

MARRIOTT INTERNATIONAL INC /MD/

Form 10-Q

November 09, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from _____ to _____

Commission File No. 1-13881

MARRIOTT INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

52-2055918

(IRS Employer
Identification No.)

10400 Fernwood Road, Bethesda, Maryland 20817

(Address of principal executive offices) (Zip Code)

(301) 380-3000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller Reporting Company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 390,479,820 shares of Class A Common Stock, par value \$0.01 per share, outstanding at October 21, 2016.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

MARRIOTT INTERNATIONAL, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (\$ in millions, except per share amounts)
 (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
REVENUES				
Base management fees	\$ 180	\$ 170	\$ 538	\$ 526
Franchise fees	250	227	692	652
Incentive management fees	81	68	276	238
Owned, leased, and other revenue	279	229	771	729
Cost reimbursements	3,152	2,884	9,339	8,635
	3,942	3,578	11,616	10,780
OPERATING COSTS AND EXPENSES				
Owned, leased, and other - direct	194	175	533	552
Reimbursed costs	3,152	2,884	9,339	8,635
Depreciation, amortization, and other	36	31	97	107
General, administrative, and other	161	149	470	446
Merger-related costs and charges	228	—	250	—
	3,771	3,239	10,689	9,740
OPERATING INCOME	171	339	927	1,040
Gains and other income, net	3	—	3	20
Interest expense	(55)	(43)	(159)	(121)
Interest income	9	5	22	19
Equity in earnings	3	8	8	13
INCOME BEFORE INCOME TAXES	131	309	801	971
Provision for income taxes	(61)	(99)	(265)	(314)
NET INCOME	\$ 70	\$ 210	\$ 536	\$ 657
EARNINGS PER SHARE				
Earnings per share - basic	\$ 0.26	\$ 0.80	\$ 2.08	\$ 2.43
Earnings per share - diluted	\$ 0.26	\$ 0.78	\$ 2.04	\$ 2.38
CASH DIVIDENDS DECLARED PER SHARE	\$ 0.30	\$ 0.25	\$ 0.85	\$ 0.70

See Notes to Condensed Consolidated Financial Statements.

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MARRIOTT INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$ in millions)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net income	\$ 70	\$ 210	\$ 536	\$ 657
Other comprehensive income (loss):				
Foreign currency translation adjustments	2	(28)	27	(47)
Derivative instrument adjustments, net of tax	1	2	(3)	9
Unrealized loss on available-for-sale securities, net of tax	—	(3)	—	(5)
Reclassification of losses (gains), net of tax	1	(3)	3	(7)
Total other comprehensive income (loss), net of tax	4	(32)	27	(50)
Comprehensive income	\$ 74	\$ 178	\$ 563	\$ 607

See Notes to Condensed Consolidated Financial Statements.

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MARRIOTT INTERNATIONAL, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (\$ in millions)

	(Unaudited)	
	September 30, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and equivalents	\$ 1,078	\$ 96
Accounts and notes receivable, net	1,705	1,103
Prepaid expenses	168	77
Other	65	30
Assets held for sale	771	78
	3,787	1,384
Property and equipment, net	2,411	1,029
Intangible assets		
Brands	6,606	197
Contract acquisition costs and other	3,442	1,254
Goodwill	7,175	943
	17,223	2,394
Equity and cost method investments	830	165
Notes receivable, net	240	215
Deferred tax assets	92	672
Other noncurrent assets	419	223
	\$ 25,002	\$ 6,082
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Current portion of long-term debt	\$ 316	\$ 300
Accounts payable	667	593
Accrued payroll and benefits	1,136	861
Liability for guest loyalty programs	1,860	952
Accrued expenses and other	1,250	527
	5,229	3,233
Long-term debt	8,506	3,807
Liability for guest loyalty programs	2,538	1,622
Deferred tax liabilities	1,308	17
Other noncurrent liabilities	1,580	993
Shareholders' equity (deficit)		
Class A Common Stock	5	5
Additional paid-in-capital	5,740	2,821
Retained earnings	6,375	4,878
Treasury stock, at cost	(6,110)	(11,098)
Accumulated other comprehensive loss	(169)	(196)
	5,841	(3,590)
	\$ 25,002	\$ 6,082

See Notes to Condensed Consolidated Financial Statements.

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MARRIOTT INTERNATIONAL, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (\$ in millions)
 (Unaudited)

	Nine Months Ended	
	September 30, 2016	September 30, 2015
OPERATING ACTIVITIES		
Net income	\$ 536	\$ 657
Adjustments to reconcile to cash provided by operating activities:		
Depreciation, amortization, and other	97	107
Share-based compensation	117	84
Income taxes	1	120
Liability for guest loyalty programs	179	119
Merger-related charges	172	—
Working capital changes	(47)	(77)
Other	77	70
Net cash provided by operating activities	1,132	1,080
INVESTING ACTIVITIES		
Acquisition of a business, net of cash acquired	(2,412)	(137)
Capital expenditures	(132)	(218)
Dispositions	53	612
Loan advances	(24)	(12)
Loan collections	61	21
Contract acquisition costs	(55)	(89)
Redemption of debt security	—	121
Other	22	75
Net cash (used in) provided by investing activities	(2,487)	373
FINANCING ACTIVITIES		
Commercial paper/Credit Facility, net	1,657	(274)
Issuance of long-term debt	1,483	790
Repayment of long-term debt	(296)	(7)
Issuance of Class A Common Stock	22	39
Dividends paid	(257)	(189)
Purchase of treasury stock	(248)	(1,821)
Other	(24)	—
Net cash provided by (used in) financing activities	2,337	(1,462)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	982	(9)
CASH AND EQUIVALENTS, beginning of period	96	104
CASH AND EQUIVALENTS, end of period	\$ 1,078	\$ 95
See Notes to Condensed Consolidated Financial Statements.		

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MARRIOTT INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements present the results of operations, financial position, and cash flows of Marriott International, Inc. (“Marriott,” and together with its consolidated subsidiaries, “we,” “us,” or “the Company”). We also refer throughout to (i) our Condensed Consolidated Financial Statements as our “Financial Statements,” (ii) our Condensed Consolidated Statements of Income as our “Income Statements,” (iii) our Condensed Consolidated Balance Sheets as our “Balance Sheets,” (iv) our properties, brands, or markets in the United States (“U.S.”) and Canada as “North America” or “North American,” and (v) our properties, brands, or markets outside of the U.S. and Canada as “International.” References throughout to numbered “Footnotes” refer to the numbered Notes in these Notes to Condensed Consolidated Financial Statements, unless otherwise noted.

These Financial Statements have not been audited. We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. generally accepted accounting principles (“GAAP”). The financial statements in this report should be read in conjunction with the consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (“2015 Form 10-K”). Certain terms not otherwise defined in this Form 10-Q have the meanings specified in our 2015 Form 10-K.

Preparation of financial statements that conform with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, the reported amounts of revenues and expenses during the reporting periods, and the disclosures of contingent liabilities. Accordingly, ultimate results could differ from those estimates.

The accompanying Financial Statements reflect all normal and recurring adjustments necessary to present fairly our financial position as of September 30, 2016 and December 31, 2015, the results of our operations for the three and nine months ended September 30, 2016 and September 30, 2015, and cash flows for the nine months ended September 30, 2016 and September 30, 2015. Interim results may not be indicative of fiscal year performance because of seasonal and short-term variations. We have eliminated all material intercompany transactions and balances between entities consolidated in these Financial Statements. We have made certain reclassifications of our prior year amounts to conform to our current presentation of “Brands” and “Deferred tax liabilities” in our Balance Sheets and “Merger-related costs and charges” in our Income Statements.

Acquisition of Starwood Hotels & Resorts Worldwide

On September 23, 2016, we completed the acquisition of Starwood Hotels & Resorts Worldwide, LLC, formerly known as Starwood Hotels & Resorts Worldwide, Inc. (“Starwood”) through a series of transactions, after which Starwood became an indirect wholly-owned subsidiary of the Company (the “Starwood Combination”). The Financial Statements in this report include Starwood’s results of operations for the eight days ended September 30, 2016 and reflect the financial position of our combined company at September 30, 2016. We refer to our business associated with brands that existed prior to the Starwood Combination as “Legacy-Marriott” and to Starwood’s business and brands that we acquired as “Legacy-Starwood.” See Footnote No. 2, “Acquisitions and Dispositions” for more information on the Starwood Combination.

New Accounting Standards

Accounting Standards Update No. 2014-09 - “Revenue from Contracts with Customers” (“ASU No. 2014-09”) ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, as well as most industry-specific guidance, and significantly enhances comparability of revenue recognition practices across entities and industries by providing a principles-based, comprehensive framework for addressing revenue recognition issues. In order for a provider of promised goods or services to recognize as revenue the consideration that it expects to receive in exchange for the promised goods or services, the provider should apply the following

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five steps: (1) identify the contract with a customer(s); (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU No. 2014-09 also specifies the accounting for some costs to obtain or fulfill a contract with a customer and provides enhanced disclosure requirements. The Financial Accounting Standards Board (“FASB”) has deferred ASU No. 2014-09 for one year, and with that deferral, the standard will be effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, which for us will be our 2018 first quarter. We are permitted to use either the retrospective or the modified retrospective method when adopting ASU No. 2014-09. We are still assessing the potential impact that ASU No. 2014-09 will have on our financial statements and disclosures, but we believe that there could be changes to the revenue recognition of real estate sales, franchise fees, and incentive management fees.

Accounting Standards Update No. 2016-02 - “Leases” (“ASU No. 2016-02”)

In February 2016, the FASB issued ASU No. 2016-02, which introduces a lessee model that brings substantially all leases onto the balance sheet. Under the new standard, a lessee will recognize on its balance sheet a lease liability and a right-of-use asset for all leases, including operating leases, with a term greater than 12 months. The new standard will also distinguish leases as either finance leases or operating leases. This distinction will affect how leases are measured and presented in the income statement and statement of cash flows. ASU No. 2016-02 is effective for annual and interim periods in fiscal years beginning after December 15, 2018. We are still assessing the potential impact that ASU No. 2016-02 will have on our financial statements and disclosures.

Accounting Standards Update No. 2016-09 - “Stock Compensation” (“ASU No. 2016-09”)

In March 2016, the FASB issued ASU No. 2016-09, which involves several aspects of the accounting for share-based payments. The new guidance will require excess tax benefits to be recorded as income tax expense (or benefit) in the income statement. Currently, excess tax benefits are recorded in additional paid-in-capital in the balance sheet. In the statement of cash flows, the new guidance requires both excess tax benefits and employee tax withholdings to be presented as operating inflows rather than as financing inflows. ASU No. 2016-09 is effective for annual and interim periods beginning after December 15, 2016. We are still assessing the potential impact that ASU No. 2016-09 will have on our financial statements and disclosures, but we believe that, during periods when our stock price increases, it will generally result in (1) a decrease to our income tax expense and effective tax rate and (2) an increase to our cash flows from operating activities.

2. ACQUISITIONS AND DISPOSITIONS

Acquisition

On September 23, 2016 (the “Merger Date”), we completed the Starwood Combination. Starwood is a leading hospitality company. The combination of our brands creates a more comprehensive portfolio, enhances our global market distribution, and provides opportunities for cost efficiencies. Our combined company now operates or franchises nearly 6,000 properties with over 1.1 million rooms, representing 30 leading brands from the moderate-tier to luxury in 120 countries and territories.

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Shareholders of Starwood received 0.80 shares of our Class A Common Stock and \$21.00 in cash for each share of Starwood common stock. The following table presents the fair value of each class of consideration transferred. (in millions, except per share amounts)

Equivalent shares of Marriott common stock issued in exchange for Starwood outstanding shares	134.4
Marriott common stock price as of Merger Date	\$68.44
Fair value of Marriott common stock issued in exchange for Starwood outstanding shares	9,198
Cash consideration to Starwood shareholders, net of cash acquired of \$1,116	2,412
Fair value of Marriott equity-based awards issued in exchange for vested Starwood equity-based awards	88
Total consideration transferred, net of cash acquired	\$11,698

Preliminary Fair Values of Assets Acquired and Liabilities Assumed

The following table presents our preliminary estimates of fair values of the assets that we acquired and the liabilities that we assumed. Our preliminary estimates are based on the information that was available as of the Merger Date, and we are continuing to evaluate the underlying inputs and assumptions used in our valuations. Accordingly, these preliminary estimates are subject to change during the measurement period, which is up to one year from the Merger Date.

(\$ in millions)

Working capital	\$(115)
Property and equipment	2,045
Identified intangible assets	8,573
Equity and cost method investments	648
Other noncurrent assets	207
Deferred income taxes, net	(1,845)
Guest loyalty program	(1,647)
Debt	(1,876)
Other noncurrent liabilities	(518)
Net assets acquired	5,472
Goodwill ⁽¹⁾	6,226
	\$11,698

Goodwill is calculated as total consideration transferred, net of cash acquired, less identified net assets acquired, and it primarily represents the value that we expect to obtain from synergies and growth opportunities from our combined operations. We have not completed the assignment of goodwill to our reporting units as of the date of this report, and it is not deductible for tax purposes.

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Property and Equipment

We acquired property and equipment, which primarily consists of 15 owned hotels. We provisionally estimated the value of the properties using a combination of the income, cost, and market approaches, which are primarily based on significant Level 2 and Level 3 assumptions, such as estimates of future income growth, capitalization rates, discount rates, and capital expenditure needs of the hotels. We are continuing to assess the marketplace assumptions and property conditions, which could result in changes to these provisional values.

Identified Intangible Assets

The following table presents our preliminary estimates of the fair values of Starwood's identified intangible assets and their related estimated useful lives.

	Estimated Fair Value (in millions)	Estimated Useful Life (in years)
Brands	\$ 6,400	indefinite
Management and Operating Lease Agreements	1,394	20-30
Franchise Agreements	729	20-80
Loyalty Program Marketing Rights	50	25-30
	\$ 8,573	

We provisionally estimated the value of Starwood's brands using the relief-from-royalty method, which applies an estimated royalty rate to forecasted future cash flows, discounted to present value. We estimated the value of management, franchise, and lease agreements using the multi-period excess earnings method, which is a variation of the income approach. This method estimates an intangible asset's value based on the present value of the incremental after-tax cash flows attributable to the intangible asset. These valuation approaches utilize Level 3 inputs, and we continue to review Starwood's contracts and historical performance in addition to evaluating the inputs, including the discount rates and growth assumptions, which could result in changes to these provisional values.

Franchise agreements include an exclusive, 80-year global license agreement with Vistana Signature Experiences, Inc. ("Vistana"), Starwood's former vacation ownership business that is now part of Interval Leisure Group, Inc. ("ILG"), for the use of the Westin and Sheraton brands in vacation ownership. In addition, ILG has the non-exclusive license for the existing St. Regis and The Luxury Collection vacation ownership properties. Under this agreement, we will receive a fixed annual license fee, adjusted for inflation, of \$30 million plus certain variable fees based on sales volumes.

Investments

Our provisional estimate of the fair value of the equity method investments that we acquired was \$647 million. This value exceeded our share of the book value of the investees' net assets by \$501 million, primarily due to the value that we assigned to land and buildings owned by the investees. We provisionally estimated the value of the investees' real estate using the same methods as for property and equipment described above. Excluding the amount attributable to land, we amortize the difference on a straight-line basis over the underlying assets' estimated useful lives when calculating equity method earnings attributable to us. We are continuing to review the terms of the partnership and joint venture agreements, assess the conditions of the properties, and evaluate the discount rates, any discounts for lack of marketability and control as appropriate, and growth assumptions used in valuing these investments, which could result in changes to our provisional values.

Deferred Income Taxes

Deferred income taxes primarily relate to the fair value of noncurrent assets and liabilities acquired from Starwood, including property and equipment, intangible assets, equity and cost method investments, and long-term debt. We provisionally estimated deferred income taxes based on statutory rates in the jurisdictions of the legal entities where the acquired noncurrent assets and liabilities are recorded. We are continuing to assess the tax rates used, and we will update our estimate of deferred income taxes based on changes to our provisional valuations of

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the related assets and liabilities and refinement of the effective tax rates, which could result in changes to these provisional values.

Guest Loyalty Program

The Starwood Preferred Guest (SPG) program is Starwood's frequent traveler, customer loyalty, and multi-brand marketing program. Members can earn and redeem points for room stays, room upgrades, and airline flights. As of the Merger Date, we assumed the fair value of this liability equals Starwood's historical book value in establishing a provisional estimate for this liability. We are in the process of obtaining an actuarial valuation of the future redemption obligations, which could result in changes to these provisional values.

Debt and Lease Obligations

We primarily valued debt using quoted market prices, which are considered Level 1 inputs as they are observable in the market. For more information on Starwood debt, see Footnote No. 8 "Long-Term Debt."

The following table presents the future minimum lease obligations that we assumed and for which we are the primary obligor as of September 30, 2016:

(\$ in millions)	Operating Capital	
	Leases	Leases
2016, remaining	\$ 16	\$ 3
2017	64	11
2018	61	12
2019	57	12
2020	55	12
Thereafter	630	203
Total minimum lease payments	\$ 883	\$ 253
Less: amount representing interest		(86)
Present value of minimum lease payments		\$ 167

Most leases have initial terms of up to 20 years, contain one or more renewals at our option, generally for five- or 10-year periods, and generally contain fixed and variable components. The variable components of leases of land or building facilities are primarily based on operating performance of the leased property.

Pro Forma Results of Operations

The following unaudited pro forma information presents the combined results of operations of Marriott and Starwood as if we had completed the Starwood Combination on January 1, 2015, but using our preliminary fair values of assets and liabilities as of the Merger Date. As required by GAAP, these unaudited pro forma results do not reflect any cost saving synergies from operating efficiencies. Accordingly, these unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of what the actual results of operations of the combined company would have been if the Starwood Combination had occurred at the beginning of the period presented, nor are they indicative of future results of operations.

(\$ in millions)	Nine Months Ended	
	September 30, 2016	September 30, 2015
Revenues	\$15,038	\$ 14,373
Net income	\$853	\$ 675

The unaudited pro forma results include \$54 million of integration costs for the nine months ended September 30, 2016 and \$320 million of transaction and employee termination costs for the nine months ended September 30, 2015.

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Starwood Results of Operations

The following table presents the results of Starwood operations included in our Income Statements for the eight days from the Merger Date through the end of the 2016 third quarter.

	September
(\$ in millions)	23, 2016 -
	September
	30, 2016
Revenue	\$ 168
Net loss	\$ (131)

Dispositions and Planned Dispositions

At the end of the 2016 third quarter, we held \$741 million of assets classified as “Assets held for sale” and \$37 million of liabilities recorded under “Accrued expenses and other” on our Balance Sheets, both related to hotels that we acquired through the Starwood Combination.

In addition, at the end of the 2016 third quarter, we held \$30 million of assets related to the remaining Miami Beach EDITION residences classified as “Assets held for sale” and \$3 million of liabilities associated with those assets, which we recorded under “Accrued expenses and other” on our Balance Sheets.

In the 2016 second quarter, we sold a North American Limited-Service segment plot of land and received \$46 million in cash.

3. MERGER-RELATED COSTS AND CHARGES

The following table presents pre-tax merger-related costs and other charges that we incurred in connection with the Starwood Combination.

(\$ in millions)	Three Months		Nine Months	
	Ended		Ended	
	September	September	September	September
	30,	30, 2015	30,	30, 2015
	2016		2016	
Merger-related costs and charges				
Transaction costs	\$ 18	\$	—\$ 31	\$
Employee termination costs	186	—	186	—
Integration costs	24	—	33	—
	228	—	250	—
Interest expense	9	—	22	—
	\$ 237	\$	—\$ 272	\$
				—

Transaction costs represent costs related to the planning and execution of the Starwood Combination, primarily for financial advisory, legal, and other professional service fees. Employee termination costs represent employee severance, retention, and other termination benefits. Integration costs primarily represent integration employee salaries and share-based compensation, change management and legal consultants, and technology-related costs.

Merger-related interest expense reflects costs that we incurred for a bridge term loan facility commitment and incremental interest expense for debt incurred prior to the Merger Date related to the Starwood Combination.

