MARRIOTT INTERNATIONAL INC /MD/
Form 10-Q
October 31, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013
OR

o 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 (Address of principal executive offices)	20817 (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 ý 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 ý 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	ý	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 ý
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 299,538,446 shares of Class A Common Stock, par value $0.01 per share, outstanding at October 18, 2013.

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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)

	92 Days Ended September 30, 2013	84 Days Ended September 7, 2012	276 Days Ended September 30, 2013	252 Days Ended September 7, 2012
REVENUES				
Base management fees	$150	$134	$469	$399
Franchise fees	175	149	503	420
Incentive management fees	53	36	183	142
Owned, leased, corporate housing, and other revenue	220	200	690	681
Cost reimbursements	2,562	2,210	7,720	6,415
	3,160	2,729	9,565	8,057
OPERATING COSTS AND EXPENSES				
Owned, leased, and corporate housing-direct	186	174	569	572
Reimbursed costs	2,562	2,210	7,720	6,415
General, administrative, and other	167	132	526	439
	2,915	2,516	8,815	7,426
OPERATING INCOME	245	213	750	631
Gains and other income	1	36	14	43
Interest expense	(28)	(29)	(88)	(96)
Interest income	5	3	13	10
Equity in losses	—	(1)	(2)	(10)
INCOME BEFORE INCOME TAXES	223	222	687	578
Provision for income taxes	(63)	(79)	(212)	(188)
NET INCOME	$160	$143	$475	$390
EARNINGS PER SHARE-Basic				
Earnings per share	$0.53	$0.45	$1.55	$1.19
EARNINGS PER SHARE-Diluted				
Earnings per share	$0.52	$0.44	$1.51	$1.16
CASH DIVIDENDS DECLARED PER SHARE	$0.1700	$0.1300	$0.4700	$0.3600

See Notes to Condensed Consolidated Financial Statements

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MARRIOTT INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
($ in millions)
(Unaudited)

	92 Days Ended September 30, 2013	84 Days Ended September 7, 2012	276 Days Ended September 30, 2013	252 Days Ended September 7, 2012
Net income	$160	$143	$475	$390
Other comprehensive income (loss):				
Foreign currency translation adjustments	11	5	(2)	(1)
Other derivative instrument adjustments, net of tax	(6)	—	—	1
Unrealized gain (loss) on available-for-sale securities, net of tax	—	—	4	(1)
Reclassification of (gains) losses, net of tax	—	(1)	(7)	—
Total other comprehensive loss, net of tax	5	4	(5)	(1)
Comprehensive income	$165	$147	$470	$389

See Notes to Condensed Consolidated Financial Statements

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

	(Unaudited) September 30, 2013	December 28, 2012
ASSETS		
Current assets		
Cash and equivalents	$144	$88
Accounts and notes receivable	972	1,028
Current deferred taxes, net	217	280
Prepaid expenses	57	57
Other	24	22
Assets held for sale	232	—
	1,646	1,475
Property and equipment	1,489	1,539
Intangible assets		
Goodwill	874	874
Contract acquisition costs and other	1,115	1,115
	1,989	1,989
Equity and cost method investments	228	216
Notes receivable	137	180
Deferred taxes, net	671	676
Other	320	267
	$6,480	$6,342
LIABILITIES AND SHAREHOLDERS’ DEFICIT		
Current liabilities		
Current portion of long-term debt	$52	$407
Accounts payable	496	569
Accrued payroll and benefits	733	745
Liability for guest loyalty programs	583	593
Other	558	459
	2,422	2,773
Long-term debt	3,104	2,528
Liability for guest loyalty programs	1,450	1,428
Other long-term liabilities	913	898
Shareholders’ deficit		
Class A Common Stock	5	5
Additional paid-in-capital	2,670	2,585
Retained earnings	3,763	3,509
Treasury stock, at cost	(7,798)	(7,340)
Accumulated other comprehensive loss	(49)	(44)
	(1,409)	(1,285)
	$6,480	$6,342

See Notes to Condensed Consolidated Financial Statements

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

	276 Days Ended September 30, 2013	252 Days Ended September 7, 2012
OPERATING ACTIVITIES		
Net income	$475	$390
Adjustments to reconcile to cash provided by operating activities:		
Depreciation and amortization	113	100
Income taxes	67	154
Liability for guest loyalty programs	5	(9)
Asset impairments and write-offs	19	13
Working capital changes and other	126	160
Net cash provided by operating activities	805	808
INVESTING ACTIVITIES		
Capital expenditures	(226)	(316)
Dispositions	—	65
Loan advances	(5)	(2)
Loan collections and sales	62	126
Equity and cost method investments	(16)	(12)
Contract acquisition costs	(36)	(52)
Other	(88)	(22)
Net cash used in investing activities	(309)	(213)
FINANCING ACTIVITIES		
Commercial paper/credit facility, net	268	110
Issuance of long-term debt	345	590
Repayment of long-term debt	(405)	(368)
Issuance of Class A Common Stock	141	81
Dividends paid	(144)	(110)
Purchase of treasury stock	(644)	(884)
Other	(1)	(11)
Net cash used in financing activities	(440)	(592)
INCREASE IN CASH AND EQUIVALENTS	56	3
CASH AND EQUIVALENTS, beginning of period	88	102
CASH AND EQUIVALENTS, end of period	$144	$105

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 subsidiaries “we,” “us,” or the “Company”). In order to make this report easier to read, we 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 and Canada as “North America” or “North American,” and (v) our properties, brands, or markets outside of the United States and Canada as “international.” In addition, references throughout to numbered "Footnotes" refer to the numbered Notes in these Notes to Condensed Consolidated Financial Statements, unless otherwise noted.

These condensed consolidated 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”). Although we believe our disclosures are adequate to make the information presented not misleading, you should read the financial statements in this report in conjunction with the consolidated financial statements and notes to those financial statements in our Annual Report on Form 10-K for the fiscal year ended December 28, 2012 (“2012 Form 10-K”). Certain terms not otherwise defined in this Form 10-Q have the meanings specified in our 2012 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.

Beginning with our 2013 fiscal year, we changed our financial reporting cycle to a calendar year-end reporting cycle and an end-of-month quarterly reporting cycle. Accordingly, our 2013 fiscal year began on December 29, 2012 (the day after the end of the 2012 fiscal year) and will end on December 31, 2013, and our 2013 quarters include the three month periods ended March 31, June 30, September 30, and December 31, except that the period ended March 31, 2013 also included December 29, 2012 through December 31, 2012. Our future fiscal years will begin on January 1 and end on December 31. Historically, our fiscal year was a 52-53 week fiscal year that ended on the Friday nearest to December 31, and our quarterly reporting cycle included twelve week periods for the first, second, and third quarters and a sixteen week period (or in some cases a seventeen week period) for the fourth quarter. We have not restated and do not plan to restate historical results.

