

Problem 9.6. Impact of Stock Options & Equity Dilution in the Hotel & Resort Industry.

- a. Hotel & resort companies have the following stock options outstanding and total common shares outstanding. Calculate the options to shares outstanding percentage for fiscal year 2001 (in millions).

	Stock Options Outstanding	Shares Outstanding	Options to Shares Outstanding
Hilton	33	369	8.94%
Marriott	20	245	8.16%
Mandalay	10	68	14.71%

- a. Hotel & resort companies have the following net income & *pro forma* income numbers. Calculate the difference & % difference as if stock options were treated as an expense.

	Hilton	Marriott	Mandalay
Net Income—Reported	\$166	\$236	\$54
Net Income— <i>Pro forma</i>	150	187	43
Difference	-16.00	-49.00	-11.00
% Difference	-9.64%	-20.76%	-20.37%

- b. How significant is the potential dilution of stockholders' equity for these three hotel companies? Explain

Problem 9.7. Segment Reporting in the Hotel & Resort Industry.

a. Hilton reports the following industry segments information for 2001 (in millions).

	Revenues	Operating Income	Assets
Hotel Ownership	\$1,886	\$474	\$4,925
Managing & Franchising	120	113	680
Timeshare	144	22	315

b. Calculate (1) operating income /revenues & (2) revenues / assets

	Operating Income/Revenue	Revenues / Assets
Hotel Ownership	<i>25.13%</i>	<i>38.29%</i>
Managing & Franchising	<i>94.17%</i>	<i>17.65%</i>
Timeshare	<i>15.28%</i>	<i>45.71%</i>

c. Evaluate the industry segment information for Hilton.

Problem 9.9. Foreign Currency in the Hotel & Resort Industry.

- a. Calculate foreign currency translation as a percentage of net income and comprehensive income (stated in millions) for 2001.

	Hilton	Marriott	Mandalay
Net Income	\$166	\$236	53
Translation Adjustment	0	-14	0
Comprehensive Income	155	230	38
Translation Adjustment / Net Income	0.00%	-5.93%	0.00%
Translation Adjustment / Comprehensive Income	0.00%	-6.09%	0.00%

- c. Calculate cumulative foreign currency translations adjustment for the last three years and as a percent of 2001 comprehensive income (stated in millions).

	Hilton	Marriott	Mandalay
Translation Adjustment, 2000	-1	-10	0
Translation Adjustment, 1999	-1	-18	0
Total Translation Adjustment, 99-01	-\$2.00	-\$42.00	\$0.00
Total Translation Adjustment / 2001 Comprehensive Income	-1.29%	-18.26%	0.00%

- a. Compare foreign operations and translation adjustments on the operations of these companies.

Problem 9.10. Defined benefit pension plans analysis for hotel & resort companies. (None reported for Marriott.) Given below is pension information for 2001 from pension footnotes and other sources (in millions). Benefit obligation at year-end is total pension liability based on PBO; pension expense is net periodic benefit cost; prepaid pension cost/obligation is net pension asset or liability position on the balance sheet (reported as part of other assets or other liabilities if negative).

	Hilton	Mandalay
Benefit Obligation at year-end	\$248	\$55
Fair Value of Plan Assets	249	0
Net Periodic Benefit Cost (Pension Expense)	16	8
Prepaid Pension Cost (Liability)	1	-15
Total Assets	8,785	4,037
Net Income	166	53

- a. Calculate funding status (Over- or Under-funded, based on Prepaid Pension Cost), pension obligation / total assets; prepaid pension cost (obligation) / total assets; and pension expense / net income. Note: Net Pension Benefit Cost is a negative expense for these companies (increases net income), because of positive expected return on plan assets.

	Hilton	Mandalay
Funding Status	<i>Over</i>	<i>Under</i>
Benefit Obligation / Total Assets	<i>2.82%</i>	<i>1.36%</i>
Prepaid Pension Cost / Total Assets	<i>0.01%</i>	<i>-0.37%</i>
Pension Expense / Net Income	<i>9.64%</i>	<i>15.09%</i>

- b. Compare the pension plans of the two hotel & resort companies. Are there any concerns? Explain.