We reflect our liability at September 30, 2016 for severance and other employee termination charges in our Balance Sheets as \$242 million of “Accrued expenses and other.”

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4. EARNINGS PER SHARE

The table below presents the reconciliation of the earnings and number of shares used in our calculations of basic and diluted earnings per share:

(in millions, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Computation of Basic Earnings Per Share				
Net income	\$ 70	\$ 210	\$ 536	\$ 657
Shares for basic earnings per share	266.2	262.2	258.3	270.7
Basic earnings per share	\$ 0.26	\$ 0.80	\$ 2.08	\$ 2.43
Computation of Diluted Earnings Per Share				
Net income	\$ 70	\$ 210	\$ 536	\$ 657
Shares for basic earnings per share	266.2	262.2	258.3	270.7
Effect of dilutive securities				
Employee stock option and appreciation right plans	1.7	2.2	1.8	2.3
Deferred stock incentive plans	0.5	0.6	0.5	0.6
Restricted stock units and restricted stock	2.1	2.3	2.1	2.5
Shares for diluted earnings per share	270.5	267.3	262.7	276.1
Diluted earnings per share	\$ 0.26	\$ 0.78	\$ 2.04	\$ 2.38

We compute the effect of dilutive securities using the treasury stock method and average market prices during the period. We excluded antidilutive stock options and stock appreciation rights of 0.3 million for both the 2016 third quarter and the 2015 third quarter, 0.3 million for the 2016 first three quarters, and 0.2 million for the 2015 first three quarters from our calculation of diluted earnings per share because their exercise prices were greater than the average market prices.

5. SHARE-BASED COMPENSATION

Legacy-Marriott Plans

Under our Stock and Cash Incentive Plan (the "Stock Plan"), we award: (1) stock options (our "Stock Option Program") to purchase our Class A Common Stock ("common stock"); (2) stock appreciation rights ("SARs") for our common stock (our "SAR Program"); (3) restricted stock units ("RSUs") of our common stock; and (4) deferred stock units. We also issue performance-based RSUs ("PSUs") to named executive officers and some of their direct reports under the Stock Plan. We grant awards at exercise prices or strike prices that equal the market price of our common stock on the date of grant.

We recorded share-based compensation expense for award grants of \$39 million for the 2016 third quarter and \$29 million for the 2015 third quarter, \$98 million for the 2016 first three quarters, and \$84 million for the 2015 first three quarters. Deferred compensation costs for unvested awards totaled \$177 million at September 30, 2016 and \$116 million at December 31, 2015.

RSUs and PSUs

We granted 1.6 million RSUs during the 2016 first three quarters to certain officers, key employees, and non-employee directors, and those units vest generally over four years in equal annual installments commencing one year after the grant date. We granted 0.2 million PSUs during the 2016 first three quarters to certain executive officers, subject to continued employment and the satisfaction of certain performance conditions based on achievement of pre-established targets for Adjusted EBITDA, RevPAR Index, room openings, and/or net administrative expense over, or at the end of, a three-year vesting period. We also granted 0.6 million PSUs during the 2016 first three quarters to certain senior leaders and members of the Company's integration team that, subject to continued employment, vest based upon achievement of pre-established targets related to the Starwood Combination over, or at the end of, a three-year performance period. RSUs, including PSUs, granted in the 2016 first three quarters had a weighted average grant-date fair value of \$63.

Table of Contents**SARs**

We granted 0.4 million SARs to officers and key employees during the 2016 first three quarters. These SARs generally expire ten years after the grant date and both vest and may be exercised in cumulative installments of one quarter at the end of each of the first four years following the grant date. The weighted average grant-date fair value of SARs granted in the 2016 first three quarters was \$22 and the weighted average exercise price was \$67.

We used the following assumptions as part of a binomial lattice-based valuation to determine the fair value of the SARs we granted during the 2016 first three quarters:

Expected volatility	30.4%
Dividend yield	1.3%
Risk-free rate	1.7 - 1.8%
Expected term (in years)	8 - 10

In making these assumptions, we base expected volatility on the historical movement of the Company's stock price. We base risk-free rates on the corresponding U.S. Treasury spot rates for the expected duration at the date of grant, which we convert to a continuously compounded rate. The dividend yield assumption takes into consideration both historical levels and expectations of future dividend payout. The weighted average expected terms for SARs are an output of our valuation model which utilizes historical data in estimating the period of time that the SARs are expected to remain unexercised. We calculate the expected terms for SARs for separate groups of retirement eligible, non-retirement eligible employees, and non-employee directors. Our valuation model also uses historical data to estimate exercise behaviors, which include determining the likelihood that employees will exercise their SARs before expiration at a certain multiple of stock price to exercise price.

Legacy-Starwood Plans

In the Starwood Combination we assumed Starwood's 2013 Long-Term Incentive Compensation Plan ("Starwood LTIP") and equity awards outstanding under the Starwood LTIP and other Starwood equity plans. On the Merger Date, outstanding Starwood equity awards were converted to equity awards with respect to Marriott's common stock, resulting in 1.1 million RSUs ("Starwood RSUs"), 1.6 million shares of Restricted Stock ("Starwood Restricted Stock"), and 0.2 million options. The awards generally vest over three years in equal annual installments, subject to a prorated adjustment for employees who are terminated under certain circumstances or who retire. The Starwood RSUs and Starwood Restricted Stock had a weighted average fair value of \$68 on the Merger Date.

We recorded share-based compensation expense on these awards of \$19 million for the eight days ended September 30, 2016. Deferred compensation costs for unvested awards totaled \$87 million as of September 30, 2016.

6. INCOME TAXES

Our effective tax rate increased to 46.4% for the 2016 third quarter from 32.4% for the 2015 third quarter, and to 33.1% for the 2016 first three quarters from 32.4% for the 2015 first three quarters, primarily due to lower benefits from Starwood merger-related costs that were incurred in foreign jurisdictions with lower tax rates, and the portion of merger-related costs that were incurred in the U.S. that are not deductible for U.S. income tax purposes. The year-to-date increase is also due to a \$5 million reserve established due to a recent examination of a tax position taken in a foreign jurisdiction, partially offset by a \$15 million release of a valuation allowance related to a capital loss. For the 2016 third quarter, our unrecognized tax benefits balance of \$398 million increased by \$374 million from year-end 2015, primarily reflecting \$365 million of Legacy-Starwood unrecognized tax benefits recorded in connection with the Starwood Combination. The unrecognized tax benefits balance included \$269 million of tax positions that, if recognized, would impact our effective tax rate. It is reasonably possible that \$38 million of unrecognized tax benefits as of September 30, 2016 will be reversed within the next twelve months. We are

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continuing to analyze whether or not we have properly identified all liabilities associated with tax uncertainties in jurisdictions where Starwood operates, which could result in changes to our provisional values related to our uncertain tax positions.

We file income tax returns, including returns for our subsidiaries, in various jurisdictions around the world. The U.S. Internal Revenue Service (“IRS”) has examined our federal income tax returns, and has settled all issues for tax years through 2013 for Marriott and through 2006 for Starwood. Our Marriott 2014 and 2015 tax year audits are substantially complete, and our Marriott 2016 tax year audit is currently ongoing. Starwood is currently under audit by the IRS for years 2010 through 2012 and in appeals for years 2007 through 2009. Various foreign, state, and local income tax returns are also under examination by the applicable taxing authorities.

We paid cash for income taxes, net of refunds, of \$243 million in the 2016 first three quarters and \$161 million in the 2015 first three quarters.

7. COMMITMENTS AND CONTINGENCIES

Guarantees

We issue guarantees to certain lenders and hotel owners, chiefly to obtain long-term management contracts. The guarantees generally have a stated maximum funding amount and a term of three to ten years. The terms of guarantees to lenders generally require us to fund if cash flows from hotel operations are inadequate to cover annual debt service or to repay the loan at maturity. The terms of the guarantees to hotel owners generally require us to fund if the hotels do not attain specified levels of operating profit. Guarantee fundings to lenders and hotel owners are generally recoverable out of future hotel cash flows and/or proceeds from the sale of hotels. We also enter into project completion guarantees with certain lenders in conjunction with hotels that we or our joint venture partners are building.

We present the maximum potential amount of our future guarantee fundings and the carrying amount of our liability for guarantees for which we are the primary obligor at September 30, 2016 in the following table:

(\$ in millions)	Maximum Potential Amount of Future Fundings	Recorded Liability for Guarantees
Debt service	\$ 122	\$ 22
Operating profit	121	37
Other	8	1
Total guarantees where we are the primary obligor	\$ 251	\$ 60

Our liability at September 30, 2016, for guarantees for which we are the primary obligor is reflected in our Balance Sheets as \$60 million of “Other noncurrent liabilities.”

Our guarantees listed in the preceding table include \$14 million of debt service guarantees and \$51 million of operating profit guarantees that will not be in effect until the underlying properties open and we begin to operate the properties or certain other events occur.

The table above does not include a “contingent purchase obligation,” which is not currently in effect, that we entered into in the 2014 first quarter to provide credit support to lenders for a construction loan. We entered into that agreement in conjunction with signing a management agreement for The Times Square EDITION hotel in New York City (currently projected to open in 2017), and the hotel’s ownership group obtaining acquisition financing and entering into agreements concerning future construction financing for the mixed use project (which includes both the hotel and adjacent retail space). Under the agreement, we granted the lenders the right, upon an uncured event of default by the hotel owner under, and an acceleration of, the mortgage loan, to require us to purchase the hotel component of the property for \$315 million during the first two years after opening (the “put option”). Because we would acquire the building upon exercise of the put option, we have not included the amount in the table above. The lenders may extend the period during which the put option is exercisable for up to three years to complete foreclosure if the loan has been accelerated and certain other conditions are met. We do not currently expect that the lenders will require us to purchase the hotel component. We have no ownership interest in this hotel.

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The preceding table also does not include the following guarantees:

\$48 million of guarantees for Senior Living Services, consisting of lease obligations of \$35 million (expiring in 2019) and lifecare bonds of \$13 million (estimated to expire in 2019), for which we are secondarily liable. Sunrise Senior Living, Inc. (“Sunrise”) is the primary obligor on both the leases and \$2 million of the lifecare bonds; HCP, Inc., as successor by merger to CNL Retirement Properties, Inc. (“CNL”), is the primary obligor on the remaining \$11 million of the lifecare bonds. Before we sold the Senior Living Services business in 2003, these were our guarantees of obligations of our then consolidated Senior Living Services subsidiaries. Sunrise and CNL have indemnified us for any fundings we may be called upon to make under these guarantees. Our liability for these guarantees had a carrying value of \$2 million at September 30, 2016. In conjunction with our consent of the 2011 extension of certain lease obligations until 2018, Sunrise provided us with \$1 million of cash collateral and an \$85 million letter of credit issued by Key Bank to secure our continued exposure under the lease guarantees during the extension term and certain other obligations of Sunrise. The letter of credit balance was \$45 million at the end of the 2016 third quarter. During the extension term, Sunrise agreed to make an annual payment to us from the cash flow of the continuing lease facilities, subject to a \$1 million annual minimum. In the 2013 first quarter, Sunrise merged with Health Care REIT, Inc. (“HCN”), and Sunrise’s management business was acquired by an entity formed by affiliates of Kohlberg Kravis Roberts & Co. LP, Beecken Petty O’Keefe & Co., Coastwood Senior Housing Partners LLC, and HCN. In April of 2014, HCN and Revera Inc., a private provider of senior living services, acquired Sunrise’s management business.

Lease obligations, for which we became secondarily liable when we acquired the Renaissance Hotel Group N.V. in 1997, consisting of annual rent payments of approximately \$4 million and total remaining rent payments through the initial term of approximately \$16 million. The majority of these obligations expire by the end of 2020. CTF Holdings Ltd. (“CTF”) had originally provided €35 million in cash collateral in the event that we are required to fund under such guarantees, approximately \$2 million (€2 million) of which remained at September 30, 2016. Our exposure for the remaining rent payments through the initial term will decline to the extent that CTF obtains releases from the landlords or these hotels exit our system. Since the time we assumed these guarantees, we have not funded any amounts, and we do not expect to fund any amounts under these guarantees in the future.

A guarantee relating to the timeshare business, which was outstanding at the time of the 2011 Timeshare spin-off and for which we became secondarily liable as part of the spin-off. The guarantee relates to a Marriott Vacations Worldwide Corporation (“MVW”) payment obligation, for which we had an exposure of \$4 million (5 million Singapore Dollars) at September 30, 2016. MVW has indemnified us for this obligation, which we expect will expire in 2022. We have not funded any amounts under this obligation, and do not expect to do so in the future. Our liability for this obligation had a carrying value of \$1 million at September 30, 2016.

A guarantee for a lease, originally entered into in 2000, for which we became secondarily liable in 2012 as a result of our sale of the ExecuStay corporate housing business to Oakwood Worldwide (“Oakwood”). Oakwood has indemnified us for the obligations under this guarantee. Our total exposure at the end of the 2016 third quarter for this guarantee was \$6 million in future rent payments through the end of the lease in 2019.

In addition to the guarantees described in the preceding paragraphs, in conjunction with financing obtained for specific projects or properties owned by us or joint ventures in which we are a party, we may provide industry standard indemnifications to the lender for loss, liability, or damage occurring as a result of the actions of the other joint venture owner or our own actions.

Commitments

In addition to the guarantees we note in the preceding paragraphs, as of September 30, 2016, we had the following commitments outstanding, which are not recorded on our Balance Sheets:

Commitments to invest up to \$9 million of equity for non-controlling interests in joint ventures. We expect to fund \$2 million of these commitments over the next 12 months. We do not expect to fund the remaining \$7 million of these commitments, most of which expire in 2019.

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We have a right and under certain circumstances an obligation to acquire our joint venture partner's remaining interests in two joint ventures over the next five years at a price based on the performance of the ventures. In conjunction with this contingent obligation, we advanced \$20 million (€15 million) in deposits, \$13 million (€11 million) of which are remaining. The amounts on deposit are refundable to the extent we do not acquire our joint venture partner's remaining interests.

Various loan commitments totaling \$58 million, of which we expect to fund \$10 million in 2016, \$28 million in 2017, and \$20 million thereafter.

Various commitments to purchase information technology hardware, software, accounting, finance, and maintenance services in the normal course of business totaling \$477 million. We expect to purchase goods and services subject to these commitments as follows: \$58 million in 2016, \$157 million in 2017, \$115 million in 2018, and \$147 million thereafter. The increase in purchase commitments compared to year-end 2015 is primarily due to the consolidation of \$353 million of Starwood's purchase commitments. We are evaluating the contractual nature of such commitments. Several commitments aggregating \$41 million, which we do not expect to fund.

Letters of Credit

At September 30, 2016, we had \$158 million of letters of credit outstanding (all outside the Credit Facility, as defined in Footnote No. 8, "Long-Term Debt"), the majority of which were for our self-insurance programs. Surety bonds issued as of September 30, 2016, totaled \$154 million, the majority of which state governments requested in connection with our self-insurance programs.

Legal Proceedings

The Korea Fair Trade Commission recently informed us that the previously disclosed investigation of pricing practices at several of our hotels in Seoul, Korea is now closed.

In November 2015, Starwood announced a malware intrusion had affected point of sale systems at various outlets within certain Legacy-Starwood branded hotels. This resulted in the potential compromise of credit card data and associated personal information. The affected credit card companies are evaluating whether and to what extent financial penalties should be imposed. In addition, a putative class action arising from the malware intrusion was filed against Starwood on January 5, 2016 in the United States District Court for the Southern District of California. The named plaintiff, Paul Dugas, does not specify any damages sought, and a motion to dismiss the case is awaiting resolution by the Court.

On May 10, 2016, the owners of the Sheraton Grand Chicago and the Westin Times Square, New York, filed suit in the Supreme Court of New York against Starwood and Marriott seeking to enjoin the merger of Starwood and Marriott based upon alleged violations of the territorial restrictions contained in the management agreements for those two hotels arising as a result of the merger of Marriott and Starwood. While the attempt to enjoin the merger ultimately failed, the underlying suit continues as a breach of contract claim, and plaintiffs seek, among other remedies, monetary damages relating to the alleged violations.

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8. LONG-TERM DEBT

We provide detail on our long-term debt balances, net of discounts, premiums, and debt issuance costs, in the following table as of the end of the 2016 third quarter and year-end 2015:

(\$ in millions)	At Period End	
	September 30, 2016	December 31, 2015
Senior Notes:		
Series H Notes, interest rate of 6.2%, face amount of \$289, matured June 15, 2016 (effective interest rate of 6.3%)	\$—	\$ 289
Series I Notes, interest rate of 6.4%, face amount of \$293, maturing June 15, 2017 (effective interest rate of 6.5%)	293	293
Series K Notes, interest rate of 3.0%, face amount of \$600, maturing March 1, 2019 (effective interest rate of 4.4%)	596	595
Series L Notes, interest rate of 3.3%, face amount of \$350, maturing September 15, 2022 (effective interest rate of 3.4%)	348	348
Series M Notes, interest rate of 3.4%, face amount of \$350, maturing October 15, 2020 (effective interest rate of 3.6%)	347	347
Series N Notes, interest rate of 3.1%, face amount of \$400, maturing October 15, 2021 (effective interest rate of 3.4%)	396	395
Series O Notes, interest rate of 2.9%, face amount of \$450, maturing March 1, 2021 (effective interest rate of 3.1%)	446	446
Series P Notes, interest rate of 3.8%, face amount of \$350, maturing October 1, 2025 (effective interest rate of 4.0%)	344	343
Series Q Notes, interest rate of 2.3%, face amount of \$750, maturing January 15, 2022 (effective interest rate of 2.5%)	742	—
Series R Notes, interest rate of 3.1%, face amount of \$750, maturing June 15, 2026 (effective interest rate of 3.3%)	742	—
Commercial paper	1,599	938
Credit Facility	989	—
Other	105	113
Starwood debt:		
2018 Senior Notes, interest rate of 6.8%, face amount \$371, maturing May 15, 2018 (effective interest rate of 1.6%)	403	—
2019 Senior Notes, interest rate of 7.2%, face amount \$210, maturing December 1, 2019 (effective interest rate of 2.2%)	245	—
2023 Senior Notes, interest rate of 3.1%, face amount \$350, maturing February 15, 2023 (effective interest rate of 3.1%)	350	—
2025 Senior Notes, interest rate of 3.8%, face amount \$350, maturing March 15, 2025 (effective interest rate of 2.8%)	375	—
2034 Senior Notes, interest rate of 4.5%, face amount \$300, maturing October 1, 2034 (effective interest rate of 4.1%)	317	—
Capital lease obligations	167	—
Mortgages and other, interest rates ranging from non-interest bearing to 3.7%, various maturities	18	—
	8,822	4,107
Less: Current portion of long-term debt	(316)	(300)
	\$8,506	\$ 3,807

All of our long-term debt is recourse to us but unsecured. We paid cash for interest, net of amounts capitalized, of \$99 million in the 2016 first three quarters and \$71 million in the 2015 first three quarters.

Our long-term debt balance increased from year-end 2015 primarily due to the consolidation of Starwood's long-term debt obligations in the 2016 third quarter and the issuance of debt to finance the cash portion of the Starwood Combination.

On the Merger Date, in accordance with the terms of the indentures governing the 2019 and 2023 Senior Notes, we initiated an offer to repurchase any or all Starwood 2019 and 2023 Senior Notes at a price of 101 percent of the aggregate principal amount, plus any accrued and unpaid interest. Upon expiration of the offer early in the 2016 fourth quarter, we extinguished less than \$1 million aggregate principal amount of 2019 Senior Notes and \$24 million aggregate principal amount of 2023 Senior Notes, resulting in total cash outflows of \$24 million.

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In the 2016 second quarter, we issued \$1,500 million aggregate principal amount of 2.300 percent Series Q Notes due 2022 (the “Series Q Notes”) and 3.125 percent Series R Notes due 2026 (the “Series R Notes”) and together with the Series Q Notes, the “Notes”). We received net proceeds of approximately \$1,485 million from the offering of the Notes, after deducting the underwriting discount and estimated expenses. We used these proceeds, together with borrowings under our Credit Facility, as defined below, primarily to finance the cash component of the consideration paid to Starwood shareholders and certain fees and expenses we incurred in connection with the Starwood Combination.