The table below shows the reporting periods as we refer to them in this report, their date ranges, and the number of days in each:

Reporting Period	Date Range	Number of Days
2013 third quarter	July 1, 2013 - September 30, 2013	92
2012 third quarter	June 16, 2012 - September 7, 2012	84
2013 first three quarters	December 29, 2012 - September 30, 2013	276
2012 first three quarters	December 31, 2011 - September 7, 2012	252
2013 fiscal year	December 29, 2012 - December 31, 2013	368
2012 fiscal year	December 31, 2011 - December 28, 2012	364

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As a result of the change in our calendar, our 2013 third quarter had 8 more days of activity than our 2012 third quarter, and our 2013 first three quarters had 24 more days of activity than our 2012 first three quarters. Compared to the corresponding periods in 2012, our 2013 full fiscal year will have 4 more days and our 2013 fourth quarter will have 20 fewer days.

In our opinion, our Financial Statements reflect all normal and recurring adjustments necessary to present fairly our financial position as of September 30, 2013, and December 28, 2012, the results of our operations for the 92 days and 276 days ended September 30, 2013, and 84 days and 252 days ended September 7, 2012, and cash flows for the 276 days ended September 30, 2013, and 252 days ended September 7, 2012. 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.

2. New Accounting Standards

Accounting Standards Update No. 2013-02 - “Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income” (“ASU No. 2013-02”)

ASU No. 2013-02, which we adopted in our 2013 first quarter, amends existing guidance by requiring disclosure of the changes in the components of accumulated other comprehensive income for the current period and additional information about items reclassified out of accumulated other comprehensive income. Our adoption of this update required additional disclosures but did not have a material impact on our Financial Statements. Please see Footnote No. 10, "Comprehensive Income and Capital Structure" for those additional disclosures.

Future Adoption of Accounting Standards

Accounting Standards Update No. 2013-11 - “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists” (“ASU No. 2013-11”)

ASU No. 2013-11 provides financial statement presentation guidance on whether an unrecognized tax benefit must be presented as either a reduction to a deferred tax asset or separately as a liability. ASU No. 2013-11 will be effective for interim or annual periods beginning after December 15, 2013, which for us will be our 2014 first quarter. We do not believe the adoption of this update will have a material impact on our financial statements.

3. Income Taxes

We file income tax returns, including returns for our subsidiaries, in various jurisdictions around the world. The Internal Revenue Service ("IRS") has examined our federal income tax returns, and we have settled all issues for tax years through 2009. We participated in the IRS Compliance Assurance Program ("CAP"), which accelerates IRS examination of key transactions with the goal of resolving any issues before the taxpayer files its return, for the 2010 through 2013 tax years. For the 2010 and 2011 tax years, all but one issue, which we are appealing, have been resolved, including all matters that could affect the Company's cash tax benefits related to our spin-off in 2011 of our timeshare operations and timeshare development business. The audit for the 2012 tax year is substantially complete, and we expect that, with the exception of one issue which we will appeal, all issues will be resolved. The audit for the 2013 tax year is currently ongoing. Various foreign, state, and local income tax returns are also under examination by the applicable taxing authorities.

At the end of the 2013 third quarter, our unrecognized tax benefits balance was $29 million, unchanged from the end of the 2013 second quarter and year-end 2012. The unrecognized tax benefits balance included $13 million of tax positions that, if recognized, would impact our effective tax rate.

As a large taxpayer, the IRS and other taxing authorities continually audit us. We anticipate resolving an international issue which arose in 2011 related to financing activity during the next 12 months for which we have an unrecognized tax benefit of $5 million.

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On January 2, 2013, the American Taxpayer Relief Act of 2012 (the "Act") was signed into law. Some of the provisions contained in the Act were retroactive, and we recognized a $3 million benefit in the 2013 first three quarters related to the Act.

4. Share-Based Compensation

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 (our “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 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 $22 million for the 2013 third quarter, $19 million for the 2012 third quarter, $69 million for the 2013 first three quarters, and $57 million for the 2012 first three quarters. Deferred compensation costs related to unvested awards totaled $137 million at September 30, 2013 and $122 million at December 28, 2012.

RSUs

We granted 2.5 million RSUs during the 2013 first three quarters to certain officers and key employees, and those units vest generally over four years in equal annual installments commencing one year after the grant date. We also granted 0.2 million service and performance RSUs ("S&P RSUs") during the 2013 first three quarters to certain named executive officers. In addition to generally being subject to pro-rata annual vesting conditioned on continued service consistent with the standard form of RSU, these S&P RSUs are also subject to the satisfaction of a performance condition, expressed as an EBITDA goal. RSUs, including S&P RSUs, granted in the 2013 first three quarters had a weighted average grant-date fair value of $37.

SARs and Stock Options

We granted 0.7 million SARs and 0.1 million stock options to officers, key employees, and directors during the 2013 first three quarters. These SARs and options 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 2013 first three quarters was $13 and the weighted average exercise price was $39. The weighted average grant-date fair value of stock options granted in the 2013 first three quarters was $13 and the weighted average exercise price was $39.

On the grant date, we use a binomial lattice-based valuation model to estimate the fair value of each SAR and option granted. This valuation model uses a range of possible stock price outcomes over the term of the SAR and option, discounted back to a present value using a risk-free rate. Because of the limitations with closed-form valuation models, such as the Black-Scholes model, we have determined that this more flexible binomial model provides a better estimate of the fair value of our options and SARs because it takes into account employee and non-employee director exercise behavior based on changes in the price of our stock and also allows us to use other dynamic assumptions.

We used the following assumptions to determine the fair value of the SARs and stock options we granted during the 2013 first three quarters:

Expected volatility	30 - 31%	
Dividend yield	1.17	%
Risk-free rate	1.8 - 1.9%	
Expected term (in years)	8 - 10	

In making these assumptions, we base expected volatility on the historical movement of Marriott'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,

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which we convert to a continuously compounded rate. The dividend yield assumption takes into consideration both historical levels and expectations of future payout. The weighted average expected terms for SARs and options are an output of our valuation model which utilizes historical data in estimating the period of time that the SARs and options are expected to remain unexercised. We calculate the expected terms for SARs and options for separate groups of retirement eligible and non-retirement eligible employees. Our valuation model also uses historical data to estimate exercise behaviors, which includes determining the likelihood that employees will exercise their SARs and options before expiration at a certain multiple of stock price to exercise price. In recent years, non-employee directors have generally exercised grants in their last year of exercisability.

