedemann  
Title: Director

By /s/ Norman G. Amnott  
-----  
Name: Norman G. Amnott  
Title: Vice President

\$57,000,000.00

FIRST UNION NATIONAL BANK, as a  
Bank and as Co-Agent

By /s/ Barbara K. Angel  
-----  
Name: Barbara K. Angel  
Title: Vice President

\$57,000,000.00

FLEET NATIONAL BANK, as a Bank and  
as Co-Agent

By /s/ Roger C. Boucher  
-----  
Name: Roger C. Boucher  
Title: Vice President

\$57,000,000.00

MARINE MIDLAND BANK, as a Bank and  
as Co-Agent

By /s/ Kim P. Leary  
-----  
Name: Kim P. Leary  
Title: Vice President

\$57,000,000.00

MELLON BANK, N.A., as a Bank and as  
Co-Agent

By /s/ Laurie G. Dunn

-----  
Name: Laurie G. Dunn  
Title: Vice President

\$40,000,000.00

BANK OF HAWAII

By /s/ Joseph T. Donalson

-----  
Name: Joseph T. Donalson  
Title: Vice President

\$40,000,000.00

THE FIRST NATIONAL BANK OF MARYLAND

By /s/ Lauren D. Johnston

-----  
Name: Lauren D. Johnston  
Title: Vice President

\$40,000,000.00

THE SANWA BANK, LTD. NEW  
YORK BRANCH

By /s/ Yoshinori Yokoo

-----  
Name: Yoshinori Yokoo  
Title: Vice President

\$40,000,000.00

SOCIETE GENERALE

By /s/ James H. Nangle

-----  
Name: James H. Nangle  
Title: First Vice President

\$40,000,000.00

SUNTRUST BANK, CENTRAL FLORIDA,  
N.A.

By /s/ Janet P. Sammons

-----  
Name: Janet P. Sammons  
Title: Vice President

\$35,000,000.00

BANCA COMMERCIALE ITALIANA -  
NEW YORK BRANCH

By /s/ Charles Dougherty

-----  
Name: Charles Dougherty  
Title: Vice President

By /s/ Karen Purelis

-----  
Name: Karen Purelis  
Title: Vice President

\$35,000,000.00

BANCA DI ROMA SPA  
NEW YORK BRANCH

By /s/ Amedeo Iannicari

-----  
Name: Amedeo Iannicari  
Title: Assistant Vice President

By /s/ Luca Balostra

-----  
Name: Luca Balostra  
Title: Assistant Vice President

\$35,000,000.00

BANCA NAZIONALE DEL LAVORO  
S.P.A. - NEW YORK BRANCH

By /s/ Leonardo Valentini

-----  
Name: Leonardo Valentini  
Title: First Vice President

By /s/ Miguel J. Medida

-----  
Name: Miguel J. Medida  
Title: Vice President

\$35,000,000.00

BARCLAYS BANK PLC

By /s/ Gary Albanese

-----  
Name: Gary Albanese  
Title: Associate Director

\$35,000,000.00

CREDIT LYONNAIS NEW YORK BRANCH

By /s/ Mary P. Daly

-----  
Name: Mary P. Daly  
Title: Vice President

\$35,000,000.00

CRESTAR BANK

By /s/ Nancy R. Petrash

-----  
Name: Nancy R. Petrash  
Title: Senior Vice President

\$35,000,000.00

FIRST HAWAIIAN BANK

By /s/ Scott R. Nahme

-----  
Name: Scott R. Nahme  
Title: Assistant Vice President

\$35,000,000.00

MORGAN GUARANTY TRUST COMPANY  
OF NEW YORK

By /s/ Timothy V. O'Donovan

-----  
Name: Timothy V. O'Donovan  
Title: Vice President

\$35,000,000.00

THE NORTHERN TRUST COMPANY

By /s/ Eric Strickland

-----  
Name: Eric Strickland  
Title: Vice President

\$35,000,000.00

WACHOVIA BANK, N.A.