We issued the Notes under an indenture dated as of November 16, 1998 with The Bank of New York Mellon, as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank), as trustee. We may redeem some or all of each series of the Notes prior to maturity under the terms provided in the applicable form of Note.

In the 2016 second quarter, we amended and restated our multicurrency revolving credit agreement (the “Credit Facility”) to extend the maturity date of the Credit Facility and increase the aggregate amount of available borrowings to up to \$4,000 million, up to \$2,500 million of which was initially available, with the full \$4,000 million becoming available to us with the closing of the Starwood Combination. The availability of the Credit Facility supports our commercial paper program and general corporate needs, including working capital, capital expenditures, share repurchases, letters of credit, and acquisitions. In addition, we used borrowings under the Credit Facility, a portion of which we later repaid with commercial paper supported by the Credit Facility, to finance part of the cash component of the consideration we paid to Starwood shareholders and certain fees and expenses we incurred in connection with the Starwood Combination. Borrowings under the Credit Facility generally bear interest at LIBOR (the London Interbank Offered Rate) plus a spread, based on our public debt rating. We also pay quarterly fees on the Credit Facility at a rate based on our public debt rating. While any outstanding commercial paper borrowings and/or borrowings under our Credit Facility generally have short-term maturities, we classify the outstanding borrowings as long-term based on our ability and intent to refinance the outstanding borrowings on a long-term basis. The Credit Facility expires on June 10, 2021. See the “Cash Requirements and Our Credit Facilities” caption later in this report in the “Liquidity and Capital Resources” section for information on our available borrowing capacity at September 30, 2016.

The following table presents future principal payments, net of discounts, premiums, and debt issuance costs, that are due for our debt as of the end of the 2016 third quarter:

Debt Principal Payments (\$ in millions)	Amount
2016, remaining	\$ 17
2017	305
2018	416
2019	856
2020	363
Thereafter	6,865
Balance at September 30, 2016	\$ 8,822

9. NOTES RECEIVABLE

The following table presents the composition of our notes receivable balances (net of reserves and unamortized discounts) at the end of the 2016 third quarter and year-end 2015:

(\$ in millions)	At Period End	
	September 30, 2016	December 31, 2015
Senior, mezzanine, and other loans	\$ 246	\$ 221
Less current portion	(6)	(6)
	\$ 240	\$ 215

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We do not have any past due notes receivable amounts at the end of the 2016 third quarter. The unamortized discounts for our notes receivable were \$23 million at the end of the 2016 third quarter and \$31 million at year-end 2015.

The following table presents the expected future principal repayments (net of reserves and unamortized discounts) as well as interest rates for our notes receivable as of the end of the 2016 third quarter:

Notes Receivable Principal Repayments (net of reserves and unamortized discounts) and Interest Rates (\$ in millions)	Amount
2016, remaining	\$ 4
2017	4
2018	74
2019	16
2020	17
Thereafter	131
Balance at September 30, 2016	\$ 246
Weighted average interest rate at September 30, 2016	6.8%
Range of stated interest rates at September 30, 2016	0 - 18%

At the end of the 2016 third quarter, our recorded investment in impaired senior, mezzanine, and other loans was \$74 million, and we had \$57 million allowance for credit losses, leaving \$17 million of exposure to our investment in impaired loans. At year-end 2015, our recorded investment in impaired senior, mezzanine, and other loans was \$72 million, and we had a \$55 million allowance for credit losses, leaving \$17 million of exposure to our investment in impaired loans. Our average investment in impaired notes receivable totaled \$74 million for the 2016 third quarter, \$73 million for the 2016 first three quarters, \$71 million for the 2015 third quarter, and \$67 million for the 2015 first three quarters.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

We believe that the fair values of our current assets and current liabilities approximate their reported carrying amounts. We present the carrying values and the fair values of noncurrent financial assets and liabilities that qualify as financial instruments, determined under current guidance for disclosures on the fair value of financial instruments, in the following table:

(\$ in millions)	September 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Senior, mezzanine, and other loans	\$240	\$ 226	\$215	\$ 209
Marketable securities	30	30	37	37
Total noncurrent financial assets	\$270	\$ 256	\$252	\$ 246

Senior notes	\$(5,650)	\$(5,828)	\$(2,766)	\$(2,826)
Commercial paper/ Credit Facility	(2,588)	(2,588)	(938)	(938)
Other long-term debt	(100)	(111)	(99)	(108)
Other noncurrent liabilities	(63)	(63)	(63)	(63)
Total noncurrent financial liabilities	\$(8,401)	\$(8,590)	\$(3,866)	\$(3,935)

We estimate the fair value of our senior, mezzanine, and other loans, including the current portion, by discounting cash flows using risk-adjusted rates and current market conditions, which are Level 3 inputs.

We carry our marketable securities at fair value. Our marketable securities include debt securities of the U.S. Government, its sponsored agencies and other U.S. corporations invested for our self-insurance programs, as well as shares of publicly traded companies, which we value using directly observable Level 1 inputs. The carrying value of these marketable securities was \$30 million at the end of the 2016 third quarter.

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We estimate the fair value of our other long-term debt, including the current portion and excluding leases, using expected future payments discounted at risk-adjusted rates, which are Level 3 inputs. We determine the fair value of our senior notes using quoted market prices, which are directly observable Level 1 inputs. As noted in Footnote No. 8, "Long-Term Debt," even though our commercial paper borrowings and Credit Facility borrowings generally have short-term maturities of 30 days or less, we classify outstanding commercial paper borrowings and Credit Facility borrowings as long-term based on our ability and intent to refinance them on a long-term basis. As we are a frequent issuer of commercial paper, we use pricing from recent transactions as Level 2 inputs in estimating fair value. At year-end 2015, we determined that the carrying value of our commercial paper and Credit Facility borrowings approximated fair value due to the short maturity. Our other long-term liabilities largely consist of guarantees. We measure our liability for guarantees at fair value on a nonrecurring basis, which is when we issue or modify a guarantee using Level 3 internally developed inputs. At the end of the 2016 third quarter and year-end 2015, we determined that the carrying values of our guarantee liabilities approximated their fair values based on Level 3 inputs. See the "Fair Value Measurements" caption of Footnote No. 2, "Summary of Significant Accounting Policies" of our 2015 Form 10-K for more information on the input levels we use in determining fair value.

11. OTHER COMPREHENSIVE INCOME (LOSS) AND SHAREHOLDERS' EQUITY (DEFICIT)

The following tables detail the accumulated other comprehensive income (loss) activity for the 2016 first three quarters and 2015 first three quarters:

(\$ in millions)	Foreign Currency Translation Adjustments	Derivative Instrument Adjustments	Available-For-Sale Securities Unrealized Adjustments	Accumulated Other Comprehensive Loss
Balance at year-end 2015	\$ (192)	\$ (8)	\$ 4	\$ (196)
Other comprehensive income (loss) before reclassifications ⁽¹⁾	27	(3)	—	24
Reclassification of losses from accumulated other comprehensive loss	—	3	—	3
Net other comprehensive income	27	—	—	27
Balance at September 30, 2016	\$ (165)	\$ (8)	\$ 4	\$ (169)
(\$ in millions)	Foreign Currency Translation Adjustments	Derivative Instrument Adjustments	Available-For-Sale Securities Unrealized Adjustments	Accumulated Other Comprehensive Loss
Balance at year-end 2014	\$ (72)	\$ (9)	\$ 11	\$ (70)
Other comprehensive (loss) income before reclassifications ⁽¹⁾	(47)	9	(5)	(43)
Reclassification of losses (gains) from accumulated other comprehensive loss	3	(10)	—	(7)
Net other comprehensive loss	(44)	(1)	(5)	(50)
Balance at September 30, 2015	\$ (116)	\$ (10)	\$ 6	\$ (120)

Other comprehensive income (loss) before reclassifications for foreign currency translation adjustments includes (1) intra-entity foreign currency transactions that are of a long-term investment nature. These resulted in a loss of \$1 million for the 2016 first three quarters and a gain of \$33 million for the 2015 first three quarters.

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The following table details the changes in common shares outstanding and shareholders' equity (deficit) for the 2016 first three quarters:

(in millions, except per share amounts)

Common Shares Outstanding	Total	Class A Common Stock	Additional Paid-in-Capital	Retained Earnings	Treasury Stock at Cost	Accumulated Other Comprehensive Loss
256.3	Balance at year-end 2015	\$(3,590)	\$5 \$ 2,821	\$ 4,878	\$ (11,098)	\$ (196)
—	Net income	536	— —	536	—	—
—	Other comprehensive income	27	— —	—	—	27
—	Cash dividends (\$0.85 per share)	(257)	— —	(257)	—	—
1.8	Employee stock plan	64	— 26	(20)	58	—
(3.7)	Purchase of treasury stock	(225)	— —	—	(225)	—
136.1	Starwood Combination ⁽¹⁾	9,286	— 2,893	1,238	5,155	—
390.5	Balance at September 30, 2016	\$5,841	\$5 \$ 5,740	\$ 6,375	\$ (6,110)	\$ (169)

⁽¹⁾ Represents Marriott common stock and equity-based awards issued in the Starwood Combination, which also resulted in the depletion of our accumulated historical losses on reissuances of treasury stock in Retained Earnings.

12. BUSINESS SEGMENTS

We are a diversified global lodging company with operations in the following three reportable business segments, which included the following brands at the end of the 2016 third quarter:

North American Full-Service, which includes The Ritz-Carlton, EDITION, JW Marriott, Autograph Collection Hotels, Renaissance Hotels, Marriott Hotels, Delta Hotels and Resorts, and Gaylord Hotels located in the United States and Canada;

North American Limited-Service, which includes AC Hotels by Marriott, Courtyard, Residence Inn, SpringHill Suites, Fairfield Inn & Suites, TownePlace Suites, and Moxy Hotels properties located in the United States and Canada; and

International, which includes The Ritz-Carlton, Bulgari Hotels & Resorts, EDITION, JW Marriott, Autograph Collection Hotels, Renaissance Hotels, Marriott Hotels, Marriott Executive Apartments, AC Hotels by Marriott, Courtyard, Residence Inn, Fairfield Inn & Suites, Protea Hotels, and Moxy Hotels located outside the United States and Canada.

Due to the timing of the Starwood Combination, it was not practicable to allocate Starwood's results to our operating segments for the 2016 third quarter. As a result, we included the results of Starwood's operations for the eight days ended September 30, 2016 in "Other unallocated corporate."

Our North American Full-Service and North American Limited-Service segments meet the applicable accounting criteria to be reportable business segments. The following four operating segments do not meet the criteria for separate disclosure as reportable business segments: Asia Pacific, Caribbean and Latin America, Europe, and Middle East and Africa, and accordingly, we combined these four operating segments into an "all other category" which we refer to as "International."

We evaluate the performance of our operating segments using "segment profits" which is based largely on the results of the segment without allocating corporate expenses, income taxes, indirect general, administrative, and other expenses, or merger-related costs and charges. We allocate gains and losses, equity in earnings or losses from our joint ventures, and direct general, administrative, and other expenses to each of our segments. The caption "Other unallocated corporate" in the subsequent discussion represents a portion of our revenues, general, administrative, and other expenses, merger-related costs and charges, equity in earnings or losses, and other gains or losses that we do not allocate to our segments. It also includes license fees we receive from our credit card programs, fees from vacation ownership licensing agreements, and the results of Starwood's operations for the eight days ended September 30, 2016. See Footnote No. 2, "Acquisitions and Dispositions" for more information on the Starwood Combination.

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Our chief operating decision maker monitors assets for the consolidated company but does not use assets by operating segment when assessing performance or making operating segment resource allocations.

Segment Revenues

(\$ in millions)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
North American Full-Service Segment	\$2,222	\$ 2,128	\$6,903	\$ 6,555
North American Limited-Service Segment	936	846	2,675	2,405
International	545	532	1,672	1,623
Total segment revenues	3,703	3,506	11,250	10,583
Other unallocated corporate	239	72	366	197
Total consolidated revenues	\$3,942	\$ 3,578	\$11,616	\$ 10,780

Segment Profits

(\$ in millions)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
North American Full-Service Segment	\$148	\$ 126	\$506	\$ 424
North American Limited-Service Segment	193	180	539	510
International	67	69	217	203
Total segment profits	408	375	1,262	1,137
Other unallocated corporate	(231)	(28)	(324)	(64)
Interest expense, net of interest income	(46)	(38)	(137)	(102)
Income taxes	(61)	(99)	(265)	(314)
Net income	\$70	\$ 210	\$536	\$ 657

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Acquisition of Starwood Hotels & Resorts Worldwide

On September 23, 2016 (the “Merger Date”), we completed the Starwood Combination. Our Income Statements reflect a net loss of \$131 million for Starwood’s results of operations for the eight days ended September 30, 2016, including merger-related costs and charges, net of tax, of \$145 million. See both Footnote No. 2, “Acquisitions and Dispositions” and Footnote No. 3, “Merger-related costs and charges” for more information. We did not allocate Starwood’s results to any of our business segments.

Our discussion and analysis of our results of operations in Item 2 generally begins with a discussion of the impact of the Starwood Combination on our results and is followed by a discussion of other factors primarily relating to our Legacy-Marriott operations except where otherwise noted.

Forward-Looking Statements

We make forward-looking statements in Management’s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report based on the beliefs and assumptions of our management and on information currently available to us. Forward-looking statements include information about our possible or assumed future results of operations, which follow under the headings “Business and Overview,” “Liquidity and Capital Resources,” and other statements throughout this report preceded by, followed by or that include the words “believes,” “expects,” “anticipates,” “intends,” “plans,” “estimates,” or similar expressions.

Any number of risks and uncertainties could cause actual results to differ materially from those we express in our forward-looking statements, including the risks and uncertainties we describe below and other factors we describe from time to time in our periodic filings with the U.S. Securities and Exchange Commission (the “SEC”). We therefore caution you not to rely unduly on any forward-looking statement. The forward-looking statements in this report speak only as of the date of this report, and we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future developments, or otherwise.

In addition, see the “Item 1A. Risk Factors” caption in the “Part II-OTHER INFORMATION” section of this report.

BUSINESS AND OVERVIEW

We are a worldwide operator, franchisor, and licensor of hotels and timeshare properties in 120 countries and territories under 30 brand names at the end of the 2016 third quarter. We also develop, operate, and market residential properties and provide services to home/condominium owner associations. Under our business model, we typically manage or franchise hotels, rather than own them. We report our operations in three segments: North American Full-Service, North American Limited-Service, and International.

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The following charts present our rooms by ownership type and by segment for our Legacy-Marriott business. We earn base management fees and in many cases incentive management fees from the properties that we manage, and we earn franchise fees on the properties that others operate under franchise agreements with us. Base fees typically consist of a percentage of property-level revenue while incentive fees typically consist of a percentage of net house profit adjusted for a specified owner return. We calculate net house profit as gross operating profit (house profit) less non-controllable expenses such as insurance, real estate taxes, and capital spending reserves.

Our emphasis on long-term management contracts and franchising tends to provide more stable earnings in periods of economic softness, while adding new hotels to our system generates growth, typically with little or no investment by the Company. This strategy has driven substantial growth while minimizing financial leverage and risk in a cyclical industry. In addition, we believe minimizing our capital investments and adopting a strategy of recycling the investments that we do make maximizes and maintains our financial flexibility.

We remain focused on doing the things that we do well; that is, selling rooms, taking care of our guests, and making sure we control costs both at company-operated properties and at the corporate level (“above-property”). Our brands remain strong as a result of skilled management teams, dedicated associates, superior customer service with an emphasis on guest and associate satisfaction, significant distribution, our Marriott Rewards and The Ritz-Carlton Rewards loyalty programs, a multichannel reservations system, and desirable property amenities. We strive to effectively leverage our size and broad distribution.

We, along with owners and franchisees, continue to invest in our brands by means of new, refreshed, and reinvented properties, new room and public space designs, and enhanced amenities and technology offerings. We address, through various means, hotels in our system that do not meet standards. We continue to enhance the appeal of our proprietary, information-rich, and easy-to-use website, Marriott.com, and of our associated mobile smartphone applications and mobile website that connect to Marriott.com, through functionality and service improvements, and we expect to continue capturing an increasing proportion of property-level reservations via our website.

Our profitability, as well as that of owners and franchisees, has benefited from our approach to property-level and above-property productivity. Properties in our system continue to maintain very tight cost controls. We also control above-property costs, some of which we allocate to hotels, by remaining focused on systems, processing, and support areas.

Performance Measures

We believe Revenue per Available Room (“RevPAR”), which we calculate by dividing room sales for comparable properties by room nights available for the period, is a meaningful indicator of our performance because it measures the period-over-period change in room revenues for comparable properties. RevPAR may not be comparable to similarly titled measures, such as revenues. We also believe occupancy and average daily rate

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(“ADR”), which are components of calculating RevPAR, are meaningful indicators of our performance. Occupancy, which we calculate by dividing occupied rooms by total rooms available, measures the utilization of a property’s available capacity. ADR, which we calculate by dividing property room revenue by total rooms sold, measures average room price and is useful in assessing pricing levels.

For the properties located in countries that use currencies other than the U.S. dollar, the comparisons to the prior year period are on a constant U.S. dollar basis. We calculate constant dollar statistics by applying exchange rates for the current period to the prior comparable period.

We define our comparable properties as those that were open and operating under one of our brands since the beginning of the last full calendar year (since January 1, 2015 for the current period) and have not, in either the current or previous year: (i) undergone significant room or public space renovations or expansions, (ii) been converted between company-operated and franchised, or (iii) sustained substantial property damage or business interruption.

We also believe company-operated house profit margin, which is the ratio of property-level gross operating profit to total property-level revenue, is a meaningful indicator of our performance because this ratio measures our overall ability as the operator to produce property-level profits by generating sales and controlling the operating expenses over which we have the most direct control. House profit includes room, food and beverage, and other revenue and the related expenses including payroll and benefits expenses, as well as repairs and maintenance, utility, general and administrative, and sales and marketing expenses. House profit does not include the impact of management fees, furniture, fixtures and equipment replacement reserves, insurance, taxes, or other fixed expenses.

Legacy-Marriott Business Trends

Our 2016 first three quarters results reflected general economic growth and favorable demand for our Legacy-Marriott brands in many markets around the world, although such economic growth was weaker than the Company expected at the beginning of the year. First three quarters results also reflected a year-over-year increase in the number of properties in our system. For the three months ended September 30, 2016, Legacy-Marriott comparable worldwide systemwide RevPAR increased 2.5 percent to \$115.27, ADR increased 2.1 percent on a constant dollar basis to \$150.26, and occupancy increased 0.3 percentage points to 76.7 percent, compared to the same period a year ago. For the nine months ended September 30, 2016, Legacy-Marriott comparable worldwide systemwide RevPAR increased 2.7 percent to \$113.39, ADR increased 2.1 percent on a constant dollar basis to \$152.39, and occupancy increased 0.4 percentage points to 74.4 percent, compared to the same period a year ago.

In North America, 2016 first three quarters lodging demand for our Legacy-Marriott brands reflected increased group business, higher levels of government travel, but weaker premium-priced corporate transient demand. Revenue growth was constrained in certain markets by new select-service lodging supply, weak demand from the oil and gas industries, the impact of the strong dollar on international travel to U.S. gateway markets, and moderate GDP growth. Group revenue pace for systemwide full-service hotels in North America was down 2 percent as of September 30, 2016 for stays in the 2016 fourth quarter and up 4 percent for the 2017 full year, compared to group revenue pace as of September 30, 2015 for comparable periods.

Our Europe region experienced higher demand for our Legacy-Marriott brands in the 2016 first three quarters across most countries, primarily due to increased group and transient business, partially constrained by weaker demand in France, Belgium, and Turkey following terrorism events in those countries. Results were particularly strong in Spain and Portugal. In our Asia Pacific region, corporate and other transient business increased in India and Thailand. RevPAR growth in Greater China in the 2016 first three quarters was constrained by the impact of supply in certain Southern China markets and lower Mainland China travel to Hong Kong, while demand in Shanghai remained strong. Middle East demand was weaker during the 2016 first three quarters reflecting the region’s instability, oversupply in Dubai and Qatar, and lower oil prices. In South Africa, results were favorable in the 2016 first three quarters, reflecting strong local demand and higher international tourism attracted by the weak South African Rand. In the Caribbean and Latin America, growth was driven by strong demand in Mexico and the Olympic Games in Rio de Janeiro, but performance in the region was partially constrained by concerns relating to the Zika Virus and weak economic conditions in South America.