Other Information

As of the end of the 2013 third quarter, we had reserved 34 million shares under the Stock Plan, including 13 million shares under the Stock Option Program and the SAR Program.

5.Fair Value of Financial Instruments

We believe that the fair values of our current assets and current liabilities approximate their reported carrying amounts. We show 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)	At September 30, 2013		At December 28, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cost method investments	$19	$24	$21	$23
Senior, mezzanine, and other loans	137	138	180	172
Marketable securities and other debt securities	106	106	56	56
Total long-term financial assets	$262	$268	$257	$251
Senior Notes	$(2,184)	$(2,290)	$(1,833)	$(2,008)
Commercial paper	(790)	(790)	(501)	(501)
Other long-term debt	(125)	(131)	(130)	(139)
Other long-term liabilities	(54)	(54)	(69)	(69)
Total long-term financial liabilities	$(3,153)	$(3,265)	$(2,533)	$(2,717)

We estimate the fair value of our cost method investments by applying a cap rate to stabilized earnings (a market approach using Level 3 inputs). During the 2012 third quarter, we determined that a cost method investment was other-than-temporarily impaired and, accordingly, we recorded the investment at its fair value as of the end of the 2012 third quarter ($12 million) and reflected a $7 million loss in the "Gains and other income" caption of our Income Statement. We estimated the fair value of the investment using cash flow projections discounted at risk premiums commensurate with market conditions. We used Level 3 inputs for these discounted cash flow analyses and our assumptions included revenue forecasts, cash flow projections, and timing of the sale of each hotel in the underlying investment.

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

We are required to 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 a publicly traded company, which we value using directly observable Level 1 inputs. The carrying value of these marketable securities at the end of our 2013 third quarter was $38 million. In the 2013 second quarter, we acquired a $65 million mandatorily redeemable preferred equity ownership interest in an entity that owns three hotels that we manage. We account for this investment as a debt security (with an amortized cost of $68 million at the end of the 2013 third quarter, including accrued interest income), and we

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included it in the "Marketable securities and other debt securities" caption in the preceding table. We estimated the $68 million fair value of this debt security by discounting cash flows using risk-adjusted rates, both of which are Level 3 inputs. The debt security matures in 2015 subject to annual extensions through 2018. We do not intend to sell the debt security and it is not more likely than not that we will be required to sell the investment before recovery of the amortized cost basis, which may be maturity.

In the 2013 second quarter, we received $22 million in net cash proceeds for the sale of a portion of our shares of a publicly traded company (with an amortized cost of $14 million at the date of sale) and recognized an $8 million gain in the "Gains and other income" caption of our Income Statements. This gain included recognition of unrealized gains that we recorded in other comprehensive income as of the end of the 2013 first quarter. See Footnote No. 10, "Comprehensive Income and Capital Structure" for additional information on the reclassification of these unrealized gains from accumulated other comprehensive income.

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, both of 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. 9, "Long-term Debt," even though our commercial paper borrowings generally have short-term maturities of 30 days or less, we classify outstanding commercial paper 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 the end of the 2013 third quarter and year-end 2012, we determined that the carrying value of our commercial paper approximated its fair value due to the short maturity. Our other long-term liabilities largely consist of guarantees. As noted in Footnote No. 11, "Contingencies," we measure our liability for guarantees at fair value on a nonrecurring basis, that is when we issue or modify a guarantee, using Level 3 internally developed inputs. At the end of the 2013 third quarter and year-end 2012, 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. 1, “Summary of Significant Accounting Policies” of our 2012 Form 10-K for more information on the input levels we use in determining fair value.

6. Earnings Per Share

The table below illustrates 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)	92 Days Ended September 30, 2013	84 Days Ended September 7, 2012	276 Days Ended September 30, 2013	252 Days Ended September 7, 2012
Computation of Basic Earnings Per Share				
Net income	$160	$143	$475	$390
Weighted average shares outstanding	301.9	319.4	306.8	327.0
Basic earnings per share	$0.53	$0.45	$1.55	$1.19
Computation of Diluted Earnings Per Share				
Net income	$160	$143	$475	$390
Weighted average shares outstanding	301.9	319.4	306.8	327.0
Effect of dilutive securities				
Employee stock option and SARs plans	3.8	6.0	4.1	6.5
Deferred stock incentive plans	0.8	0.8	0.8	0.9
Restricted stock units	3.0	3.1	3.1	3.1
Shares for diluted earnings per share	309.5	329.3	314.8	337.5
Diluted earnings per share	$0.52	$0.44	$1.51	$1.16

We compute the effect of dilutive securities using the treasury stock method and average market prices during the period. We determine dilution based on earnings.

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Pursuant to the applicable accounting guidance for calculating earnings per share, we have not included the following stock options and SARs in our calculation of diluted earnings per share because the exercise prices were greater than the average market prices for the applicable periods:
(a) for the 2013 third quarter, 0.4 million options and SARs;
(b) for the 2012 third quarter, 1.0 million options and SARs;
(c) for the 2013 first three quarters, 0.4 million options and SARs; and
(d) for the 2012 first three quarters, 1.0 million options and SARs.

7. Property and Equipment

The following table shows the composition of our property and equipment balances at the end of the 2013 third quarter and year-end 2012:

($ in millions)	At Period End September 30, 2013	December 28, 2012
Land	$550	$590
Buildings and leasehold improvements	731	703
Furniture and equipment	853	854
Construction in progress	327	383
	2,461	2,530
Accumulated depreciation	(972)	(991)
	$1,489	$1,539

The following table shows the composition of these property and equipment balances that we recorded as capital leases:

($ in millions)	At Period End September 30, 2013	December 28, 2012
Land	$31	$30
Buildings and leasehold improvements	150	143
Furniture and equipment	42	38
Construction in progress	2	4
	225	215
Accumulated depreciation	(89)	(82)
	$136	$133

8. Notes Receivable

The following table shows the composition of our notes receivable balances (net of reserves and unamortized discounts) at the end of the 2013 third quarter and year-end 2012:

($ in millions)	At Period End September 30, 2013	December 28, 2012
Senior, mezzanine, and other loans	$189	$242
Less current portion	(52)	(62)
	$137	$180