By /s/ Fitzhugh L. Wickham III

-----  
Name: Fitzhugh L. Wickham III  
Title: Vice President

\$25,000,000.00

FIFTH THIRD BANK

By /s/ Kevin C.M. Jones

-----  
Name: Kevin C.M. Jones  
Title: Assistant Vice President

\$25,000,000.00

THE FUJI BANK, LIMITED,  
NEW YORK BRANCH

By /s/ Raymond Ventura

-----  
Name: Raymond Ventura  
Title: Vice President & Manager

\$25,000,000.00

THE LONG-TERM CREDIT BANK OF  
JAPAN, LIMITED, NEW YORK BRANCH

By /s/ Hiroshi Kitada

-----  
Name: Hiroshi Kitada  
Title: Senior Vice President

\$25,000,000.00

RIGGS BANK N.A.

By /s/ David H. Olson

-----  
Name: David H. Olson  
Title: Vice President

\$25,000,000.00

THE SUMITOMO BANK, LIMITED, NEW  
YORK BRANCH

By /s/ Kazuyoshi Ogawa

-----  
Name: Kazuyoshi Ogawa  
Title: Joint General Manager





YEAR	JAN-03-1997	JAN-02-1996	JAN-03-1997	YEAR	JAN-02-1998	JAN-04-1997	JAN-02-1998
			239				289
		0			0		
		426			724		
		0			0		
		124			129		
	984			1,367			
		1,824					1,537
	297			312			
	4,198			5,557			
1,404				1,639			
		681					422
0				0			
		0			0		
		0			0		
		1,444			2,586		
4,198							
		5,557					0
		0					
	7,267			9,046			
		0					0
		6,759			8,437		
		0			0		
		0			0		
	37			22			
	435			531			
		165			207		
	0			0			
		0			0		
		0			0		
		0			0		
		270			324		
		1.06			1.27		
		0.99			1.19		



## FORWARD-LOOKING STATEMENTS

The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this report or presented elsewhere by management.

**Dependence on Others:** The Company's present growth strategy for development of additional lodging and senior living facilities entails entering into and maintaining various arrangements with present and future property owners, including Host Marriott Corporation and New World Development Company Limited. There can be no assurance that any of the Company's current strategic arrangements will be continued, or that the Company will be able to enter into future collaborations.

**Contract Terms for New Units:** The terms of the operating contracts, distribution agreements, franchise agreements and leases for each of the Company's lodging facilities and senior living communities are influenced by contract terms offered by the Company's competitors at the time such agreements are entered into. Accordingly, there can be no assurance that contracts entered into or renewed in the future will be on terms that are as favorable to the Company as those under existing agreements.

**Competition:** The profitability of hotels, vacation timeshare resorts, senior living communities and distribution centers operated by the Company is subject to general economic conditions, competition, the desirability of particular locations, the relationship between supply of and demand for hotel rooms, vacation timeshare resorts, senior living facilities and distribution services, and other factors. The Company generally operates in markets that contain numerous competitors and the continued success of the Company will be dependent, in large part, upon the Company's ability to compete in such areas as access, location, quality of accommodations, amenities, specialized services and cost containment.

**Supply and Demand:** During the 1980s, construction of lodging facilities in the United States resulted in an excess supply of available rooms, and the oversupply had an adverse effect on occupancy levels and room rates in the industry. Although industry conditions have improved, the lodging industry may be adversely affected in the future by (i) supply additions, (ii) international, national and regional economic conditions, (iii) changes in travel patterns, (iv) taxes and government regulations which influence or determine wages, prices, interest rates, construction procedures and costs, and (v) the availability of capital. The Company's timeshare and senior living service businesses are also subject to the same or similar uncertainties and, accordingly, there can be no assurance that the present level of demand for timeshare intervals and senior living communities will continue, or that there will not be an increase in the supply of competitive units, which could reduce the prices at which the Company is able to sell or rent units.

**Effect of Acquisitions:** The benefit to the Company of acquisitions such as RHG depends, in part, on the Company's ability to integrate the acquired businesses into existing operations. Such integrations may be more difficult, costly and time consuming than anticipated.

**Spinoff Transaction:** The benefits of this transaction are contingent upon all of the foregoing, as well as upon the approval of Marriott International, Inc.'s shareholders.