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We monitor market conditions and provide the tools for our hotels to price rooms daily in accordance with individual property demand levels, generally adjusting room rates as demand changes. Our hotels modify the mix of business to improve revenue as demand changes. For our company-operated properties, we continue to focus on enhancing property-level house profit margins and making productivity improvements.

Compared to the 2015 first three quarters, Legacy-Marriott worldwide comparable company-operated house profit margins in the 2016 first three quarters increased by 80 basis points, and Legacy-Marriott worldwide comparable company-operated house profit per available room (“HP-PAR”) increased by 5.4 percent on a constant U.S. dollar basis, reflecting rate increases, improved productivity, and solid cost controls. These same factors contributed to North American company-operated house profit margins increasing by 100 basis points compared to the 2015 first three quarters. HP-PAR at those same properties increased by 6.5 percent. International company-operated house profit margins increased by 20 basis points, and HP-PAR at those properties increased by 3.3 percent reflecting increased demand, higher RevPAR in most locations, and improved productivity.

System Growth and Pipeline

During the 2016 first three quarters, our Legacy-Marriott brands added 232 properties (33,278 rooms) while 24 properties (3,241 rooms) exited our system. Approximately 34 percent of new Legacy-Marriott rooms are located outside North America, and 14 percent of the room additions are conversions from competitor brands. In addition, we added 1,344 properties (381,839 rooms) through the Starwood Combination, increasing our total properties to 5,974. At the end of the 2016 third quarter, including rooms under Legacy-Starwood brands, we had nearly 420,000 rooms in our development pipeline, which includes hotel rooms under construction, hotel rooms under signed contracts, and more than 46,000 hotel rooms approved for development but not yet under signed contracts.

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Property and Room Summaries

We operated, franchised, and licensed the following properties at September 30, 2016:

	Managed		Franchised / Licensed		Owned/Leased		Other ⁽²⁾		Total	
	Properties	Rooms	Properties	Rooms	Properties	Rooms	Properties	Rooms	Properties	Rooms
Legacy-Marrriott Brands										
North American Full-Service										
Marriott Hotels	130	67,427	208	64,821	4	2,102	—	—	342	134,350
JW Marriott	15	9,695	10	4,469	—	—	—	—	25	14,164
Renaissance Hotels	26	11,625	57	16,103	1	310	—	—	84	28,038
Autograph Collection Hotels	3	1,065	58	12,804	—	—	—	—	61	13,869
Delta Hotels and Resorts	25	6,764	12	3,020	—	—	—	—	37	9,784
Gaylord Hotels	5	8,098	—	—	—	—	—	—	5	8,098
The Ritz-Carlton	39	11,410	1	429	—	—	—	—	40	11,839
The Ritz-Carlton Residences ⁽¹⁾	34	4,733	1	55	—	—	—	—	35	4,788
EDITION	2	567	—	—	—	—	—	—	2	567
EDITION Residences ⁽¹⁾	1	25	—	—	—	—	—	—	1	25
Total North American Full-Service	280	121,409	347	101,701	5	2,412	—	—	632	225,522
North American Limited-Service										
Courtyard	256	40,821	673	89,786	19	2,816	—	—	948	133,423
Residence Inn	114	17,155	601	70,570	1	192	—	—	716	87,917
Fairfield Inn & Suites	5	1,324	807	73,219	—	—	—	—	812	74,543
SpringHill Suites	31	4,973	322	36,992	—	—	—	—	353	41,965
TownePlace Suites	15	1,740	278	27,709	—	—	—	—	293	29,449
AC Hotels by Marriott	—	—	—	—	—	—	9	1,518	9	1,518
Moxy Hotels	—	—	2	294	—	—	—	—	2	294
Total North American Limited-Service	421	66,013	2,683	298,570	20	3,008	9	1,518	3,133	369,109
International										
Marriott Hotels	150	42,184	43	12,582	4	1,445	—	—	197	56,211
JW Marriott	45	17,934	6	1,473	1	496	—	—	52	19,903
Marriott Executive Apartments	28	4,195	—	—	—	—	—	—	28	4,195
Renaissance Hotels	50	16,207	25	6,956	3	749	—	—	78	23,912
Autograph Collection Hotels	3	584	36	9,473	—	—	5	348	44	10,405
The Ritz-Carlton	50	14,135	—	—	2	553	—	—	52	14,688
The Ritz-Carlton Residences ⁽¹⁾	8	416	—	—	—	—	—	—	8	416
The Ritz-Carlton Serviced Apartments	4	579	—	—	—	—	—	—	4	579
EDITION	1	173	—	—	—	—	—	—	1	173

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	Managed		Franchised / Licensed		Owned/Leased		Other ⁽²⁾		Total	
	Properties	Rooms	Properties	Rooms	Properties	Rooms	Properties	Rooms	Properties	Rooms
Bulgari Hotels & Resorts	2	117	1	85	—	—	—	—	3	202
Bulgari Residences ⁽¹⁾	1	5	—	—	—	—	—	—	1	5
Courtyard	75	15,892	54	10,411	3	644	—	—	132	26,947
Residence Inn	5	517	2	200	1	140	—	—	8	857
Fairfield Inn & Suites	7	1,070	2	386	—	—	—	—	9	1,456
AC Hotels by Marriott	—	—	—	—	—	—	85	10,886	85	10,886
Protea Hotels	36	4,093	51	3,548	10	1,601	—	—	97	9,242
Moxy Hotels	—	—	4	800	—	—	—	—	4	800
Total International	465	118,101	224	45,914	24	5,628	90	11,234	803	180,877
Timeshare ⁽³⁾	—	—	62	13,020	—	—	—	—	62	13,020
Legacy-Starwood Brands										
Sheraton	216	86,571	220	65,136	9	5,539	—	—	445	157,246
Westin	113	46,475	99	31,877	3	2,078	—	—	215	80,430
Le Méridien	78	21,764	27	6,616	—	—	—	—	105	28,380
Luxury Collection	51	10,225	44	8,609	3	467	—	—	98	19,301
W	46	12,589	—	—	3	1,174	—	—	49	13,763
St. Regis	34	7,428	—	—	3	658	—	—	37	8,086
Tribute Portfolio	2	372	10	3,607	1	135	—	—	13	4,114
Four Points	61	14,784	163	25,253	—	—	—	—	224	40,037
Aloft	23	5,808	91	13,625	—	—	—	—	114	19,433
Element	2	368	20	2,999	—	—	—	—	22	3,367
Vistana Timeshare ⁽⁴⁾	—	—	22	7,682	—	—	—	—	22	7,682
Total Legacy-Starwood Brands	626	206,384	696	165,404	22	10,051	—	—	1,344	381,839
Total	1,792	511,907	4,012	624,609	71	21,099	99	12,752	5,974	1,170,367

(1) Represents projects where we manage the related owners' association. We include residential products once they possess a certificate of occupancy.

(2) We present results for all AC Hotels by Marriott properties and five International Autograph Collection properties in the "Equity in earnings" caption of our Income Statements.

(3) Timeshare properties licensed by MVW under the Marriott Vacation Club, The Ritz-Carlton Destination Club, The Ritz-Carlton Residences, and Grand Residences by Marriott brand names. MVW's property and room counts are reported on a period-end basis for the MVW quarter ended September 16, 2016 and include products that are in active sales as well as those that are sold out.

(4) Timeshare properties licensed by Vistana under the Sheraton Vacation Club, Westin Vacation Club, St. Regis, and Luxury Collection brand names.

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CONSOLIDATED RESULTS

Revenues

Third Quarter. The following discussion presents our analysis of our revenues for the 2016 third quarter compared to the 2015 third quarter. The table below presents the impact of the Starwood Combination, with additional information on the factors attributable to our Legacy-Marriott brands discussed following the table.

(\$ in millions)	Three Months Ended		Change 2016 vs. 2015	Change due to Starwood	Change Excluding Starwood Impact	
	September 2016	September 30, 2015				
Base management fees	\$ 180	\$ 170	\$ 10	\$ 8	\$ 2	1 %
Franchise fees	250	227	23	8	15	7 %
Incentive management fees	81	68	13	4	9	13 %
	511	465	46	20	26	
Owned, leased, and other revenue	279	229	50	30	20	9 %
Cost reimbursements	3,152	2,884	268	118	150	5 %
	\$3,942	\$ 3,578	\$ 364	\$ 168	\$ 196	

The \$2 million increase in base management fees for Legacy-Marriott operations primarily reflected stronger sales at existing properties (\$5 million) and the impact of unit growth across our system (\$4 million), partially offset by the impact of unfavorable foreign exchange rates (\$5 million), properties that converted from managed to franchised (\$3 million), and lower deferred fees (\$2 million).

The \$15 million increase in franchise fees for Legacy-Marriott operations reflected the impact of unit growth across our system (\$13 million), higher fees from properties that converted from managed to franchised (\$4 million), and stronger sales at existing properties (\$3 million), partially offset by lower relicensing fees (\$3 million) and the impact of unfavorable foreign exchange rates (\$2 million).

The \$9 million increase in incentive management fees for Legacy-Marriott operations reflected higher net house profit and unit growth across our segments, partially offset by the impact of unfavorable foreign exchange rates (\$2 million). In the 2016 third quarter, 63 percent of our Legacy-Marriott managed properties paid incentive management fees to us versus 64 percent in the 2015 third quarter. In North America, 60 percent of managed properties paid incentive fees in both the 2016 third quarter and in the 2015 third quarter. Outside North America, 66 percent of managed properties paid incentive fees in the 2016 third quarter compared to 69 percent in the 2015 third quarter. In addition, in the 2016 third quarter, 47 percent of our incentive management fees came from properties outside of North America versus 51 percent in the 2015 third quarter.

The \$20 million increase in owned, leased, and other revenue for Legacy-Marriott operations reflected \$14 million of higher owned and leased revenue and \$6 million in higher other revenue predominately from branding fees (\$4 million). The increase in owned and leased revenue primarily reflected improved sales, including results from several properties following renovations (\$14 million), and favorable results at two new owned properties (\$8 million), partially offset by a property that converted to managed (\$10 million).

The \$150 million increase in cost reimbursements revenue for Legacy-Marriott operations reflected the impact of higher property occupancies, unit growth across our system, and growth in the Marriott Rewards program.

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First Three Quarters. The following discussion presents our analysis of our revenues for the 2016 first three quarters compared to the 2015 first three quarters. The table below presents the impact of the Starwood Combination, with additional information on the factors attributable to our Legacy-Marriott brands discussed following the table.

(\$ in millions)	Nine Months Ended		Change vs. 2015	Change due to Starwood	Change Excluding Starwood Impact	
	September 2016	September 30, 2015				
Base management fees	\$538	\$ 526	\$12	\$ 8	\$4	1 %
Franchise fees	692	652	40	8	32	5 %
Incentive management fees	276	238	38	4	34	14%
	1,506	1,416	90	20	70	
Owned, leased, and other revenue	771	729	42	30	12	2 %
Cost reimbursements	9,339	8,635	704	118	586	7 %
	\$11,616	\$ 10,780	\$836	\$ 168	\$668	

The \$4 million increase in base management fees for Legacy-Marriott operations primarily reflected the impact of unit growth across our system (\$16 million) and stronger sales at existing properties (\$14 million), partially offset by the impact of unfavorable foreign exchange rates (\$13 million), lower deferred fees (\$11 million), and properties that converted from managed to franchised (\$6 million).

The \$32 million increase in franchise fees for Legacy-Marriott operations reflected the impact of unit growth across our system (\$36 million), stronger sales at existing properties (\$13 million), and higher fees due to properties that converted from managed to franchised (\$8 million), partially offset by lower relicensing fees (\$21 million) and the impact of unfavorable foreign exchange rates (\$6 million).

The \$34 million increase in incentive management fees for Legacy-Marriott operations reflected higher net house profit, unit growth across our segments, incentive fees earned from limited-service portfolios (\$10 million), and higher deferred fees (\$6 million), partially offset by the impact of unfavorable foreign exchange rates (\$6 million).

In the 2016 first three quarters, 69 percent of our Legacy-Marriott managed properties paid incentive management fees to us versus 68 percent in the 2015 first three quarters. In North America, 67 percent of managed properties paid incentive fees in the 2016 first three quarters compared to 66 percent in the 2015 first three quarters. Outside North America, 72 percent of managed properties paid incentive fees in both the 2016 first three quarters and in the 2015 first three quarters. In addition, in the 2016 first three quarters, 45 percent of our incentive management fees came from properties outside of North America versus 48 percent in the 2015 first three quarters.

The \$12 million increase in owned, leased, and other revenue for Legacy-Marriott operations reflected \$30 million in higher other revenue predominately from branding fees (\$26 million) and termination fees (\$2 million), partially offset by \$18 million of lower owned and leased revenue. The decrease in owned and leased revenue primarily reflected properties that converted to managed (\$52 million), partially offset by improved sales, including results from several properties following renovations (\$27 million), and favorable results at two new owned properties (\$9 million).

The \$586 million increase in cost reimbursements revenue for Legacy-Marriott operations reflected the impact of higher property occupancies, unit growth across our system, and growth in the Marriott Rewards program.

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Operating Income

Third Quarter. Operating income decreased by \$168 million from \$339 million to \$171 million. The decrease in operating income reflected a \$46 million increase in fee revenue, which we discuss in the preceding “Revenues” section, a \$228 million increase in merger-related costs and charges which we discuss in Footnote No. 3, “Merger-related costs and charges,” as well as the following changes. The table below presents the impact of the Starwood Combination, with additional information on the factors attributable to our Legacy-Marriott brands discussed following the table.

(\$ in millions)	Three Months Ended		Change		Change	
	September 30, 2016	September 30, 2015	2016 vs. 2015	due to Starwood	Excluding Starwood Impact	
Owned, leased, and other revenue	\$ 279	\$ 229	\$50	\$ 30	\$20	9 %
Owned, leased, and other - direct expense	194	175	19	18	1	1 %
	85	54	31	12	19	35 %
Depreciation, amortization, and other	36	31	5	4	1	3 %
General, administrative, and other	161	149	12	7	5	3 %

Owned, leased, and other revenue, net of direct expenses for Legacy-Marriott operations increased by \$19 million. The increase was largely attributable to \$15 million of higher owned and leased revenue, net of direct expenses and \$4 million in higher branding fees. The \$15 million of higher owned and leased revenue, net of direct expenses reflected \$6 million of overall favorable results at several North American Full-Service properties, \$6 million of net stronger performance at several International properties following renovations, and \$4 million at two new owned properties. General, administrative, and other expenses for Legacy-Marriott operations increased by \$5 million. The increase largely reflected \$5 million of higher administrative costs to grow our brands globally and \$3 million of higher bad debt reserves, partially offset by a \$2 million release of guarantee accruals.

First Three Quarters. Operating income decreased by \$113 million from \$1,040 million to \$927 million. The decrease in operating income reflected a \$90 million increase in fee revenue, which we discuss in the preceding “Revenues” section, a \$250 million increase in merger-related costs and charges which we discuss in Footnote No. 3, “Merger-related costs and charges,” as well as the following changes. The table below presents the impact of the Starwood Combination, with additional information on the factors attributable to our Legacy-Marriott brands discussed following the table.

(\$ in millions)	Nine Months Ended		Change		Change	
	September 30, 2016	September 30, 2015	2016 vs. 2015	due to Starwood	Excluding Starwood Impact	
Owned, leased, and other revenue	\$ 771	\$ 729	\$42	\$ 30	\$12	2 %
Owned, leased, and other - direct expense	533	552	(19)	18	(37)	(7) %
	238	177	61	12	49	28 %
Depreciation, amortization, and other	97	107	(10)	4	(14)	(13) %
General, administrative, and other	470	446	24	7	17	4 %

Owned, leased, and other revenue, net of direct expenses for Legacy-Marriott operations increased by \$49 million. The increase was largely attributable to \$26 million in higher branding fees, \$17 million of higher owned and leased revenue, net of direct expenses, and \$2 million of higher termination fees. The \$17 million of higher owned and leased revenue, net of direct expenses primarily reflected \$9 million of net stronger performance at several International properties following renovations, \$6 million of overall favorable results at several North American Full-Service properties, \$4 million of lower pre-opening costs, and \$4 million at two new owned properties, partially offset by \$9 million from a property that converted from owned to managed.

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Depreciation, amortization, and other expense for Legacy-Marriott operations decreased by \$14 million. The decrease primarily reflected a favorable variance to the 2015 impairment charges on the EDITION hotels (\$12 million) and corporate equipment (\$4 million).

General, administrative, and other expenses for Legacy-Marriott operations increased by \$17 million. The increase primarily reflected \$16 million of higher administrative costs to grow our brands globally, and \$14 million of higher legal expenses net of litigation resolutions, partially offset by \$14 million in lower reserve for guarantee funding.

Non-Operating Income (Expense) and Income Taxes

Third Quarter. The table below presents the impact of the Starwood Combination, with additional information on the factors attributable to our Legacy-Marriott brands discussed following the table.

(\$ in millions)	Three Months Ended		Change		Change	
	September 30, 2016	September 30, 2015	2016 vs. 2015	due to Starwood	Excluding Starwood Impact	
Gains and other income, net	\$ 3	\$ —	\$ 3	\$ (1)	\$ 4	nm
Interest expense	(55)	(43)	12	1	11	26 %
Interest income	9	5	4	—	4	80 %
Equity in earnings	3	8	(5)	1	(6)	(75)%
Provision for income taxes	(61)	(99)	(38)	(36)	(2)	(2)%

nm means percentage change is not meaningful.

Interest expense for Legacy-Marriott operations increased by \$11 million. The increase was primarily due to the issuances of Series Q and R Notes in the 2016 second quarter and Series O and P Notes in the 2015 third quarter (\$16 million), partially offset by the maturities of Series H Notes in the 2016 second quarter and Series G Notes in the 2015 fourth quarter (\$9 million).

Interest income for Legacy-Marriott operations increased by \$4 million partially due to higher interest income on a loan that we provided to an owner in conjunction with entering into a franchise agreement for a North American Limited-Service property in the 2015 fourth quarter.

Equity in earnings for Legacy-Marriott operations decreased by \$6 million. The decrease primarily reflects an unfavorable variance to a \$5 million benefit recorded in 2015 following an adjustment to an International investee's liabilities.

Provision for income tax for Legacy-Marriott operations decreased by \$2 million. The decrease was primarily from lower pre-tax earnings due to merger-related expenses, partially offset by higher earnings from operations.

First Three Quarters. The table below presents the impact of the Starwood Combination, with additional information on the factors attributable to our Legacy-Marriott brands discussed following the table.

(\$ in millions)	Nine Months Ended		Change		Change	
	September 30, 2016	September 30, 2015	2016 vs. 2015	due to Starwood	Excluding Starwood Impact	
Gains and other income, net	\$ 3	\$ 20	\$(17)	\$ (1)	\$(16)	(80)%
Interest expense	(159)	(121)	38	1	37	31 %
Interest income	22	19	3	—	3	16 %
Equity in earnings	8	13	(5)	1	(6)	(46)%
Provision for income taxes	(265)	(314)	(49)	(36)	(13)	(4)%

Gains and other income, net for Legacy-Marriott operations decreased by \$16 million primarily due to the net gain that we recorded in the prior year, which consisted of a \$41 million gain on the redemption of a preferred equity ownership interest, partially offset by \$21 million of losses on dispositions of real estate.

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Interest expense for Legacy-Marriott operations increased by \$37 million. The increase was primarily due to the issuances of Series Q and R Notes in the 2016 second quarter and Series O and P Notes in the 2015 third quarter (\$31 million), the amortization of costs for a bridge term loan facility commitment that we obtained in the 2016 first quarter and terminated in the 2016 second quarter (\$13 million), and net lower capitalized interest as a result of the completion of The New York (Madison Square Park) EDITION in the 2015 second quarter (\$8 million), partially offset by the maturities of Series H Notes in the 2016 second quarter and Series G Notes in the 2015 fourth quarter (\$19 million).