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The following table shows the expected future principal payments (net of reserves and unamortized discounts) as well as interest rates for our notes receivable as of the end of the 2013 third quarter:

Notes Receivable Principal Payments (net of reserves and unamortized discounts) and Interest Rates ($ in millions)	Amount	
2013	$23	
2014	38	
2015	75	
2016	4	
2017	2	
Thereafter	47	
Balance at September 30, 2013	$189	
Weighted average interest rate at September 30, 2013	4.7	%
Range of stated interest rates at September 30, 2013	0 to 8.0%	

The following table shows the unamortized discounts for our notes receivable at the end of the 2013 third quarter and year-end 2012:

Notes Receivable Unamortized Discounts ($ in millions)	Total
Balance at year-end 2012	$11
Balance at September 30, 2013	$12

At the end of the 2013 third quarter, our recorded investment in impaired “Senior, mezzanine, and other loans” was $102 million, and we had a $92 million notes receivable reserve representing an allowance for credit losses, leaving $10 million of our investment in impaired loans, for which we had no related allowance for credit losses. At year-end 2012, our recorded investment in impaired “Senior, mezzanine, and other loans” was $93 million, and we had a $79 million notes receivable reserve representing an allowance for credit losses, leaving $14 million of our investment in impaired loans, for which we had no related allowance for credit losses. Our average investment in impaired “Senior, mezzanine, and other loans” totaled $104 million for the 2013 third quarter, $98 million for the 2013 first three quarters, $101 million for the 2012 third quarter, and $99 million for the 2012 first three quarters.
The following table summarizes the activity related to our “Senior, mezzanine, and other loans” notes receivable reserve for the 2013 first three quarters:

($ in millions)	Notes Receivable Reserve
Balance at year-end 2012	$79
Transfers and other	13
Balance at September 30, 2013	$92

We do not have any past due senior, mezzanine, and other loans as of the end of the 2013 third quarter.

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9. Long-term Debt

We provide detail on our long-term debt balances in the following table as of the end of the 2013 third quarter and year-end 2012:

($ in millions)	At Period End September 30, 2013	December 28, 2012
Senior Notes:		
Series G, interest rate of 5.810%, face amount of $316, maturing November 10, 2015 (effective interest rate of 6.68%)[1]	$311	$309
Series H, interest rate of 6.200%, face amount of $289, maturing June 15, 2016 (effective interest rate of 6.37%)[1]	289	289
Series I, interest rate of 6.375%, face amount of $293, maturing June 15, 2017 (effective interest rate of 6.52%)[1]	292	292
Series J, matured February 15, 2013	—	400
Series K, interest rate of 3.000%, face amount of $600, maturing March 1, 2019 (effective interest rate of 4.45%)[1]	595	594
Series L, interest rate of 3.250%, face amount of $350, maturing September 15, 2022 (effective interest rate of 3.35%)[1]	349	349
Series M, interest rate of 3.375%, face amount of $350, maturing October 15, 2020 (effective interest rate of 3.60%)[1]	348	—
Commercial paper, average interest rate of 0.33% at September 30, 2013	790	501
$2,000 Credit Facility	—	15
Other	182	186
	3,156	2,935
Less current portion	(52)	(407)
	$3,104	$2,528

[1] Face amount and effective interest rate are as of September 30, 2013.

All of our long-term debt was, and to the extent currently outstanding is, recourse to us but unsecured. Other debt in the preceding table includes capital leases, among other items.

In the 2013 first quarter, we made a $411 million cash payment of principal and interest to retire, at maturity, all of our outstanding Series J Notes.

In the 2013 third quarter, we amended and restated our multicurrency revolving credit agreement (the “Credit Facility”) to extend the facility's expiration from June 23, 2016 to July 18, 2018 and increase the facility size from $1,750 million to $2,000 million of aggregate effective borrowings. The material terms of the amended and restated Credit Facility are otherwise unchanged, and the facility continues to support general corporate needs, including working capital, capital expenditures, share repurchases, and letters of credit. The availability of the Credit Facility also supports our commercial paper program. 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. 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, 2013.

In the 2013 third quarter, we issued $350 million aggregate principal amount of 3.375 percent Series M Notes due 2020 (the "Series M Notes"). We received net proceeds of approximately $345 million from the offering, after deducting the underwriting discount and estimated expenses. We will pay interest on the Series M Notes on April 15

and October 15 of each year, commencing on April 15, 2014. The Notes will mature on October 15, 2020, and we may redeem them, in whole or in part, at our option, under the terms provided in the form of Note. We issued the Series M

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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 show future principal payments for our debt as of the end of the 2013 third quarter in the following table:

Debt Principal Payments ($ in millions)	Amount
2013	$2
2014	52
2015	318
2016	297
2017	301
Thereafter	2,186
Balance at September 30, 2013	$3,156

We paid cash for interest, net of amounts capitalized, of $58 million in the 2013 first three quarters and $62 million in the 2012 first three quarters.

10. Comprehensive Income and Capital Structure

The following table details the accumulated other comprehensive income (loss) activity for the 2013 first three quarters:

($ in millions)	Foreign Currency Translation Adjustments	Other Derivative Instrument Adjustments	Unrealized Gains on Available-For-Sale Securities	Accumulated Other Comprehensive Loss
Balance at year-end 2012	$(32)	$(19)	$7	$(44)
Other comprehensive (loss) income before reclassifications [1]	(2)	—	4	2
Amounts reclassified from accumulated other comprehensive loss	—	(1)	(6)	(7)
Net other comprehensive loss	(2)	(1)	(2)	(5)
Balance at September 30, 2013	$(34)	$(20)	$5	$(49)

(1) We present the portions of other comprehensive income (loss) before reclassifications for the 2013 first three quarters that relate to unrealized gains on available-for-sale securities net of $3 million of deferred taxes.