Interest income for Legacy-Marriott operations increased by \$3 million primarily due to higher interest income on a loan that we provided to an owner in conjunction with entering into a franchise agreement for a North American Limited-Service property in the 2015 fourth quarter (\$6 million), partially offset by lower interest income on two repaid loans (\$5 million).

Equity in earnings for Legacy-Marriott operations decreased by \$6 million. The decrease primarily reflects an unfavorable variance to a \$5 million benefit recorded in 2015 following an adjustment to an International investee's liabilities.

Provision for income tax for Legacy-Marriott operations decreased by \$13 million. The decrease was primarily from lower pre-tax earnings due to merger-related expenses and a \$15 million release of a valuation allowance related to a capital loss, partially offset by higher earnings from operations and a \$5 million reserve established due to a recent examination of a tax position taken in a foreign jurisdiction.

Adjusted Earnings Before Interest Expense, Taxes, Depreciation and Amortization ("Adjusted EBITDA") Earnings Before Interest Expense, Taxes, Depreciation and Amortization ("EBITDA"), a financial measure not required by, or presented in accordance with, U.S. GAAP, reflects Net Income excluding the impact of interest expense, provision for income taxes, and depreciation and amortization. Our non-GAAP measure of Adjusted EBITDA further adjusts EBITDA to exclude (1) pre-tax transaction and transition costs associated with the Starwood Combination, which we recorded in the "Merger-related costs and charges" caption of our Income Statements in the 2016 third quarter and 2016 first three quarters, (2) the impact on Adjusted EBITDA of the eight days of Starwood results from the Merger Date to September 30, 2016, (3) the \$41 million pre-tax gain on the redemption of a preferred equity ownership interest accounted for as a debt security and the \$22 million pre-tax loss on dispositions of real estate, which we recorded in the "Gains and other income, net" caption of our Income Statements, (4) pre-tax impairment charges of \$12 million in the 2015 first quarter, which we recorded in the "Depreciation, amortization, and other" caption of our Income Statements, and (5) share-based compensation expense for all periods presented.

We believe that Adjusted EBITDA is a meaningful indicator of our operating performance because it permits period-over-period comparisons of our ongoing core operations before these items and facilitates our comparison of results before these items with results from other lodging companies, and because it excludes certain items that can vary widely across different industries or among companies within the lodging industry. For example, interest expense can be dependent on a company's capital structure, debt levels, and credit ratings, and accordingly interest expense's impact on earnings varies significantly among companies. Similarly, tax positions will vary among companies as a result of their differing abilities to take advantage of tax benefits and the tax policies of the jurisdictions in which they operate. As a result, effective tax rates and provision for income taxes can vary considerably among companies. Our Adjusted EBITDA also excludes depreciation and amortization expense which we report under "Depreciation, amortization, and other," as well as depreciation included under "Reimbursed costs" in our Income Statements, because companies utilize productive assets of different ages and use different methods of both acquiring and depreciating productive assets. These differences can result in considerable variability in the relative costs of productive assets and the depreciation and amortization expense among companies. We also exclude share-based compensation expense to address the considerable variability among companies in recording compensation expense because companies use share-based payment awards differently, both in the type and quantity of awards granted.

Adjusted EBITDA has limitations and should not be considered in isolation or a substitute for performance

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measures calculated under GAAP. This non-GAAP measure excludes certain cash expenses that we are obligated to make. In addition, other companies in our industry may calculate Adjusted EBITDA differently than we do or may not calculate it at all, which limits the usefulness of Adjusted EBITDA as a comparative measure.

We present our 2016 and 2015 third quarter and first three quarters Net Income, as presented in accordance with GAAP, and Adjusted EBITDA calculations that reflect the changes we describe above and reconcile those measures in the following table:

(\$ in millions)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net Income	\$ 70	\$ 210	\$ 536	\$ 657
Interest expense	55	43	159	121
Tax Provision	61	99	265	314
Depreciation and amortization	36	31	97	95
Depreciation classified in Reimbursed costs	15	15	43	43
Interest expense from unconsolidated joint ventures	1	1	3	2
Depreciation and amortization from unconsolidated joint ventures	4	3	10	8
EBITDA	242	402	1,113	1,240
Merger-related costs and charges	228	—	250	—
Gain on redemption of debt security	—	—	—	(41)
Loss/ (gain) on dispositions of real estate	—	—	—	22
EDITION impairment charges	—	—	—	12
Share-based compensation (including share-based compensation reimbursed by third-party owners)	36	29	95	84
Starwood results for the eight days ended September 30, 2016	(32)	—	(32)	—
Adjusted EBITDA	\$ 474	\$ 431	\$ 1,426	\$ 1,317

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BUSINESS SEGMENTS

The following discussion presents our analysis of the operating results of our reportable business segments for the 2016 third quarter compared to the 2015 third quarter and the 2016 first three quarters compared to the 2015 first three quarters. We did not allocate results attributable to the Starwood Combination to our segments, and accordingly, the following discussion excludes the results of Starwood's operations. See Footnote No. 12, "Business Segments," to our Financial Statements for other information about each segment, including a reconciliation of segment profits to net income.

Segment and Brand Statistics

The following tables present occupancy, ADR, and RevPAR for comparable properties, for the brands in our North American Full-Service and North American Limited-Service segments, and for our International properties by region. Systemwide statistics include data from our franchised properties, in addition to our owned, leased, and managed properties.

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	Comparable Company-Operated North American Properties					Comparable Systemwide North American Properties				
	Three Months Ended September 30, 2016		Change vs. Three Months Ended September 30, 2015		pts.	Three Months Ended September 30, 2016		Change vs. Three Months Ended September 30, 2015		pts.
Legacy-Marriott										
North American Full-Service Marriott Hotels										
Occupancy	78.2	%	1.4	%	pts.	75.6	%	0.1	%	pts.
Average Daily Rate	\$ 193.14		2.2	%		\$ 174.23		2.3	%	
RevPAR	\$ 151.00		4.1	%		\$ 131.78		2.5	%	
Renaissance Hotels										
Occupancy	77.5	%	2.3	%	pts.	77.1	%	1.7	%	pts.
Average Daily Rate	\$ 175.42		3.2	%		\$ 163.69		3.3	%	
RevPAR	\$ 135.93		6.3	%		\$ 126.23		5.6	%	
Autograph Collection Hotels										
Occupancy	nm		nm			79.6	%	1.9	%	pts.
Average Daily Rate	nm		nm			\$ 219.94		2.5	%	
RevPAR	nm		nm			\$ 175.01		5.1	%	
The Ritz-Carlton										
Occupancy	71.9	%	(1.0)	)%	pts.	71.9	%	(1.0)	)%	pts.
Average Daily Rate	\$ 324.94		2.8	%		\$ 324.94		2.8	%	
RevPAR	\$ 233.60		1.4	%		\$ 233.60		1.4	%	
Composite North American Full-Service										
Occupancy	77.2	%	1.5	%	pts.	75.9	%	0.6	%	pts.
Average Daily Rate	\$ 202.23		2.3	%		\$ 183.16		2.5	%	
RevPAR	\$ 156.20		4.4	%		\$ 138.99		3.3	%	
North American Limited-Service										
Courtyard										
Occupancy	76.0	%	0.1	%	pts.	76.7	%	(0.4)	)%	pts.
Average Daily Rate	\$ 142.70		1.6	%		\$ 141.21		1.7	%	
RevPAR	\$ 108.40		1.8	%		\$ 108.28		1.2	%	
Residence Inn										
Occupancy	83.4	%	1.6	%	pts.	83.6	%	(0.1)	)%	pts.
Average Daily Rate	\$ 153.61		3.9	%		\$ 147.33		2.7	%	
RevPAR	\$ 128.13		5.8	%		\$ 123.15		2.6	%	
Fairfield Inn & Suites										
Occupancy	nm		nm			75.6	%	(0.5)	)%	pts.
Average Daily Rate	nm		nm			\$ 115.04		1.9	%	
RevPAR	nm		nm			\$ 86.98		1.2	%	
TownePlace Suites										
Occupancy	81.1	%	3.0	%	pts.	79.5	%	(0.3)	)%	pts.
Average Daily Rate	\$ 113.72		5.3	%		\$ 108.73		3.1	%	
RevPAR	\$ 92.21		9.5	%		\$ 86.43		2.7	%	
SpringHill Suites										
Occupancy	79.7	%	0.6	%	pts.	78.6	%	(0.1))%	pts.
Average Daily Rate	\$ 125.63		2.8	%		\$ 124.29		1.8	%	

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RevPAR	\$ 100.12		3.6	%		\$ 97.71		1.7	%
Composite North American Limited-Service									
Occupancy	78.3	%	0.6	%	pts.	78.6	%	(0.3)	% pts.
Average Daily Rate	\$ 143.15		2.3	%		\$ 133.55		2.1	%
RevPAR	\$ 112.07		3.2	%		\$ 104.91		1.7	%
Composite North American - All ⁽¹⁾									
Occupancy	77.7	%	1.1	%	pts.	77.6	%	—	% pts.
Average Daily Rate	\$ 176.39		2.4	%		\$ 150.08		2.4	%
RevPAR	\$ 137.05		3.9	%		\$ 116.53		2.4	%

nm means not meaningful as the brand is predominantly franchised.

(1) Excludes Delta Hotels and Resorts and Moxy Hotels as no properties under those brands met our definition of comparable.

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	Comparable Company-Operated Properties				Comparable Systemwide Properties				
	Three Months Ended September 30, 2016		Change vs. Three Months Ended September 30, 2015		Three Months Ended September 30, 2016		Change vs. Three Months Ended September 30, 2015		
Legacy-Marriott									
International									
Caribbean and Latin America									
Occupancy	70.4	%	2.0	%	pts. 68.0	%	—	%	pts.
Average Daily Rate	\$ 207.25		7.2	%	\$ 191.91		2.8	%	
RevPAR	\$ 145.82		10.3	%	\$ 130.54		2.9	%	
Europe									
Occupancy	77.1	%	(1.4)	)%	pts. 76.4	%	(0.7)	)%	pts.
Average Daily Rate	\$ 150.47		1.7	%	\$ 147.11		1.7	%	
RevPAR	\$ 116.07		(0.1)	)%	\$ 112.44		0.7	%	
Middle East and Africa									
Occupancy	64.5	%	4.6	%	pts. 63.5	%	3.2	%	pts.
Average Daily Rate	\$ 126.34		(2.6)	)%	\$ 120.68		(0.9))%	
RevPAR	\$ 81.48		4.8	%	\$ 76.58		4.5	%	
Asia Pacific									
Occupancy	76.0	%	4.7	%	pts. 76.7	%	4.1	%	pts.
Average Daily Rate	\$ 137.23		(0.8)	)%	\$ 150.19		(0.5))%	
RevPAR	\$ 104.27		5.7	%	\$ 115.25		5.2	%	
Total International ⁽²⁾									
Occupancy	73.5	%	2.4	%	pts. 72.9	%	1.5	%	pts.
Average Daily Rate	\$ 146.90		0.7	%	\$ 151.00		0.8	%	
RevPAR	\$ 108.00		4.0	%	\$ 110.14		2.9	%	
Total Worldwide ⁽³⁾									
Occupancy	76.1	%	1.6	%	pts. 76.7	%	0.3	%	pts.
Average Daily Rate	\$ 165.78		1.8	%	\$ 150.26		2.1	%	
RevPAR	\$ 126.22		4.0	%	\$ 115.27		2.5	%	

Includes properties located outside of the United States and Canada for The Ritz-Carlton, Bulgari Hotels & Resorts, EDITION, Autograph Collection Hotels, Renaissance Hotels, Marriott Hotels, AC Hotels by Marriott, Courtyard, Residence Inn, Fairfield Inn & Suites, Protea Hotels, and Moxy Hotels brands.

Includes properties worldwide for The Ritz-Carlton, Bulgari Hotels & Resorts, EDITION, Autograph Collection Hotels, Renaissance Hotels, Marriott Hotels, Gaylord Hotels, Courtyard, Residence Inn, SpringHill Suites, Fairfield Inn & Suites, TownePlace Suites, AC Hotels by Marriott, Protea Hotels, and Moxy Hotels brands.

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Legacy-Marriott	Comparable Company-Operated North American Properties				Comparable Systemwide North American Properties			
	Nine Months Ended September 30, 2016		Change vs. Nine Months Ended September 30, 2015		Nine Months Ended September 30, 2016		Change vs. Nine Months Ended September 30, 2015	
North-American Full-Service Marriott Hotels								
Occupancy	77.2	%	1.2	%	pts. 74.3	%	0.5	% pts.
Average Daily Rate	\$ 199.34		1.9	%	\$ 179.01		2.1	%
RevPAR	\$ 153.92		3.6	%	\$ 132.98		2.9	%
Renaissance Hotels								
Occupancy	78.3	%	1.6	%	pts. 76.3	%	1.0	% pts.
Average Daily Rate	\$ 186.57		3.2	%	\$ 169.02		3.1	%
RevPAR	\$ 146.12		5.3	%	\$ 129.00		4.5	%
Autograph Collection Hotels								
Occupancy	nm		nm		pts. 77.4	%	1.3	% pts.
Average Daily Rate	nm		nm		\$ 226.80		1.6	%
RevPAR	nm		nm		\$ 175.50		3.4	%
The Ritz-Carlton								
Occupancy	72.9	%	0.6	%	pts. 72.9	%	0.6	% pts.
Average Daily Rate	\$ 352.03		2.3	%	\$ 352.03		2.3	%
RevPAR	\$ 256.50		3.1	%	\$ 256.50		3.1	%
Composite North American Full-Service								
Occupancy	76.7	%	1.3	%	pts. 74.7	%	0.7	% pts.
Average Daily Rate	\$ 211.71		2.1	%	\$ 189.75		2.3	%
RevPAR	\$ 162.42		3.9	%	\$ 141.77		3.3	%
North American Limited-Service								
Courtyard								
Occupancy	74.7	%	0.7	%	pts. 74.6	%	0.1	% pts.
Average Daily Rate	\$ 142.90		1.8	%	\$ 140.39		2.1	%
RevPAR	\$ 106.71		2.8	%	\$ 104.72		2.3	%
Residence Inn								
Occupancy	80.3	%	0.7	%	pts. 80.5	%	(0.2)	% pts.
Average Daily Rate	\$ 151.13		3.1	%	\$ 144.01		2.7	%
RevPAR	\$ 121.32		4.0	%	\$ 115.89		2.5	%
Fairfield Inn & Suites								
Occupancy	nm		nm		pts. 71.7	%	(0.6)	% pts.
Average Daily Rate	nm		nm		\$ 111.93		2.0	%
RevPAR	nm		nm		\$ 80.21		1.1	%
TownePlace Suites								
Occupancy	76.1	%	1.1	%	pts. 76.6	%	0.3	% pts.
Average Daily Rate	\$ 108.18		4.1	%	\$ 106.49		2.6	%
RevPAR	\$ 82.37		5.6	%	\$ 81.54		3.1	%
SpringHill Suites								
Occupancy	78.3	%	1.4	%	pts. 76.2	%	0.1	% pts.
Average Daily Rate	\$ 128.17		1.9	%	\$ 122.65		2.0	%

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RevPAR	\$ 100.41		3.7	%	\$ 93.50		2.1	%
Composite North American Limited-Service								
Occupancy	76.5	%	0.8	%	pts. 75.8	%	(0.1))% pts.
Average Daily Rate	\$ 142.71		2.2	%	\$ 131.55		2.3	%
RevPAR	\$ 109.13		3.2	%	\$ 99.68		2.2	%
Composite North American - All ⁽¹⁾								
Occupancy	76.6	%	1.1	%	pts. 75.4	%	0.2	% pts.
Average Daily Rate	\$ 181.82		2.2	%	\$ 151.21		2.4	%
RevPAR	\$ 139.29		3.7	%	\$ 114.03		2.7	%

nm means not meaningful as the brand is predominantly franchised.

(1) Excludes Delta Hotels and Resorts and Moxy Hotels as no properties under those brands met our definition of comparable.

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Legacy-Marriott	Comparable Company-Operated Properties				Comparable Systemwide Properties			
	Nine Months Ended September 30, 2016		Change vs. Nine Months Ended September 30, 2015		Nine Months Ended September 30, 2016		Change vs. Nine Months Ended September 30, 2015	
International								
Caribbean and Latin America								
Occupancy	72.0	%	0.1	%	pts. 68.5	%	—	% pts.
Average Daily Rate	\$ 239.07		4.4	%	\$ 215.85		2.3	%
RevPAR	\$ 172.08		4.5	%	\$ 147.87		2.3	%
Europe								
Occupancy	72.7	%	(0.7)	)%	pts. 70.6	%	(0.1)	)% pts.
Average Daily Rate	\$ 150.20		2.7	%	\$ 146.51		2.5	%
RevPAR	\$ 109.24		1.7	%	\$ 103.41		2.4	%
Middle East and Africa								
Occupancy	65.1	%	1.1	%	pts. 64.1	%	0.6	% pts.
Average Daily Rate	\$ 143.28		(3.8)	)%	\$ 135.56		(2.4))%
RevPAR	\$ 93.31		(2.2)	)%	\$ 86.83		(1.4))%
Asia Pacific								
Occupancy	73.9	%	4.4	%	pts. 74.7	%	3.9	% pts.
Average Daily Rate	\$ 143.73		(0.4)	)%	\$ 151.72		0.4	%
RevPAR	\$ 106.29		5.9	%	\$ 113.31		6.0	%
Total International ⁽²⁾								
Occupancy	71.6	%	1.6	%	pts. 70.3	%	1.2	% pts.
Average Daily Rate	\$ 155.75		0.6	%	\$ 157.50		1.1	%
RevPAR	\$ 111.51		2.9	%	\$ 110.78		2.9	%
Total Worldwide ⁽³⁾								
Occupancy	74.7	%	1.3	%	pts. 74.4	%	0.4	% pts.
Average Daily Rate	\$ 172.51		1.7	%	\$ 152.39		2.1	%
RevPAR	\$ 128.94		3.4	%	\$ 113.39		2.7	%

Includes properties located outside of the United States and Canada for The Ritz-Carlton, Bulgari Hotels & Resorts, EDITION, Autograph Collection Hotels, Renaissance Hotels, Marriott Hotels, AC Hotels by Marriott, Courtyard, Residence Inn, Fairfield Inn & Suites, Protea Hotels, and Moxy Hotels brands.

Includes properties worldwide for The Ritz-Carlton, Bulgari Hotels & Resorts, EDITION, Autograph Collection Hotels, Renaissance Hotels, Marriott Hotels, Gaylord Hotels, Courtyard, Residence Inn, SpringHill Suites, Fairfield Inn & Suites, TownePlace Suites, AC Hotels by Marriott, Protea Hotels, and Moxy Hotels brands.

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North American Full-Service (Legacy-Marriott)

(\$ in millions)	Three Months Ended			Nine Months Ended		
	September 2016	September 2015	Change 2016 vs. 2015	September 2016	September 2015	Change 2016 vs. 2015
Segment revenues	\$2,222	\$ 2,128	\$94 4 %	\$6,903	\$ 6,555	\$348 5 %
Segment profits	\$148	\$ 126	\$22 17%	\$506	\$ 424	\$82 19%

Since the end of the 2015 third quarter, across our North American Full-Service segment we added 20 properties (4,486 rooms) and four properties (501 rooms) left our system.

Third Quarter. For the three months ended September 30, 2016, compared to the three months ended September 30, 2015, RevPAR for comparable systemwide North American Full-Service properties increased by 3.3 percent to \$138.99, occupancy for these properties increased by 0.6 percentage points to 75.9 percent, and ADR increased by 2.5 percent to \$183.16.

The \$22 million increase in segment profits, compared to the 2015 third quarter, was driven by \$5 million of higher incentive management fees, \$8 million of higher owned, leased, and other revenue, net of direct expenses, \$5 million of higher franchise fees, and \$3 million of higher base management fees.