The following table details the effect on net income of significant amounts reclassified out of accumulated other comprehensive loss for the 2013 first three quarters:

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($ in millions)	Amounts Reclassified from Accumulated Other Comprehensive Loss	
Accumulated Other Comprehensive Loss Components	276 Days Ended September 30, 2013	Income Statement Line Item Affected
Other derivative instrument adjustments		
Other, net	$1	Net income
Unrealized gains on available-for-sale securities		
Sale of an available-for-sale security	$10	Gains and other income
	10	Income before income taxes
	(4)	Provision for income taxes
	$6	Net income

The following table details the changes in common shares outstanding and shareholders' deficit for the 2013 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
310.9	Balance at year-end 2012	$(1,285)	$5	$2,585	$3,509	$ (7,340)	$(44)
—	Net income	475	—	—	475	—	—
—	Other comprehensive loss	(5)	—	—	—	—	(5)
—	Cash dividends ($0.4700 per share)	(144)	—	—	(144)	—	—
5.1	Employee stock plan issuance	179	—	85	(77)	171	—
(15.6)	Purchase of treasury stock	(629)	—	—	—	(629)	—
300.4	Balance at September 30, 2013	$(1,409)	$5	$2,670	$3,763	$ (7,798)	$(49)

11. 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 four 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 the end of the term. 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 as loans repayable to us 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 measure and record our liability for the fair value of a guarantee on a nonrecurring basis, that is when we issue or modify a guarantee, using Level 3 internally developed inputs. We generally base our calculation of the estimated fair value of a guarantee on the income approach or the market approach, depending on the type of guarantee. For the income approach, we use internally developed discounted cash flow and Monte Carlo simulation models that include the following assumptions, among others: projections of revenues and expenses and related cash flows based on assumed growth rates and demand trends; historical volatility of projected performance; the guaranteed obligations; and applicable discount rates. We base these assumptions on our historical data and experience, industry projections, micro and macro general economic condition projections, and our expectations. For the market approach, we use internal analyses based primarily on market comparable data and our assumptions about market capitalization rates, credit spreads, growth rates, and inflation. We show the maximum potential

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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, 2013 in the following table:

($ in millions) Guarantee Type	Maximum Potential Amount of Future Fundings	Liability for Guarantees
Debt service	$76	$6
Operating profit	105	44
Other	16	1
Total guarantees where we are the primary obligor	$197	$51

We included our liability at September 30, 2013 for guarantees for which we are the primary obligor in our Balance Sheet as follows: $3 million in "Other current liabilities" and $48 million in "Other long-term liabilities."

Our guarantees listed in the preceding table include $13 million of debt service guarantees, $5 million of operating profit guarantees, and $1 million of other 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 preceding table does not include the following guarantees:

- $106 million of guarantees for Senior Living Services lease obligations of $78 million (expiring in 2018) and lifecare bonds of $28 million (estimated to expire in 2016), for which we are secondarily liable. Sunrise Senior Living, Inc. ("Sunrise") is the primary obligor on both the leases and $4 million of the lifecare bonds; HCP, Inc., as successor by merger to CNL Retirement Properties, Inc. ("CNL"), is the primary obligor on $23 million of the lifecare bonds, and Five Star Senior Living is the primary obligor on the remaining $1 million of 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 $3 million at September 30, 2013. In 2011 Sunrise provided us $3 million cash collateral to cover potential exposure under the existing lease and bond obligations for 2012 and 2013. In conjunction with our consent of the extension in 2011 of certain lease obligations for an additional five-year term until 2018, Sunrise provided us an additional $1 million cash collateral and an $85 million letter of credit issued by Key Bank to secure our exposure under the lease guarantees for the continuing leases during the extension term and certain other obligations of Sunrise. 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., 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 Health Care REIT. In conjunction with this acquisition, Sunrise funded an additional $2 million cash collateral and certified that the $85 million letter of credit remains in full force and effect.
- 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 $6 million and total remaining rent payments through the initial term of approximately $36 million. Most 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 $5 million (€4 million) of which remained at September 30, 2013. 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 the 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.
- Certain guarantees and commitments relating to the timeshare business, which were outstanding at the time of the 2011 Timeshare spin-off and for which we became secondarily liable as part of the spin-off. These Marriott Vacations Worldwide Corporation ("MVW") payment obligations, for which we currently have a total exposure of $22 million, relate to a project completion guarantee, various letters of credit, and several

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guarantees. MVW has indemnified us for these obligations. At the end of the 2013 third quarter, we expect these obligations will expire as follows: $1 million in 2013, $5 million in 2014, $3 million in 2017, and $13 million (17 million Singapore Dollars) in 2022. We have not funded any amounts under these obligations, and do not expect to do so in the future. Our liability for these obligations had a carrying value of $2 million at September 30, 2013.

- 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. Oakwood has indemnified us for the obligations under this guarantee. Our total exposure at the end of the 2013 third quarter for this guarantee is $11 million in future rent payments if the lease is terminated through 2013 and will be reduced to $6 million if the lease is terminated from 2014 through the end of the lease in 2019. Our liability for this guarantee had a carrying value of $1 million at September 30, 2013.
- A guarantee for two adjoining leases, originally entered into in 2000 and 2006, for which we became secondarily liable in the 2013 third quarter as a result of our assignment of the leases to Accenture LLP. Accenture is the primary obligor and has indemnified us for the obligations under these leases and the guarantee. Our total exposure at the end of the 2013 third quarter is $7 million related to future rent payments through the end of the leases in 2017.

In addition to the guarantees described in the preceding paragraphs, in conjunction with financing obtained for specific projects or properties owned by 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 and Letters of Credit

In addition to the guarantees we note in the preceding paragraphs, as of September 30, 2013, we had the following commitments outstanding:

- A commitment to invest up to $10 million of equity for a noncontrolling interest in a partnership that plans to purchase North American full-service and limited-service properties, or purchase or develop hotel-anchored mixed-use real estate projects. We expect to fund $9 million of this commitment as follows: $7 million in 2014, and $2 million in 2015. We do not expect to fund the remaining $1 million of this commitment.
- A commitment to invest up to $23 million of equity for noncontrolling interests in partnerships that plan to purchase or develop limited-service properties in Asia. We expect to fund $23 million of this commitment as follows: $2 million in 2013, $13 million in 2014, and $8 million in 2015.
- A commitment, with no expiration date, to invest up to $11 million in a joint venture for development of a new property. We expect to fund this commitment as follows: $8 million in 2014 and $3 million in 2015.
- A commitment to invest $20 million in the renovation of a leased hotel. We expect to fund this commitment by the end of 2015.
- We have a right and under certain circumstances an obligation to acquire our joint venture partner’s remaining 45 percent interest in two joint ventures over the next 8 years at a price based on the performance of the ventures. We made a $12 million (€9 million) deposit in conjunction with this contingent obligation in 2011 and $8 million (€6 million) in deposits in 2012. In the 2013 first quarter we acquired an additional five percent noncontrolling interest in each venture, applying $5 million (€4 million) of those deposits. The remaining deposits are refundable to the extent we do not acquire our joint venture partner’s remaining interests.
- We have a right and under certain circumstances an obligation during the next year to acquire, for approximately $45 million (€33 million), the landlord’s interest in the real estate property and attached assets of a hotel that we lease. We have recorded the lease as a capital lease.

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- Various commitments for the purchase of information technology hardware, software, as well as accounting, finance, and maintenance services in the normal course of business totaling $116 million. We expect to fund these commitments as follows: $33 million in 2013, $53 million in 2014, $17 million in 2015, and $13 million in 2016. The majority of these commitments will be recovered through cost reimbursement charges to properties in our system.
- Several commitments aggregating $34 million with no expiration date and which we do not expect to fund.
- A commitment to invest up to $10 million under certain circumstances for additional mandatorily redeemable preferred equity ownership interest in an entity that owns three hotels. We may fund this commitment, which expires in 2015 subject to annual extensions through 2018; however, we have not yet determined the amount or timing of any potential funding.
- $5 million loan commitment that we extended to an owner of a lodging property in the 2013 third quarter which will expire in the 2013 fourth quarter. We funded $1 million in the 2013 third quarter, expect to fund $3 million in the 2013 fourth quarter, and do not expect to fund the remaining $1 million.

At September 30, 2013, we had $68 million of letters of credit outstanding ($67 million outside the Credit Facility and $1 million under our Credit Facility), the majority of which were for our self-insurance programs. Surety bonds issued as of September 30, 2013, totaled $121 million, the majority of which federal, state and local governments requested in connection with our self-insurance programs.

Legal Proceedings

On January 19, 2010, several former Marriott employees (the "plaintiffs") filed a putative class action complaint against us and the Stock Plan (the "defendants"), alleging that certain equity awards of deferred bonus stock granted to the plaintiffs and other current and former employees for fiscal years 1963 through 1989 are subject to vesting requirements under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), that are in certain circumstances more rapid than those set forth in the awards. The plaintiffs seek damages, class attorneys' fees and interest, with no amounts specified. The action is proceeding in the United States District Court for the District of Maryland (Greenbelt Division) and Dennis Walter Bond Sr. and Michael P. Steigman are the current named plaintiffs. The parties completed limited discovery concerning the issues of statute of limitations and class certification. We opposed Plaintiffs' motion for class certification in October 2012, and we filed a motion for summary judgment on the issue of statute of limitations in December 2012. A hearing on both issues was held on June 7, 2013, after which we submitted a post-hearing supplemental brief and plaintiffs responded. On August 9, 2013, the court denied our motion for summary judgment on the issue of statute of limitations and deferred its ruling on class certification. We moved to amend the court's judgment on our motion for summary judgment in order to certify an interlocutory appeal, which was denied. We and the Stock Plan have denied all liability, and while we intend to vigorously defend against the claims being made by the plaintiffs, we can give you no assurance about the outcome of this lawsuit. We currently cannot estimate the range of any possible loss to the Company because an amount of damages is not claimed, there is uncertainty as to whether a class will be certified and if so as to the size of the class, and the possibility of our prevailing on our statute of limitations defense on appeal may significantly limit any claims for damages.

In March 2012, the Korea Fair Trade Commission ("KFTC") obtained documents from two of our managed hotels in Seoul, Korea in connection with an investigation which we believe is focused on pricing of hotel services within the Seoul region. Since then, the KFTC has conducted additional fact-gathering at those two hotels and also has collected information from another Marriott managed hotel located in Seoul. We understand that the KFTC also has sought documents from numerous other hotels in Seoul and other parts of Korea that we do not operate, own or franchise. We have not yet received a complaint or other legal process. We are cooperating with this investigation.

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12. Business Segments

We are a diversified lodging company with operations in four business segments:

- North American Full-Service Lodging, which includes the Marriott Hotels, Marriott Conference Centers, JW Marriott, Renaissance Hotels, Renaissance ClubSport, Gaylord Hotels and Autograph Collection properties located in the United States and Canada;
- North American Limited-Service Lodging, which includes the Courtyard, Fairfield Inn & Suites, SpringHill Suites, Residence Inn, and TownePlace Suites properties located in the United States and Canada, and, before its sale in the 2012 second quarter, our Marriott ExecuStay corporate housing business;
- International Lodging, which includes the Marriott Hotels, JW Marriott, Renaissance Hotels, Autograph Collection, Courtyard, AC Hotels by Marriott, Fairfield Inn & Suites, Residence Inn, and Marriott Executive Apartments properties located outside the United States and Canada; and
- Luxury Lodging, which includes The Ritz-Carlton, Bulgari Hotels & Resorts, and EDITION properties worldwide (together with residential properties associated with some of The Ritz-Carlton hotels).

We evaluate the performance of our segments based largely on the results of the segment without allocating corporate expenses, income taxes, or indirect general, administrative, and other expenses. We allocate gains and losses, equity in earnings or losses from our joint ventures, and divisional general, administrative, and other expenses to each of our segments. “Other unallocated corporate” represents that portion of our revenues, general, administrative, and other expenses, equity in earnings or losses, and other gains or losses that we do not allocate to our segments. "Other unallocated corporate" includes license fees we receive from our credit card programs and license fees from MVW.

We aggregate the brands presented within our segments considering their similar economic characteristics, types of customers, distribution channels, the regulatory business environments and operations within each segment and our organizational and management reporting structure.

Revenues

($ in millions)	92 Days Ended September 30, 2013	84 Days Ended September 7, 2012	276 Days Ended September 30, 2013	252 Days Ended September 7, 2012
North American Full-Service Segment	$1,595	$1,332	$4,935	$4,006
North American Limited-Service Segment	695	612	1,970	1,735
International Segment	385	321	1,131	898
Luxury Segment	416	394	1,330	1,221
Total segment revenues	3,091	2,659	9,366	7,860
Other unallocated corporate	69	70	199	197
	$3,160	$2,729	$9,565	$8,057

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Net Income (Loss)

($ in millions)	92 Days Ended September 30, 2013	84 Days Ended September 7, 2012	276 Days Ended September 30, 2013	252 Days Ended September 7, 2012
North American Full-Service Segment	$96	$76	$341	$275
North American Limited-Service Segment	131	157	372	347
International Segment	39	36	111	117
Luxury Segment	22	20	78	66
Total segment financial results	288	289	902	805
Other unallocated corporate	(42)	(41)	(140)	(141)
Interest expense and interest income	(23)	(26)	(75)	(86)
Income taxes	(63)	(79)	(212)	(188)
	$160	$143	$475	$390