Higher base management and franchise fees were due to stronger RevPAR driven by rate and unit growth. Higher incentive management fees were primarily driven by higher net house profits at managed hotels.

Higher owned, leased, and other revenue, net of direct expenses primarily reflected favorable operating results at several properties.

Cost reimbursements revenue and expenses for our North American Full-Service segment properties totaled \$1,991 million in the 2016 third quarter, compared to \$1,921 million in the 2015 third quarter.

First Three Quarters. For the nine months ended September 30, 2016, compared to the nine months ended September 30, 2015, RevPAR for comparable systemwide North American Full-Service properties increased by 3.3 percent to \$141.77, occupancy for these properties increased by 0.7 percentage points to 74.7 percent, and ADR increased by 2.3 percent to \$189.75.

The \$82 million increase in segment profits, compared to the 2015 first three quarters, was driven by \$34 million of higher owned, leased, and other revenue, net of direct expenses, \$18 million of higher franchise fees, \$15 million of higher incentive management fees, \$9 million of higher base management fees, and \$8 million of lower general, administrative, and other expenses, partially offset by \$2 million of lower equity in earnings.

Higher base management and franchise fees were due to stronger RevPAR driven by rate and unit growth. Increased incentive management fees were primarily driven by higher net house profits at managed hotels.

Higher owned, leased, and other revenue, net of direct expenses primarily reflected \$17 million of higher branding fees, \$6 million of favorable operating results at several properties, and \$5 million of lower pre-opening costs.

Lower general, administrative, and other expenses were primarily due to lower reserves for guarantee funding.

Cost reimbursements revenue and expenses for our North American Full-Service segment properties totaled \$6,149 million in the 2016 first three quarters, compared to \$5,867 million in the 2015 first three quarters.

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North American Limited-Service (Legacy-Marriott)

(\$ in millions)	Three Months Ended			Nine Months Ended		
	September	September	Change	September	September	Change
	30,	30, 2015	2016 vs.	30,	30,	2016 vs.
	2016	2015	2015	2016	2015	2015
Segment revenues	\$936	\$ 846	\$90 11%	\$2,675	\$ 2,405	\$270 11%
Segment profits	\$193	\$ 180	\$13 7 %	\$539	\$ 510	\$29 6 %

Since the end of the 2015 third quarter, across our North American Limited-Service segment we added 208 properties (23,441 rooms) and 14 properties (1,473 rooms) left our system. The majority of the properties that left our system were from the Residence Inn and Fairfield Inn & Suites brands.

Third Quarter. For the three months ended September 30, 2016, compared to the three months ended September 30, 2015, RevPAR for comparable systemwide North American Limited-Service properties increased by 1.7 percent to \$104.91, occupancy for these properties decreased by 0.3 percentage points to 78.6 percent, and ADR increased by 2.1 percent to \$133.55.

The \$13 million increase in segment profits, compared to the 2015 third quarter, reflected \$8 million of higher franchise fees, \$2 million of lower general, administrative, and other expenses, \$1 million of higher incentive management fees, \$1 million of higher owned, leased, and other revenue, net of direct expenses, and unchanged base management fees.

Base management fees were unchanged as stronger RevPAR and unit growth were offset by a \$2 million decrease in deferred fee recognition. Higher franchise fees were primarily due to stronger RevPAR and unit growth, partially offset by \$3 million of lower relicensing fees.

Cost reimbursements revenue and expenses for our North American Limited-Service segment properties totaled \$701 million in the 2016 third quarter, compared to \$623 million in the 2015 third quarter.

First Three Quarters. For the nine months ended September 30, 2016, compared to the nine months ended September 30, 2015, RevPAR for comparable systemwide North American Limited-Service properties increased by 2.2 percent to \$99.68, occupancy for these properties decreased by 0.1 percentage points to 75.8 percent, and ADR increased by 2.3 percent to \$131.55.

The \$29 million increase in segment profits, compared to the 2015 first three quarters, reflected \$11 million of higher incentive management fees, \$8 million of higher franchise fees, \$6 million of lower general, administrative, and other expenses, \$3 million of higher gains and other income, net, \$2 million of lower depreciation, amortization, and other expense, and \$2 million of higher owned, leased, and other revenue, net of direct expenses, partially offset by \$3 million of lower base management fees.

Base management fees were lower due to an \$11 million decrease in deferred fee recognition, partially offset by \$8 million of stronger RevPAR, driven by rate, and unit growth. Franchise fees were higher primarily reflecting \$31 million from new units and stronger RevPAR, driven by rate, partially offset by \$22 million of lower relicensing fees. Increased incentive management fees were primarily driven by \$10 million of incentive fees earned from limited-service portfolios.

Lower general, administrative, and other expenses were primarily due to a \$7 million release of guarantee accruals. Higher gains and other income, net reflected a favorable variance to the \$4 million disposal loss for a North American Limited-Service segment plot of land that we recorded in the 2015 second quarter.

Cost reimbursements revenue and expenses for our North American Limited-Service segment properties totaled \$2,011 million in the 2016 first three quarters, compared to \$1,761 million in the 2015 first three quarters.

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International (Legacy-Marriott)

(\$ in millions)	Three Months Ended			Nine Months Ended		
	September	September	Change	September	September	Change
	30,	30, 2015	2016 vs.	30,	30, 2015	2016 vs.
	2016	2015	2015	2016	2015	2015
Segment revenues	\$545	\$ 532	\$13 2 %	\$1,672	\$ 1,623	\$49 3 %
Segment profits	\$67	\$ 69	\$(2) (3)%	\$217	\$ 203	\$14 7 %

Since the end of the 2015 third quarter, across our International regions we added 71 properties (15,970 rooms), and 17 properties (2,642 rooms) left our system.

Third Quarter. For the three months ended September 30, 2016, compared to the three months ended September 30, 2015, RevPAR for comparable systemwide International properties increased by 2.9 percent to \$110.14, occupancy for these properties increased by 1.5 percentage points to 72.9 percent, and ADR increased by 0.8 percent to \$151.00. See "Business and Overview" for a discussion of results in the various International regions.

The \$2 million decrease in segment profits, compared to the 2015 third quarter, consisted of \$6 million of higher general, administrative, and other expenses, \$6 million of lower equity in earnings, \$1 million of higher depreciation, amortization, and other expense, and \$1 million of lower base management and franchise fees, partially offset by \$9 million of higher owned, leased, and other revenue, net of direct expenses, \$2 million of higher incentive management fees, and \$1 million of higher gains and other income, net.

Lower base management and franchise fees were due to the impact of \$6 million in unfavorable foreign exchange rates, partially offset by \$5 million of stronger RevPAR, driven by both occupancy and rate, and unit growth.

Higher owned, leased, and other revenue, net of direct expenses largely reflected \$6 million net stronger performance at several properties following renovations and \$4 million of favorable results at two new owned properties.

Higher general, administrative, and other expenses largely reflected \$4 million increase in costs to grow our brands globally and \$3 million of higher bad debt reserves.

Lower equity in earnings reflected a \$5 million benefit recorded in 2015 following an adjustment to an International investee's liabilities.

Cost reimbursements revenue and expenses for our International properties totaled \$329 million in the 2016 third quarter, compared to \$321 million in the 2015 third quarter.

First Three Quarters. For the nine months ended September 30, 2016, compared to the nine months ended September 30, 2015, RevPAR for comparable systemwide International properties increased by 2.9 percent to \$110.78, occupancy for these properties increased by 1.2 percentage points to 70.3 percent, and ADR increased by 1.1 percent to \$157.50. See "Business and Overview" for a discussion of results in the various International regions.

The \$14 million increase in segment profits, compared to the 2015 first three quarters, consisted of \$19 million of prior year losses recorded in gains and other income, net, \$7 million of higher incentive management fees, \$4 million of higher owned, leased, and other revenue, net of direct expenses, and \$1 million of higher base management and franchise fees, partially offset by \$12 million of higher general, administrative, and other expenses, \$3 million of lower equity in earnings, and \$2 million of higher depreciation, amortization, and other expense.

Higher base management and franchise fees were due to \$18 million of stronger RevPAR, driven by both occupancy and rate, and unit growth, partially offset by the impact of \$15 million in unfavorable foreign exchange rates. The increase in incentive management fees was due to a \$6 million increase in deferred fee recognition and \$5 million from new managed properties, partially offset by the impact of \$6 million in unfavorable foreign exchange rates.

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Higher owned, leased, and other revenue, net of direct expenses largely reflected \$9 million net stronger performance at several properties following renovations and \$4 million of favorable results at two new owned properties, partially offset by \$9 million from a property that converted from owned to managed.

Higher general, administrative, and other expenses were primarily due to an increase in costs to grow our brands globally.

Higher gains and other income, net was primarily due to an \$18 million prior year disposal loss for an International property that we recorded in the 2015 second quarter.

Cost reimbursements revenue and expenses for our International properties totaled \$1,022 million in the 2016 first three quarters, compared to \$955 million in the 2015 first three quarters.

SHARE-BASED COMPENSATION

We award: (1) stock options to purchase our common stock; (2) stock appreciation rights (“SARs”) for our common stock; (3) restricted stock units (“RSUs”) of our common stock; and (4) deferred stock units. We also issue performance-based RSUs (“PSUs”) to named executive officers and some of their direct reports under the Stock Plan. See Footnote No. 5, “Share-Based Compensation,” for more information.

NEW ACCOUNTING STANDARDS

See Footnote No. 1, “Basis of Presentation,” to our Financial Statements for information on our anticipated adoption of recently issued accounting standards.

LIQUIDITY AND CAPITAL RESOURCES

Cash Requirements and Our Credit Facilities

In the 2016 second quarter, we amended and restated our multicurrency revolving credit agreement (the “Credit Facility”) to extend the maturity date of the Credit Facility and increase the aggregate amount of available borrowings to up to \$4,000 million, up to \$2,500 million of which was initially available, with the full \$4,000 million becoming available to us with the closing of the Starwood Combination. The availability of the Credit Facility supports our commercial paper program and general corporate needs, including working capital, capital expenditures, share repurchases, letters of credit, and acquisitions. In addition, we used borrowings under the Credit Facility, a portion of which we later repaid with commercial paper supported by the Credit Facility, to finance part of the cash component of the consideration we paid to Starwood shareholders and certain fees and expenses we incurred in connection with the Starwood Combination. Borrowings under the Credit Facility generally bear interest at LIBOR (the London Interbank Offered Rate) plus a spread, based on our public debt rating. We also pay quarterly fees on the Credit Facility at a rate based on our public debt rating. The term of the facility expires on June 10, 2021.

The Credit Facility contains certain covenants, including a single financial covenant that limits our maximum leverage (consisting of the ratio of Adjusted Total Debt to Consolidated EBITDA, giving pro forma effect for certain material acquisitions, each as defined in the Credit Facility) to not more than 4 to 1. In connection with the Starwood Combination, we exercised our option to temporarily increase the maximum permitted leverage under the Credit Facility to 4.5 to 1 for the 2016 third and fourth quarters and the 2017 first quarter. Our outstanding public debt does not contain a corresponding financial covenant or a requirement that we maintain certain financial ratios. We currently satisfy the covenants in our Credit Facility and public debt instruments, including the leverage covenant under the Credit Facility, and do not expect the covenants to restrict our ability to meet our anticipated borrowing and guarantee levels or increase those levels should we decide to do so in the future.

We believe the Credit Facility and our access to capital markets, together with cash we expect to generate from operations, remain adequate to meet our short-term and long-term liquidity requirements, finance our long-term growth plans, meet debt service, and fulfill other cash requirements.

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We issue commercial paper in the United States. We do not have purchase commitments from buyers for our commercial paper; therefore, our ability to issue commercial paper is subject to market demand. We classify any outstanding commercial paper and Credit Facility borrowings as long-term based on our ability and intent to refinance them on a long-term basis. We reserve unused capacity under our Credit Facility to repay outstanding commercial paper borrowings in the event that the commercial paper market is not available to us for any reason when outstanding borrowings mature. We do not expect that fluctuations in the demand for commercial paper will affect our liquidity, given our borrowing capacity under the Credit Facility.

At September 30, 2016, our available borrowing capacity amounted to \$2,479 million and reflected borrowing capacity of \$1,401 million under our Credit Facility and our cash balance of \$1,078 million. We calculated that borrowing capacity by taking \$4,000 million of effective aggregate bank commitments under our Credit Facility and subtracting \$1,000 million of outstanding borrowings under the Credit Facility and \$1,599 million of outstanding commercial paper (there being no outstanding letters of credit under our Credit Facility).

We monitor the status of the capital markets and regularly evaluate the effect that changes in capital market conditions may have on our ability to execute our announced growth plans. We expect to continue meeting part of our financing and liquidity needs primarily through commercial paper borrowings, issuances of Senior Notes, and access to long-term committed credit facilities. If conditions in the lodging industry deteriorate, or if disruptions in the capital markets take place as they did in the immediate aftermath of both the 2008 worldwide financial crisis and the events of September 11, 2001, we may be unable to place some or all of our commercial paper on a temporary or extended basis and may have to rely more on borrowings under the Credit Facility, which we believe will be adequate to fund our liquidity needs, including repayment of debt obligations, but which may or may not carry a higher cost than commercial paper. Since we continue to have ample flexibility under the Credit Facility's covenants, we expect that undrawn bank commitments under the Credit Facility will remain available to us even if business conditions were to deteriorate markedly.

Cash and cash equivalents totaled \$1,078 million at September 30, 2016, an increase of \$982 million from year-end 2015, reflecting cash inflows associated with the following: commercial paper and Credit Facility borrowings (\$1,657 million), issuance of long-term debt, net of repayments (\$1,187 million), operating activities (\$1,132 million), disposition of a North American Limited-Service segment plot of land (\$46 million), loan collections, net of advances (\$37 million), common stock issuances (\$22 million), and net other investing cash inflows (\$22 million). The following cash outflows partially offset these cash inflows: cash consideration, net of cash acquired to Starwood shareholders (\$2,412 million), dividend payments (\$257 million), purchase of treasury stock (\$248 million), capital expenditures (\$132 million), contract acquisition costs (\$55 million), and net other financing cash outflows (\$24 million).

Our ratio of current assets to current liabilities was 0.7 to 1.0 at the end of the 2016 third quarter. We minimize working capital through cash management, strict credit-granting policies, and aggressive collection efforts. We also have significant borrowing capacity under our Credit Facility should we need additional working capital.

We made capital expenditures of \$132 million in the 2016 first three quarters and \$218 million in the 2015 first three quarters that included expenditures for the development and construction of new hotels, as well as improvements to existing properties and systems initiatives. The decrease in capital expenditures from the 2015 first three quarters is primarily due to lower spending for our EDITION hotels compared to the year-ago period. See our Condensed Consolidated Statements of Cash Flows for information on investment spending for the 2016 first three quarters. We expect consolidated investment spending for the 2016 full year will total approximately \$425 million to \$475 million, including approximately \$100 million for maintenance capital spending and approximately \$75 million for investment spending for Legacy-Starwood brands in the 2016 fourth quarter. Consolidated investment spending also includes other capital expenditures, loan advances, contract acquisition costs, acquisitions, and equity and other investments. Over time, we have sold lodging properties, both completed and under development, subject to long-term management agreements. The ability of third-party purchasers to raise the debt and equity capital necessary to acquire such properties depends in part on the perceived risks inherent in the lodging industry and other constraints inherent in the capital markets as a whole. We monitor the status of the capital markets and regularly evaluate the

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potential impact of changes in capital market conditions on our business operations. In the Starwood Combination we acquired 15 hotels and joint venture interests in various hotels, most of which we may seek to sell in coming years. We also expect to continue making selective and opportunistic investments to add units to our lodging business, which may include loans and noncontrolling equity investments.

Contractual Obligations

As of the end of the 2016 third quarter, we had significant changes to the following categories of our “Contractual Obligations” table in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” of our 2015 Form 10-K due to the Starwood Combination discussed in Footnote No. 2, “Acquisitions and Dispositions” and an increase in debt from higher commercial paper and Credit Facility borrowings and the issuances of Series Q and R Notes, both discussed in Footnote No. 8, “Long-Term Debt.”

(\$ in millions)	Total	Payments Due by Period			
		Remaining 2016	2017 - 2018	2019 - 2020	Thereafter
Debt ⁽¹⁾	\$9,985	\$81	\$1,118	\$1,523	\$ 7,263
Capital lease obligations ⁽¹⁾	259	3	25	26	205
Operating leases where we are the primary obligor	1,815	48	360	287	1,120
Purchase obligations	477	58	272	144	3
	\$12,536	\$190	\$1,775	\$1,980	\$ 8,591

⁽¹⁾ Includes principal as well as interest payments.

Our financial objectives include diversifying our financing sources, optimizing the mix and maturity of our long-term debt, and reducing our working capital. At the end of the 2016 third quarter, our long-term debt had a weighted average interest rate of 3.3 percent and a weighted average maturity of approximately 6 years. The ratio of fixed-rate long-term debt to total long-term debt was 0.7 to 1.0 at the end of the 2016 third quarter.

Guarantee Commitments

There have been no significant changes to our “Guarantee Commitments” table in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” of our 2015 Form 10-K, other than those described below.

At the end of the 2016 first three quarters, guarantees where we are the primary obligor increased by \$23 million to \$251 million, compared to \$228 million at year-end 2015, reflecting a \$14 million increase in operating profit and other guarantees and a \$9 million increase in debt service guarantees. At the end of the 2016 first three quarters, guarantees for which we are secondarily liable decreased by \$18 million to \$74 million, compared to \$92 million at year-end 2015. At the end of the 2016 first three quarters, future guarantee commitments expire as follows: \$7 million in 2016; \$47 million in 2017; \$45 million in 2018; \$81 million in 2019; \$37 million in 2020; and \$108 million thereafter.

See the “Guarantees” caption in Footnote No. 7, “Commitments and Contingencies” for additional information on our guarantees.

Share Repurchases

As of September 30, 2016, approximately 35.7 million shares remained available for repurchase under authorizations from our Board of Directors.

Dividends

Our Board of Directors declared the following quarterly cash dividends in the 2016 first three quarters: (1) \$0.25 per share declared on February 11, 2016 and paid March 31, 2016 to shareholders of record on February 25, 2016; (2) \$0.30 per share declared on May 6, 2016 and paid June 30, 2016 to shareholders of record on May 20,

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2016; and (3) \$0.30 per share declared on September 13, 2016 and paid September 30, 2016 to shareholders of record on September 23, 2016.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts and related disclosures. We have discussed those policies and estimates that we believe are critical and require the use of complex judgment in their application in our 2015 Form 10-K. Since the date of our 2015 Form 10-K, we have made no material changes to our critical accounting policies or the methodologies or assumptions that we apply under them.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In conjunction with the Starwood Combination we had a material change to our market risk from interest rates. The information in this section should be read in conjunction with the discussion about market risk in Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” in our 2015 Form 10-K.

We are exposed to interest rate risk on our floating-rate notes receivable and floating-rate debt. Changes in interest rates also impact the fair value of our fixed-rate notes receivable and the fair value of our fixed-rate long-term debt. The following table sets forth the scheduled maturities and the total fair value as of September 30, 2016 for our financial instruments that are impacted by market risks:

Maturities by Period

(\$ in millions)	2016	2017	2018	2019	2020	There- after	Total Carrying Amount	Total Fair Value
Assets - Maturities represent expected principal receipts, fair values represent assets.								
Fixed-rate notes receivable	\$2	\$1	\$31	\$11	\$12	\$73	\$131	\$131
Average interest rate							3.43	%
Floating-rate notes receivable	\$5	\$—	\$43	\$4	\$5	\$58	\$115	\$102
Average interest rate							3.33	%
Liabilities - Maturities represent expected principal payments, fair values represent liabilities.								
Fixed-rate debt	\$(4)	\$(301)	\$(260)	\$(747)	\$(358)	\$(4,127)	\$(5,797)	\$(5,963)
Average interest rate							3.52	%
Floating-rate debt	\$(10)	\$—	\$(152)	\$(104)	\$—	\$(2,588)	\$(2,854)	\$(2,854)
Average interest rate							2.80	%

Item 4. Controls and Procedures**Disclosure Controls and Procedures**

As of the end of the period covered by this quarterly report, we evaluated, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the “Exchange Act”). Management necessarily applied its judgment in assessing the costs and benefits of those controls and procedures, which by their nature, can provide only reasonable assurance about management’s control objectives. You should note that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Based upon this evaluation, our Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective and operating to provide reasonable assurance that we record, process, summarize, and report the information we are required to disclose in the reports that we file or submit under the Exchange Act within the time periods specified in the rules and forms of the SEC, and to provide reasonable assurance that we accumulate and communicate such information to our management, including our

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Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions about required disclosure. Our assessment of and conclusion on the effectiveness of disclosure controls and procedures did not include controls and procedures related to Starwood.

Internal Control Over Financial Reporting

We made no changes in internal control over financial reporting during the 2016 third quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We are currently in the process of assessing and integrating Starwood's internal control over financial reporting with our existing internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

See the information under “Legal Proceedings” in Footnote No. 7, “Commitments and Contingencies” to our Financial Statements in Part I, Item 1 of this Form 10-Q.

From time to time, we are also subject to other legal proceedings and claims in the ordinary course of business, including adjustments proposed during governmental examinations of the various tax returns we file. While management presently believes that the ultimate outcome of these proceedings, individually and in aggregate, will not materially harm our financial position, cash flows, or overall trends in results of operations, legal proceedings are inherently uncertain, and unfavorable rulings could, individually or in aggregate, have a material adverse effect on our business, financial condition, or operating results.

Item 1A. Risk Factors

We are subject to various risks that could have a negative effect on us or on our financial condition. You should understand that these risks could cause results to differ materially from those we express in forward-looking statements contained in this report or in other Company communications. Because there is no way to determine in advance whether, or to what extent, any present uncertainty will ultimately impact our business, you should give equal weight to each of the following:

Our industry is highly competitive, which may impact our ability to compete successfully with other hotel properties and home and apartment sharing services for customers. We operate in markets that contain many competitors. Each of our hotel brands competes with major hotel chains, as well as home and apartment sharing services, in national and international venues and with independent companies in regional markets. Our ability to remain competitive and to attract and retain business and leisure travelers depends on our success in distinguishing the quality, value, and efficiency of our lodging products and services, including our loyalty programs and consumer-facing technology platforms and services, from those offered by others. If we cannot compete successfully in these areas, our operating margins could contract, our market share could decrease, and our earnings could decline. Further, new lodging supply in individual markets could have a negative impact on the hotel industry and hamper our ability to increase room rates or occupancy in those markets.

Economic uncertainty could continue to impact our financial results and growth. Weak economic conditions in Europe and other parts of the world, the strength or continuation of recovery in countries that have experienced improved economic conditions, changes in oil prices and currency values, potential disruptions in the U.S. economy as a result of governmental action or inaction on the federal deficit, budget, and related issues, political instability in some areas, and the uncertainty over how long any of these conditions will continue, could continue to have a negative impact on the lodging industry. U.S. government travel is also a significant part of our business, and this aspect of our business may continue to suffer due to U.S. federal spending cuts and any further limitations that may result from congressional action or inaction. As a result of such current economic conditions and uncertainty, we continue to experience weakened demand for our hotel rooms in some markets. Recent improvements in demand trends in other markets may not continue, and our future financial results and growth could be further harmed or constrained if the recovery stalls or conditions worsen.

Risks Relating to Our Integration of Starwood

The diversion of resources and management’s attention to the integration of Starwood could adversely affect our day-to-day business. The integration of Starwood may place a significant burden on our management and internal resources. The diversion of management’s attention away from day-to-day business concerns and any difficulties encountered in the transition and integration process could adversely affect our financial results.

We may not be able to integrate Starwood successfully and many of the anticipated benefits of combining Starwood and Marriott may not be realized. We entered into the Merger Agreement with the expectation that the

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Starwood Combination will result in various benefits, including, among other things, operating efficiencies. Achieving those anticipated benefits is subject to a number of uncertainties, including whether we can integrate the business of Starwood in an efficient and effective manner.

The integration process could also take longer than we anticipate and could result in the loss of valuable employees, the disruption of each company's ongoing businesses, processes and systems or inconsistencies in standards, controls, procedures, practices, policies and compensation arrangements, any of which could adversely affect the combined company's ability to achieve the benefits we anticipate. Our resulting portfolio of approximately 30 brands may be challenging for us to maintain and grow, and the harmonization of our different reservations and other systems and business practices could be more difficult, disruptive, and time consuming than we anticipate. We may also have difficulty addressing possible differences in corporate cultures and management philosophies. We may incur unanticipated costs in the integration of the businesses of Starwood. Although we expect that the elimination of certain duplicative costs, as well as the realization of other efficiencies related to the integration of the two businesses, will over time offset the substantial incremental transaction and merger-related costs and charges we incurred in connection with the Starwood Combination, we may not achieve this net benefit in the near term, or at all.

The integration process is subject to a number of uncertainties, and we cannot assure you that the benefits we anticipate will be realized at all or as quickly as we expect. If we don't achieve those benefits, our costs could increase, our expected net income could decrease, and the combined company's future business, financial condition, operating results, and prospects could suffer.

Our future results will suffer if we do not effectively manage our expanded operations. With completion of the Starwood Combination, the size of our business has increased significantly. Our future success depends, in part, upon our ability to manage this expanded business, which poses substantial challenges for management, including challenges related to the management and monitoring of new operations and associated increased costs and complexity. We cannot assure you that we will be successful or that we will realize the expected operating efficiencies, cost savings, and other benefits from the combination that we currently anticipate.

We may not be able to retain Marriott and/or Legacy-Starwood personnel successfully. The success of the Starwood Combination will depend in part on our ability to retain the talents and dedication of key Marriott and Legacy-Starwood employees. It is possible that these employees may decide not to remain with us. If key employees terminate their employment, or if we cannot maintain a sufficient number of employees to maintain effective operations, our business activities could be adversely affected and management's attention could be diverted from successfully integrating Starwood to hiring and on-boarding suitable replacements, all of which may cause our business to suffer. In addition, we may not be able to locate suitable replacements for any key employees who leave us, or offer employment to potential replacements on reasonable terms.

Risks Relating to Our Business

Operational Risks

Premature termination of our management or franchise agreements could hurt our financial performance. Our hotel management and franchise agreements may be subject to premature termination in certain circumstances, such as the bankruptcy of a hotel owner or franchisee, or a failure under some agreements to meet specified financial or performance criteria that are subject to the risks described in this section, which we fail or elect not to cure. In addition, some courts have applied principles of agency law and related fiduciary standards to managers of third-party hotel properties, including us (or have interpreted hotel management agreements as "personal services contracts"). This means, among other things, that property owners may assert the right to terminate management agreements even where the agreements provide otherwise, and some courts have upheld such assertions about our management agreements and may do so in the future. In addition, some management and franchise agreements may be terminated, or property owners may attempt to terminate such agreements, in connection with the Starwood Combination. If terminations occur for these or other reasons, we may need to enforce our right to damages for breach of contract and related claims, which may cause us to incur significant legal fees and expenses. Any damages we ultimately collect could be less than the projected future value of the fees and other amounts we would

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have otherwise collected under the management agreement. A significant loss of agreements due to premature terminations could hurt our financial performance or our ability to grow our business.

Our lodging operations are subject to global, regional, and national conditions. Because we conduct our business on a global platform, changes in global and regional economies impact our activities. In recent years, decreases in travel resulting from weak economic conditions and the heightened travel security measures that have resulted from the threat of further terrorism have hurt our business. Our future performance could be similarly affected by the economic environment in each of our operating regions, the resulting unknown pace of business travel, and any future incidents in those regions.

The growing significance of our operations outside of the United States, including as a result of the Starwood Combination, makes us increasingly susceptible to the risks of doing business internationally, which could lower our revenues, increase our costs, reduce our profits, disrupt our business, or damage our reputation. At the end of the 2016 third quarter, we operated or franchised hotels and resorts in 120 countries and territories. With the acquisition of Starwood, the hotels we operate or franchise outside of the United States represented more than 36 percent of the rooms in our system at the end of the 2016 third quarter. We expect that our international operations, and resulting revenues, will continue to grow. As a result, we are increasingly exposed to the challenges and risks of doing business outside the United States, many of which are outside of our control, and which could reduce our revenues or profits, increase our costs, result in significant liabilities or sanctions, otherwise disrupt our business, or damage our reputation. These challenges include: (1) compliance with complex and changing laws, regulations and government policies that may impact our operations, such as foreign ownership restrictions, import and export controls, and trade restrictions; (2) compliance with U.S. and foreign laws that affect the activities of companies abroad, such as competition laws, currency regulations, and other laws affecting dealings with certain nations; (3) limitations on our ability to repatriate non-U.S. earnings in a tax effective manner, or in some cases at all due to foreign exchange restrictions; (4) the difficulties involved in managing an organization doing business in many different countries; (5) uncertainties as to the enforceability of contract and intellectual property rights under local laws; (6) rapid changes in government policy, political or civil unrest in the Middle East and elsewhere, acts of terrorism, or the threat of international boycotts or U.S. anti-boycott legislation; and (7) currency exchange rate fluctuations, which may impact the results and cash flows of our international operations.

Any failure by our international operations to comply with anti-corruption laws or trade sanctions could increase our costs, reduce our profits, limit our growth, harm our reputation, or subject us to broader liability. We are subject to restrictions imposed by the U.S. Foreign Corrupt Practices Act and anti-corruption laws and regulations of other countries applicable to our operations, such as the UK Bribery Act. Anti-corruption laws and regulations generally prohibit companies and their intermediaries from making improper payments to government officials or other persons in order to receive or retain business. The compliance programs, internal controls and policies we maintain and enforce to promote compliance with applicable anti-bribery and anti-corruption laws may not prevent our associates, contractors or agents from acting in ways prohibited by these laws and regulations. We are also subject to trade sanctions administered by the Office of Foreign Assets Control and the U.S. Department of Commerce. Our compliance programs and internal controls also may not prevent conduct that is prohibited under these rules. The United States may impose additional sanctions at any time against any country in which or with whom we do business. Depending on the nature of the sanctions imposed, our operations in the relevant country could be restricted or otherwise adversely affected. Any violations of anti-corruption laws and regulations or trade sanctions could result in significant civil and criminal penalties, reduce our profits, disrupt our business or damage our reputation. In addition, an imposition of further restrictions in these areas could increase our cost of operations, reduce our profits or cause us to forgo development opportunities that would otherwise support growth.

Exchange rate fluctuations and foreign exchange hedging arrangements could result in significant foreign currency gains and losses and affect our business results. We earn revenues and incur expenses in foreign currencies as part of our operations outside of the United States. Accordingly, fluctuations in currency exchange rates may significantly increase the amount of U.S. dollars required for foreign currency expenses or significantly decrease the U.S. dollars we receive from foreign currency revenues. We are also exposed to currency translation risk because the results of our business outside of the U.S. are generally reported in local currency, which we then translate to U.S. dollars for

inclusion in our consolidated financial statements. As a result, changes between the foreign exchange rates and the U.S. dollar affect the amounts we record for our foreign assets, liabilities, revenues

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and expenses, and could have a negative effect on our financial results. We expect that our exposure to foreign currency exchange rate fluctuations will grow as the relative contribution of our non-U.S. operations increases. Our efforts to mitigate some of our foreign currency exposure by entering into foreign exchange hedging agreements with financial institutions to reduce exposures to some of the principal currencies in which we receive management and franchise fees may not be successful. In this regard, these hedging agreements do not cover all currencies in which we do business, do not eliminate foreign currency risk entirely for the currencies that they do cover, and involve costs and risks of their own in the form of transaction costs, credit requirements and counterparty risk.

Some of our management agreements and related contracts require us to make payments to owners if the hotels do not achieve specified levels of operating profit. Some of our contracts with hotel owners require that we fund shortfalls if the hotels do not attain specified levels of operating profit. We may not be able to recover any fundings of such performance guarantees, which could lower our profits and reduce our cash flows.

Our new programs and new branded products may not be successful. We cannot assure you that recently launched, newly acquired, or recently announced brands, such as EDITION, AC Hotels by Marriott in the Americas, Protea Hotels, Moxy Hotels, Delta Hotels and Resorts, and those we acquired as a result of the Starwood Combination, or any other new programs or products we may launch in the future, will be accepted by hotel owners, potential franchisees, or the traveling public or other customers. We also cannot be certain that we will recover the costs we incurred in developing or acquiring the brands or any new programs or products, or that the brands or any new programs or products will be successful. In addition, some of our new or newly acquired brands involve or may involve cooperation and/or consultation with one or more third parties, including some shared control over product design and development, sales and marketing, and brand standards. Disagreements with these third parties could slow the development of these new brands and/or impair our ability to take actions we believe to be advisable for the success and profitability of such brands.

Risks relating to natural or man-made disasters, contagious disease, terrorist activity, and war could reduce the demand for lodging, which may adversely affect our revenues. So called "Acts of God," such as hurricanes, earthquakes, tsunamis, and other natural disasters, such as Hurricane Sandy in the Northeastern United States, the earthquake and tsunami in Japan, and man-made disasters in recent years as well as the potential spread of contagious diseases such as MERS (Middle East Respiratory Syndrome), Zika virus, and Ebola in locations where we own, manage, or franchise significant properties and areas of the world from which we draw a large number of customers, could cause a decline in business or leisure travel and reduce demand for lodging. Actual or threatened war, terrorist activity, political unrest, or civil strife, such as recent events in Orlando, Charlotte, Brussels, Paris, Turkey, Ukraine and Russia, the Middle East, and other geopolitical uncertainty could have a similar effect. Any one or more of these events may reduce the overall demand for hotel rooms and corporate apartments or limit the prices that we can obtain for them, both of which could adversely affect our profits.

Disagreements with owners of hotels that we manage or franchise may result in litigation or may delay implementation of product or service initiatives. Consistent with our focus on management and franchising, we own very few of our lodging properties. The nature of our responsibilities under our management agreements to manage each hotel and enforce the standards required for our brands under both management and franchise agreements may be subject to interpretation and will from time to time give rise to disagreements, which may include disagreements over the need for or payment for new product, service or systems initiatives, the timing and amount of capital investments, and reimbursement for certain system initiatives and costs. Such disagreements may be more likely when hotel returns are weaker. We seek to resolve any disagreements in order to develop and maintain positive relations with current and potential hotel owners and joint venture partners, but we are not always able to do so. Failure to resolve such disagreements has resulted in litigation, and could do so in the future. If any such litigation results in a significant adverse judgment, settlement, or court order, we could suffer significant losses, our profits could be reduced, or our future ability to operate our business could be constrained.

Our business depends on the quality and reputation of our brands, and any deterioration in the quality or reputation of these brands could have an adverse impact on our market share, reputation, business, financial condition, or results of operations. Events that may be beyond our control could affect the reputation of one or more of our properties or more generally impact the reputation of our brands. If the reputation or perceived quality of our

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brands declines, our market share, reputation, business, financial condition, or results of operations could be affected. If our brands, goodwill or other intangible assets become impaired, we may be required to record significant non-cash charges to earnings. As of September 30, 2016, we had \$17.2 billion of goodwill and other intangible assets, including \$6.4 billion attributable to the Starwood brands (based on the preliminary purchase accounting for the Starwood Combination), a significant increase over the \$2.4 billion of goodwill and other intangible assets we had as of December 31, 2015. The amount of goodwill acquired in the Starwood Combination could increase over the year following the acquisition if we determine that the value of physical assets acquired is less than, or the amount of liabilities assumed (including under Starwood's guest loyalty program) is greater than, we preliminarily estimated. We review goodwill and indefinite-lived intangible assets for impairment annually or whenever events or circumstances indicate impairment may have occurred. Estimated fair values of our brands or reporting units could change if, for example, there are changes in the business climate, unanticipated changes in the competitive environment, adverse legal or regulatory actions or developments, changes in customers' perception of and the reputation of the Starwood brands, or changes in interest rates, operating cash flows, or market capitalization. Because of the significance of our goodwill and intangible assets, any future impairment of these assets could require material non-cash charges to our results of operations, which could have a material adverse effect on our financial condition and results of operations. Actions by our franchisees and licensees could adversely affect our image and reputation. We franchise and license many of our brand names and trademarks to third parties in connection with lodging, timeshare, residential services, and our credit card programs. Under the terms of their agreements with us, our franchisees and licensees interact directly with customers and other third parties under our brand and trade names. If these franchisees or licensees fail to maintain or act in accordance with applicable brand standards; experience operational problems, including any data breach involving customer information; or project a brand image inconsistent with ours, our image and reputation could suffer. Although our franchise and license agreements provide us with recourse and remedies in the event of a breach by the franchisee or licensee, including termination of the agreements under certain circumstances, pursuing any such recourse, remedy, or termination could be expensive and time consuming. In addition, we cannot assure you that a court would ultimately enforce our contractual termination rights in every instance.

Damage to, or losses involving, properties that we own, manage, or franchise may not be covered by insurance. We have comprehensive property and liability insurance policies for our managed, leased, and owned properties with coverage features and insured limits that we believe are customary, and require our franchisees to maintain similar levels of insurance. Market forces beyond our control may nonetheless limit the scope of the insurance coverage we or our franchisees can obtain, or our or their ability to obtain coverage at reasonable rates. Certain types of losses, generally of a catastrophic nature, such as earthquakes, hurricanes and floods, or terrorist acts, or liabilities that result from breaches in the security of our information systems, may be uninsurable or too expensive to justify obtaining insurance. As a result, we and our franchisees may not be successful in obtaining insurance without increases in cost or decreases in coverage levels. In addition, in the event of a substantial loss, the insurance coverage we or our franchisees carry may not be sufficient to pay the full market value or replacement cost of any lost investment or in some cases could result in certain losses being totally uninsured. As a result, we could lose some or all of any capital that we have invested in a property, as well as the anticipated future revenue from the property, and we could remain obligated for guarantees, debt, or other financial obligations for the property.

Development and Financing Risks

While we are predominantly a manager and franchisor of hotel properties, our hotel owners depend on capital to buy, develop, and improve hotels, and our hotel owners may be unable to access capital when necessary. In order to fund new hotel investments, as well as refurbish and improve existing hotels, both we and current and potential hotel owners must periodically spend money. The availability of funds for new investments and improvement of existing hotels by our current and potential hotel owners depends in large measure on capital markets and liquidity factors, over which we can exert little control. The difficulty of obtaining financing on attractive terms may be constrained by the capital markets for hotel and real estate investments. In addition, owners of existing hotels that

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we franchise or manage may have difficulty meeting required debt service payments or refinancing loans at maturity. Our growth strategy depends upon third-party owners/operators, and future arrangements with these third parties may be less favorable. Our growth strategy for development of additional lodging facilities entails entering into and maintaining various arrangements with property owners. The terms of our management agreements, franchise agreements, and leases for each of our lodging facilities are influenced by contract terms offered by our competitors, among other things. We cannot assure you that any of our current arrangements will continue or that we will be able to enter into future collaborations, renew agreements, or enter into new agreements in the future on terms that are as favorable to us as those that exist today.

Our ability to grow our management and franchise systems is subject to the range of risks associated with real estate investments. Our ability to sustain continued growth through management or franchise agreements for new hotels and the conversion of existing facilities to managed or franchised Marriott brands is affected, and may potentially be limited, by a variety of factors influencing real estate development generally. These include site availability, financing, planning, zoning and other local approvals, and other limitations that may be imposed by market and submarket factors, such as projected room occupancy, changes in growth in demand compared to projected supply, territorial restrictions in our management and franchise agreements, costs of construction, and anticipated room rate structure.

Our development activities expose us to project cost, completion, and resale risks. We develop new hotel and residential properties, both directly and through partnerships, joint ventures, and other business structures with third parties. As demonstrated by the impairment charges that we recorded in 2015 and 2014 in connection with our development and construction of three EDITION hotels and residences, our ongoing involvement in the development of properties presents a number of risks, including that: (1) continued weakness in the capital markets may limit our ability, or that of third parties with whom we do business, to raise capital for completion of projects that have commenced or for development of future properties; (2) properties that we develop could become less attractive due to decreases in demand for hotel and residential properties, market absorption or oversupply, with the result that we may not be able to sell such properties for a profit or at the prices or selling pace we anticipate, potentially requiring additional changes in our pricing strategy that could result in further charges; (3) construction delays, cost overruns, lender financial defaults, or so called “Acts of God” such as earthquakes, hurricanes, floods, or fires may increase overall project costs or result in project cancellations; and (4) we may be unable to recover development costs we incur for any projects that we do not pursue to completion.