Equity in Losses of Equity Method Investees

($ in millions)	92 Days Ended September 30, 2013	84 Days Ended September 7, 2012	276 Days Ended September 30, 2013	252 Days Ended September 7, 2012
North American Full-Service Segment	$1	$—	$3	$1
North American Limited-Service Segment	—	—	2	1
International Segment	(1)	—	(2)	2
Luxury Segment	—	—	(3)	(11)
Total segment equity in losses	—	—	—	(7)
Other unallocated corporate	—	(1)	(2)	(3)
	$—	$(1)	$(2)	$(10)

Assets

($ in millions)	At Period End September 30, 2013	December 28, 2012
North American Full-Service Segment	$1,546	$1,517
North American Limited-Service Segment	480	492
International Segment	1,140	1,056
Luxury Segment	1,321	1,174
Total segment assets	4,487	4,239
Other unallocated corporate	1,993	2,103
	$6,480	$6,342

13. Acquisitions and Dispositions

2013 Completed Acquisitions

In the 2013 third quarter, we paid a cash deposit of $5 million toward the acquisition of a managed property we plan to renovate. After the 2013 third quarter, we acquired that property for an additional $110 million in cash.

2013 Planned Dispositions

On July 30, 2013, we entered into a non-binding letter of intent ("LOI") to sell the London, Miami and New York EDITION-branded hotels for approximately $800 million. If the transaction goes forward, we expect the sale of the London EDITION to occur in the 2013 fourth quarter and the sale of the Miami EDITION and New York

EDITION to occur after construction is complete, with the company retaining long-term management agreements for each hotel. The London EDITION opened on September 12, 2013, and we subsequently reclassified the related $232 million in Luxury segment assets ($225 million in property and equipment and $7 million in current assets) to the "Assets held for sale" caption and $9 million in Luxury segment liabilities to liabilities held for sale within the "Other current liabilities" caption of the Balance Sheet as of the end of the 2013 third quarter. We did not recognize a gain or loss in the 2013 third quarter as a result of this reclassification. We did not reclassify the Miami EDITION or the New York EDITION assets and liabilities as held for sale because the hotels are under construction and not available for immediate sale in their present condition.

14. Variable Interest Entities

Under the applicable accounting guidance for the consolidation of variable interest entities, we analyze our variable interests, including loans, guarantees, and equity investments, to determine if an entity in which we have a variable interest is a variable interest entity. Our analysis includes both quantitative and qualitative reviews. We base our quantitative analysis on the forecasted cash flows of the entity, and our qualitative analysis on our review of the design of the entity, its organizational structure including decision-making ability, and relevant financial agreements. We also use our qualitative analysis to determine if we must consolidate a variable interest entity as its primary beneficiary.

In the 2013 second quarter, we purchased a $65 million mandatorily redeemable preferred equity ownership interest in an entity that owns three hotels, which we also manage. Please see Footnote No. 5, "Fair Value of Financial Instruments" for further information on the purchase and Footnote No. 11, "Contingencies" for information on the commitment we entered into as part of this transaction. Based on qualitative and quantitative analyses, we concluded that the entity in which we invested is a variable interest entity because it is capitalized primarily with debt. We did not consolidate the entity because we do not have the power to direct the activities that most significantly impact the entity's economic performance. Inclusive of our contingent future funding commitment, our maximum exposure to loss at the end of the 2013 third quarter is $78 million.

In conjunction with the transaction with CTF that we describe more fully in our Annual Report on Form 10-K for 2007 in Footnote No. 8, “Acquisitions and Dispositions,” under the caption “2005 Acquisitions,” we manage hotels on behalf of tenant entities that are 100 percent owned by CTF, which lease the hotels from third-party owners. Due to certain provisions in the management agreements, we account for these contracts as operating leases. At September 30, 2013, we managed four hotels on behalf of three tenant entities. The entities have minimal equity and minimal assets, consisting of hotel working capital and furniture, fixtures, and equipment. As part of the 2005 transaction, CTF placed money in a trust account to cover cash flow shortfalls and to meet rent payments. In turn, we released CTF from its guarantees fully for two of these properties and partially for the other two properties. The trust account was fully depleted prior to year-end 2011. The tenant entities are variable interest entities because the holder of the equity investment at risk, CTF, lacks the ability through voting rights to make key decisions about the entities’ activities that have a significant effect on the success of the entities. We do not consolidate the entities because we do not have the power to direct the activities that most significantly impact the entities' economic performance. We are liable for rent payments (totaling $6 million) for two of the four hotels if there are cash flow shortfalls, and these two hotels have lease terms of less than one year. In addition, as of the end of the 2013 third quarter we are liable for rent payments of up to an aggregate cap of $6 million for the two other hotels if there are cash flow shortfalls. Our maximum exposure to loss is limited to the rent payments and certain other tenant obligations under the lease, for which we are secondarily liable.

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

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

Change in Reporting Cycle

As further detailed in Footnote No. 1, "Basis of Presentation," beginning with our 2013 fiscal year, we changed our financial reporting cycle to a calendar year-end reporting cycle and an end-of-month quarterly reporting cycle. Accordingly, our 2013 fiscal year began on December 29, 2012 (the day after the end of the 2012 fiscal year) and will end on December 31, 2013. The table below shows the reporting periods as we refer to them in this report, their date ranges, and the number of days in each.

Reporting Period	Date Range	Number of Days
2013 third quarter	July 1, 2013 - September 30, 2013	92
2012 third quarter	June 16, 2012 - September 7, 2012	84
2013 first three quarters	December 29, 2012 - September 30, 2013	276
2012 first three quarters	December 31, 2011 - September 7, 2012	252

As a result of these differences in our reporting periods, we had eight more days of activity in our 2013 third quarter than we had in our 2012 third quarter, which we estimate resulted in $37 million of additional combined base management fee, franchise fee, and incentive management fee revenues and $26 million of additional operating income. Likewise, we had 24 more days of activity in our 2013 first three quarters than we had in our 2012 first three quarters, which we estimate resulted in $99 million of additional combined base management fee, franchise fee, and incentive management fee revenues and $71 million of additional operating income. We discuss other aspects of the estimated impacts from the reporting period changes in more detail in the following sections beginning with "Revenues."

Lodging Business

We are a worldwide operator, franchisor, and licensor of hotels and timeshare properties in 72 countries and territories under numerous brand names. We also develop, operate, and market residential properties and provide services to home/condominium owner associations. At the end of the 2013 third quarter, we had 3,883 properties (670,507 rooms) in our system, including 37 home and condominium products (4,067 units) for which we manage the related owners' associations.