Our owned properties and other real estate investments subject us to numerous risks. Although we had relatively few owned and leased properties at the end of the 2016 second quarter, we acquired significant numbers of such properties as part of the Starwood Combination, and such properties are subject to the risks that generally relate to investments in real property. Although we intend to sell most of our owned and leased properties over the next two years, equity real estate investments can be difficult to sell quickly, and we may not be able to do so at prices we find acceptable or at all. Moreover, the investment returns available from equity investments in real estate depend in large part on the amount of income earned and capital appreciation generated by the related properties, and the expenses incurred. A variety of other factors also affect income from properties and real estate values, including governmental regulations, insurance, zoning, tax and eminent domain laws, interest rate levels, and the availability of financing. For example, new or existing real estate zoning or tax laws can make it more expensive and/or time-consuming to develop real property or expand, modify, or renovate hotels. When interest rates increase, the cost of acquiring, developing, expanding, or renovating real property increases and real property values may decrease as the number of potential buyers decreases. Similarly, as financing becomes less available, it becomes more difficult both to acquire and to sell real property. Finally, under eminent domain laws, governments can take real property. Sometimes this taking is for less compensation than the owner believes the property is worth. Despite our asset-light strategy, our real estate properties could be impacted by any of these factors, resulting in a material adverse impact on our results of operations or financial condition. If our properties do not generate revenue sufficient to meet operating expenses, including needed capital expenditures, our income will be adversely affected.

Development activities that involve our co-investment with third parties may result in disputes that could increase project costs, impair project operations, or increase project completion risks. Partnerships, joint ventures,

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and other business structures involving our co-investment with third parties which we have entered into or acquired as part of the Starwood Combination generally include some form of shared control over the operations of the business and create added risks, including the possibility that other investors in such ventures could become bankrupt or otherwise lack the financial resources to meet their obligations, or could have or develop business interests, policies, or objectives that are inconsistent with ours. Actions by another investor may present additional risks of project delay, increased project costs, or operational difficulties following project completion. Such disputes may also be more likely in difficult business environments.

Investing through partnerships or joint ventures decreases our ability to manage risk. In addition to acquiring or developing hotels and resorts or acquiring companies that complement our business directly, Starwood, and to the lesser extent Marriott, has from time to time invested, and we may continue to invest, as a co-venturer. Joint venturers often have shared control over the operation of the joint venture assets. Therefore, joint venture investments may involve risks such as the possibility that the co-venturer might become bankrupt or not have the financial resources to meet its obligations. Should a joint venture partner become bankrupt we could become liable for our partner's share of joint venture liabilities. Also, our joint venture partner may have economic or business interests or goals that are inconsistent with our economic or business interests or goals, may be in a position to take action contrary to our instructions, or may make requests contrary to our policies or objectives. Further, we may be unable to take action without the approval of our joint venture partners and, alternatively, our joint venture partners could take actions binding on the joint venture or partnership without our consent. Therefore, actions by a co-venturer might subject the assets owned by the joint venture or partnership to additional risk. We cannot assure you that our investments through partnerships or joint ventures will be successful despite these risks.

Risks associated with development and sale of residential properties associated with our lodging properties or brands may reduce our profits. In certain hotel and timeshare projects we participate, directly or through noncontrolling interests and/or licensing agreements, in the development and sale of residential properties associated with our brands, including residences and condominiums under our The Ritz-Carlton, EDITION, St. Regis, W, JW Marriott, Autograph Collection, and Marriott brand names and trademarks. Such projects pose further risks beyond those generally associated with our lodging business, which may reduce our profits or compromise our brand equity, including the following: (1) weakness in residential real estate and demand generally may reduce our profits and could make it more difficult to convince future hotel development partners of the value added by our brands; (2) increases in interest rates, reductions in mortgage availability, or increases in the costs of residential ownership could prevent potential customers from buying residential products or reduce the prices they are willing to pay; and (3) residential construction may be subject to warranty and liability claims, and the costs of resolving such claims may be significant. Some hotel openings in our existing development pipeline and approved projects may be delayed or not result in new hotels, which could adversely affect our growth prospects. We report a significant number of hotels in our development pipeline, including hotels under construction and under signed contracts, as well as hotels approved for development but not yet under signed contracts. The eventual opening of such pipeline hotels and, in particular, the hotels approved for development that are not yet under contract, is subject to numerous risks, including in some cases the owner's or developer's ability to obtain adequate financing or governmental or regulatory approvals. Accordingly, we cannot assure you that our development pipeline, and in particular hotels not yet under contract, will result in new hotels that enter our system, or that those hotels will open when we anticipate.

If we incur losses on loans or loan guarantees that we have made to third parties, our profits could decline. At times, we make loans for hotel development or renovation expenditures in connection with entering into or amending management or franchise agreements. From time to time we also provide third-party lenders financial guarantees for the timely repayment of all or a portion of debt related to hotels that we manage or franchise, generally subject to an obligation that the owner reimburse us for any fundings. We could suffer losses if hotel owners or franchisees default on loans that we provide or fail to reimburse us for loan guarantees that we have funded.

If owners of hotels that we manage or franchise cannot repay or refinance mortgage loans secured by their properties, our revenues and profits could decrease and our business could be harmed. The owners of many of our managed or franchised properties have pledged their hotels as collateral for mortgage loans that they entered into

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when those properties were purchased or refinanced. If those owners cannot repay or refinance maturing indebtedness on favorable terms or at all, the lenders could declare a default, accelerate the debt, and repossess the property. Such sales or repossessions could, in some cases, result in the termination of our management or franchise agreements and eliminate our anticipated income and cash flows, which could negatively affect our results of operations.

Technology, Information Protection, and Privacy Risks

A failure to keep pace with developments in technology could impair our operations or competitive position. The lodging industry continues to demand the use of sophisticated technology and systems, including those used for our reservation, revenue management, and property management systems, our Marriott Rewards and The Ritz-Carlton Rewards programs, and technologies we make available to our guests. These technologies and systems must be refined, updated, and/or replaced with more advanced systems on a regular basis, and if we cannot do so as quickly as our competitors or within budgeted costs and time frames, our business could suffer. We also may not achieve the benefits that we anticipate from any new technology or system, and a failure to do so could result in higher than anticipated costs or could impair our operating results.

An increase in the use of third-party Internet services to book online hotel reservations could adversely impact our business. Some of our hotel rooms are booked through Internet travel intermediaries such as Expedia.com[®], Priceline.com[®], Booking.com[™], Travelocity.com[®] and Orbitz.com[®], as well as lesser-known online travel service providers. These intermediaries initially focused on leisure travel, but now also provide offerings for corporate travel and group meetings. Although Marriott's Look No Further[®] Best Rate Guarantee has helped prevent customer preference shift to the intermediaries and greatly reduced the ability of intermediaries to undercut the published rates at our hotels, intermediaries continue to use a variety of aggressive online marketing methods to attract customers, including the purchase, by certain companies, of trademarked online keywords such as "Marriott" from Internet search engines such as Google[®], Bing[®], Yahoo[®], and Baidu[®] to steer customers toward their websites (a practice that has been challenged by various trademark owners in federal court). Although Marriott has successfully limited these practices through contracts with key online intermediaries, the number of intermediaries and related companies that drive traffic to intermediaries' websites is too large to permit us to eliminate this risk entirely. Our business and profitability could be harmed if online intermediaries succeed in significantly shifting loyalties from our lodging brands to their travel services, diverting bookings away from Marriott.com, or through their fees increasing the overall cost of Internet bookings for our hotels. In addition, if we fail to reach satisfactory agreements with intermediaries as our contracts with them come up for periodic renewal, our hotels might no longer appear on their websites and we could lose business as a result.

We are exposed to risks and costs associated with protecting the integrity and security of internal and customer data. Our businesses process, use, and transmit large volumes of internal employee and customer data, including credit card numbers and other personal information in various information systems that we maintain and in those maintained by third parties, including our owners, franchisees and licensees, as well as our service providers, in areas such as human resources outsourcing, website hosting, and various forms of electronic communications. The integrity and protection of that customer, employee, and company data is critical to our business. If that data is inaccurate or incomplete, we could make faulty decisions.

Our customers and employees also have a high expectation that we, as well as our owners, franchisees, licensees, and service providers, will adequately protect their personal information. The information, security, and privacy requirements imposed by governmental regulation and the requirements of the payment card industry are also increasingly demanding, in both the United States and other jurisdictions where we operate. Our systems and the systems maintained or used by our owners, franchisees, licensees, and service providers may not be able to satisfy these changing requirements and employee and customer expectations, or may require significant additional investments or time in order to do so.

Cyber-attacks could have a disruptive effect on our business. Efforts to hack or breach security measures, failures of systems or software to operate as designed or intended, viruses, operator error, or inadvertent releases of data may materially impact our, including our owners', franchisees', licensees', or service providers', information systems and records. Our reliance on computer, Internet-based and mobile systems and communications and the

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frequency and sophistication of efforts by hackers to gain unauthorized access to such systems have increased significantly in recent years. A significant theft, loss, or fraudulent use of customer, employee, or company data could adversely impact our reputation and could result in remedial and other expenses, fines, or litigation. Breaches in the security of our information systems or those of our owners, franchisees, licensees, or service providers or other disruptions in data services could lead to an interruption in the operation of our systems, resulting in operational inefficiencies and a loss of profits. In addition, although we carry cyber/privacy liability insurance that is designed to protect us against certain losses related to cyber risks, such insurance coverage may be insufficient to cover all losses or all types of claims that may arise in connection with cyber-attacks, security breaches, and other related breaches. Furthermore, in the future such insurance may not be available to us on commercially reasonable terms, or at all. Changes in privacy law could increase our operating costs and adversely affect our ability to market our products effectively. We are subject to numerous laws, regulations, and contractual obligations designed to protect personal information, including foreign data protection laws, various U.S. federal and state laws, and credit card industry security standards and other applicable information privacy and security standards. Compliance with changes in applicable privacy regulations may increase our operating costs.

Additionally, we rely on a variety of direct marketing techniques, including email marketing, online advertising, and postal mailings. Any further restrictions in laws such as the CANSPAM Act, and various U.S. state laws, or new federal laws on marketing and solicitation or international data protection laws that govern these activities could adversely affect the continuing effectiveness of email, online advertising, and postal mailing techniques and could force further changes in our marketing strategy. If this occurs, we may not be able to develop adequate alternative marketing strategies, which could impact the amount and timing of our sales of certain products. We also obtain access to potential customers from travel service providers or other companies with whom we have substantial relationships and market to some individuals on these lists directly or by including our marketing message in the other company's marketing materials. If access to these lists was prohibited or otherwise restricted, our ability to develop new customers and introduce them to our products could be impaired.

Any disruption in the functioning of our reservation system, such as in connection with our integration of Starwood, could adversely affect our performance and results. We manage a global reservation system that communicates reservations to our branded hotels that individuals make directly with us online, through our mobile app, or through our telephone call centers, or through intermediaries like travel agents, Internet travel websites, and other distribution channels. The cost, speed, accuracy and efficiency of our reservation system are critical aspects of our business and are important considerations for hotel owners when choosing our brands. Our business may suffer if we fail to maintain, upgrade, or prevent disruption to our reservation system. In addition, the risk of disruption in the functioning of our global reservation system could increase in connection with the system integration that we anticipate undertaking as part of our integration of Starwood. Disruptions in or changes to our reservation system could result in a disruption to our business and the loss of important data.

Other Risks

Changes in laws and regulations could reduce our profits or increase our costs. We are subject to a wide variety of laws, regulations, and policies in jurisdictions around the world, including those for financial reporting, taxes, healthcare, and the environment. Changes to these laws, regulations, or policies, including those associated with health care, tax or financial reforms, could reduce our profits. We also anticipate that many of the jurisdictions where we do business will continue to review taxes and other revenue raising measures, and any resulting changes could impose new restrictions, costs, or prohibitions on our current practices or reduce our profits. In particular, governments may revise tax laws, regulations, or official interpretations in ways that could significantly impact us, including modifications that could reduce the profits that we can effectively realize from our non-U.S. operations, or that could require costly changes to those operations, or the way in which they are structured. For example, most U.S. company effective tax rates reflect the fact that income earned and reinvested outside the United States is generally taxed at local rates, which are often much lower than U.S. tax rates. If changes in tax laws, regulations, or interpretations significantly increase the tax rates on non-U.S. income, our effective tax rate could increase and our profits could be reduced. If such increases resulted from our status as a U.S. company, those changes could place us at a disadvantage to our non-U.S. competitors if those competitors remain subject to lower local tax rates.

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If we cannot attract and retain talented associates, our business could suffer. We compete with other companies both within and outside of our industry for talented personnel. If we cannot recruit, train, develop, and retain sufficient numbers of talented associates, we could experience increased associate turnover, decreased guest satisfaction, low morale, inefficiency, or internal control failures. Insufficient numbers of talented associates could also limit our ability to grow and expand our businesses. Any shortage of skilled labor could also require higher wages that would increase our labor costs, which could reduce our profits.

Delaware law and our governing corporate documents contain, and our Board of Directors could implement, anti-takeover provisions that could deter takeover attempts. Under the Delaware business combination statute, a shareholder holding 15 percent or more of our outstanding voting stock could not acquire us without Board of Director consent for at least three years after the date the shareholder first held 15 percent or more of the voting stock. Our governing corporate documents also, among other things, require supermajority votes for mergers and similar transactions. In addition, our Board of Directors could, without shareholder approval, implement other anti-takeover defenses, such as a shareholder rights plan.

Item 6. Exhibits

Exhibit No.	Description	Incorporation by Reference (where a report is indicated below, that document has been previously filed with the SEC and the applicable exhibit is incorporated by reference thereto)
2.1	Agreement and Plan of Merger, dated as of October 27, 2015, among Starwood, Vistana Signature Experiences, Inc., Iris Merger Sub, Inc., and Interval Leisure Group, Inc.	Exhibit 2.1 to Starwood's Form 8-K/A filed November 3, 2015 (File No. 001-07959).
2.2	Separation Agreement, dated as of October 27, 2015, among Starwood, Vistana Signature Experiences, Inc., and Interval Leisure Group, Inc.	Exhibit 2.2 to Starwood's Form 8-K/A filed November 3, 2015 (File No. 001-07959).
3.1	Restated Certificate of Incorporation.	Exhibit No. 3.(i) to our Form 8-K filed August 22, 2006 (File No. 001-13881).
3.2	Amended and Restated Bylaws.	Exhibit No. 3.(ii) to our Form 8-K filed June 18, 2014 (File No. 001-13881).
4.1	Indenture, dated as of September 13, 2007, between Starwood and U.S. Bank National Association, as trustee.	Exhibit 4.1 to Starwood's Form 8-K filed September 17, 2007 (File No. 001-07959).
4.2	Supplemental Indenture No. 2, dated as of May 23, 2008, between Starwood and U.S. Bank National Association, as trustee.	Exhibit 4.1 to Starwood's Form 8-K filed May 28, 2008 (File No. 001-07959)
4.3	Supplemental Indenture No. 4, dated as of November 20, 2009, between Starwood and U.S. Bank National Association, as trustee.	Exhibit 4.1 to Starwood's Form 8-K filed November 20, 2009 (File No. 001-07959).
4.4		

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- Indenture, dated as of December 10, 2012, between Starwood and The Bank of New York Mellon Trust Company, N.A., as trustee. Exhibit 4.1 to Starwood's Form 8-K filed December 10, 2012 (File No. 001-07959).
- 4.5 Supplemental Indenture No. 1, dated as of December 10, 2012, between Starwood and The Bank of New York Mellon Trust Company, N.A., as trustee. Exhibit 4.2 to Starwood's Form 8-K filed December 10, 2012 (File No. 001-07959).
- 4.6 Supplemental Indenture No. 2, dated as of September 15, 2014, between Starwood and The Bank of New York Mellon Trust Company, N.A., as trustee. Exhibit 4.1 to Starwood's Form 8-K filed September 15, 2014 (File No. 001-07959).
- 10.1 Side Letter Agreement dated as of September 21, 2016 among the Company, Marriott Vacations Worldwide, and certain of their subsidiaries † Filed with this report.
- 10.2 License, Services and Development Agreement, dated as of May 11, 2016, among Starwood, Vistana Signature Experiences, Inc., and Interval Leisure Group, Inc. Exhibit 10.1 to Starwood's Form 8-K filed May 12, 2016 (File No. 001-07959).
- 10.3 Noncompetition Agreement, dated as of May 11, 2016, between Starwood and Vistana Signature Experiences, Inc. Exhibit 10.2 to Starwood's Form 8-K filed May 12, 2016 (File No. 001-07959).
- 10.4 Starwood 1999 Long-Term Incentive Compensation Plan. * Exhibit 10.4 to Starwood's Form 10-Q for the quarterly period ended June 30, 1999 (File No. 001-07959).

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10.5	First Amendment to the Starwood 1999 Long-Term Incentive Compensation Plan, dated as of August 1, 2001. *	Exhibit 10.1 to Starwood's Form 10-Q for the quarterly period ended September 30, 2001 (File No. 001-07959).
10.6	Second Amendment to the Starwood 1999 Long-Term Incentive Compensation Plan. *	Exhibit 10.2 to Starwood's Form 10-Q for the quarterly period ended March 31, 2003 (File No. 001-07959).
10.7	Starwood 2002 Long-Term Incentive Compensation Plan. *	Annex B of Starwood's 2002 Notice of Annual Meeting and Proxy Statement filed April 12, 2002 (File No. 001-07959).
10.8	First Amendment to the 2002 Starwood 2002 Long-Term Incentive Compensation Plan. *	Exhibit 10.1 to Starwood's Form 10-Q for the quarterly period ended March 31, 2003 (File No. 001-07959).
10.9	Starwood 2004 Long-Term Incentive Compensation Plan, amended and restated as of December 31, 2008. *	Exhibit 10.3 to Starwood's Form 8-K filed January 6, 2009 (File No. 001-07959).
10.10	First Amendment to the Starwood 2004 Long-Term Incentive Compensation Plan, amended and restated as of December 31, 2008. *	Exhibit 10.1 to Starwood's Form 10-Q for the quarterly period ended June 30, 2013 (File No. 001-07959).
10.11	Starwood 2013 Long-Term Incentive Compensation Plan. *	Exhibit 4.4 to Starwood's Form S-8 filed June 28, 2013 (File No. 333-189674).
12	Statement of Computation of Ratio of Earnings to Fixed Charges.	Filed with this report.
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).	Filed with this report.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).	Filed with this report.
32	Section 1350 Certifications.	Furnished with this report.
101.INS	XBRL Instance Document.	Submitted electronically with this report.
101.SCH	XBRL Taxonomy Extension Schema Document.	Submitted electronically with this report.
101.CAL	XBRL Taxonomy Calculation Linkbase Document.	Submitted electronically with this report.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Submitted electronically with this report.

101.LAB XBRL Taxonomy Label Linkbase Document.

Submitted electronically with this report.

101.PRE XBRL Taxonomy Presentation Linkbase Document. Submitted electronically with this report.

† Portions of this exhibit were redacted pursuant to a confidential treatment request filed with the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. The redacted portions of this exhibit have been filed with the Securities and Exchange Commission.

* Indicates management contract or compensatory plan or arrangement.

We have attached the following documents formatted in XBRL (Extensible Business Reporting Language) as Exhibit 101 to this report: (i) the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2016 and September 30, 2015; (ii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and September 30, 2015; (iii) the Condensed Consolidated Balance Sheets at September 30, 2016 and December 31, 2015; and (iv) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and September 30, 2015.

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SIGNATURE

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

MARRIOTT INTERNATIONAL, INC.

9th day of November, 2016

/s/ Bao Giang Val Bauduin

Bao Giang Val Bauduin

Controller and Chief Accounting Officer

(Duly Authorized Officer)