We earn base management fees and in some 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

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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. Net house profit is calculated as gross operating profit (house profit) less noncontrollable expenses such as insurance, real estate taxes, capital spending reserves, and the like.

We use or license our trademarks for the sale of residential real estate, either in conjunction with hotel development or on a stand-alone basis, under our The Ritz-Carlton, EDITION, JW Marriott, Autograph Collection, and Marriott brand names. Third-party developers typically build and sell residences with little, if any, of our capital at risk. While the worldwide residential market is very large, the luxurious nature of our residential properties, the quality and exclusivity associated with our brands, and the hospitality services that we provide, all serve to make our residential properties distinctive.

Under our business model, we typically manage or franchise hotels, rather than own them. At September 30, 2013, we operated 42 percent of the hotel rooms in our worldwide system under management agreements, our franchisees operated 55 percent under franchise agreements, unconsolidated joint ventures that we have an interest in held management and provided services to franchised hotels for 1 percent, and we owned or leased only 2 percent.

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 the 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 this cost-efficient channel.

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.

Lodging Performance Measures

We believe Revenue per Available Room ("RevPAR"), which we calculate by dividing room sales for comparable properties by room nights available to guests 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. References to RevPAR statistics, including occupancy and average daily rate, throughout this report reflect the three and nine calendar months ended September 30, 2013 or September 30, 2012, as applicable. 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.

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Lodging Results

Conditions for our lodging business continued to improve in the 2013 first three quarters, reflecting generally low supply growth in the United States ("U.S."), a favorable economic climate in many markets around the world, improved pricing in most markets, and a year-over-year increase in the number of properties in our system. Demand was particularly strong at luxury properties, followed by full-service properties, and limited-service properties. Comparable worldwide systemwide average daily rates for the three months ended September 30, 2013 increased 3.4 percent on a constant dollar basis to $140.53, RevPAR increased 4.8 percent to $104.77, and occupancy increased 1.0 percentage points to 74.6 percent, compared to the same period a year ago. Comparable worldwide systemwide average daily rates for the nine months ended September 30, 2013 increased 3.4 percent on a constant dollar basis to $142.76, RevPAR increased 4.8 percent to $103.62, and occupancy increased 0.9 percentage points to 72.6 percent, compared to the same period a year ago.

Continuing uncertainty in the U.S., particularly associated with government austerity and its impact on the overall economy, had a dampening effect on short-term group customer demand through the 2013 second quarter. Short-term group customer demand improved in the 2013 third quarter, benefiting from better attendance at group functions. Group bookings in the 2013 third quarter for future short-term group business also improved. Government and government-related demand was constrained due to government spending restrictions, particularly in Washington D.C. and the surrounding areas. For full year 2012, we estimate that government and government-related business made up 5 percent of room nights across our North American system. Transient demand was particularly strong in the western U.S. where we continued to eliminate discounts, shift business into higher rated price categories, and raise room rates. Leisure destinations in the U.S. had strong demand. In the northeast U.S., weak group demand in the region, particularly in the first half of 2013, new supply in the city of New York, and weak government and government-related business in Washington D.C. constrained RevPAR improvement.

Western Europe experienced modest RevPAR growth in the 2013 third quarter, while Eastern Europe, and Russia in particular, as well as Northern United Kingdom had strong demand. London RevPAR declined, reflecting a tough comparison to last year's Olympic Games. Demand remained weak in European markets more dependent on regional travel and new supply and weak economies constrained RevPAR growth in a few markets. In the Middle East, demand was strong in the United Arab Emirates, more modest in Qatar, and weakened further in Egypt and Jordan. Demand in the Asia Pacific region continued to moderate, as our hotels in China experienced weaker government-related travel due to the country's change in leadership, moderating economic growth, and new supply in several markets. Thailand, Indonesia, and Japan had higher demand and strong RevPAR growth in the 2013 first three quarters.

We monitor market conditions and carefully price our rooms daily in accordance with individual property demand levels, generally adjusting room rates as demand changes. We also modify the mix of our business to increase revenue as demand changes. Demand for higher rated rooms improved in most markets in the 2013 first three quarters, which allowed us to reduce discounting and special offers for transient business in many markets. This mix improvement benefited average daily rates. For our company-operated properties, we continue to focus on enhancing property-level house profit margins and actively pursue productivity improvements.

The properties in our system serve both transient and group customers. Business transient and leisure transient demand were strong in the 2013 first three quarters. For group business, two-thirds is typically booked before the year of arrival and one-third is booked in the year of arrival. Also, during an economic recovery, group pricing tends to lag transient pricing due to the significant lead times for group bookings. During the recent economic recession, organizers of large group meetings scheduled smaller and fewer meetings to take place in 2013 than was previously typical. As the U.S. economy recovered, we replaced this lower level of large advance-purchase groups with smaller, last-minute group bookings and transient business. Last-minute group demand weakened during the first half of 2013, largely driven by weak corporate business and soft government demand at many properties, but improved in the 2013 third quarter relative to the 2013 first half. Government group demand remains weak, including fewer meetings and lower attendance.

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While the short-term group demand shortfalls in the 2013 first half were largely mitigated by strong transient demand leading to strong occupancy rates, property-level food and beverage revenues increased year over year more slowly than room revenue, as transient guests typically spend less on food and beverage than group customers. In addition, spending on food and beverage was cautious in the 2013 first three quarters due to the somewhat uncertain economic climate and government spending restrictions in the U.S.

As of the end of the 2013 third quarter, the group revenue pace for company-operated Marriott Hotels brand properties in North America for the remainder of 2013 is up nearly 7 percent. Our group revenue booking pace for company-operated Marriott Hotels brand properties in North America is up over 4 percent for 2014, compared to a 2 percent increase in group revenue booking pace for 2014 at the end of the 2013 second quarter and a 1 percent increase in group revenue booking pace for 2014 a year ago, reflecting improved group demand, greater pricing power, and increased bookings in the 2013 third quarter for corporate business such as training meetings and new product launches.

Lodging System Growth and Pipeline

During the 2013 first three quarters, we added 17,900 rooms (gross) to our system. Approximately 36 percent of new rooms are located outside the United States and 29 percent of the room additions are conversions from competitor brands. At the end of the 2013 third quarter, we have over 144,000 rooms in our lodging development pipeline, which we define as hotels under signed contracts, including hotels pending conversion to one of our brands, compared to nearly 141,000 rooms at the end of the 2013 second quarter, using a comparable methodology. Beginning in the 2013 third quarter, we changed our methodology of measuring our lodging development pipeline conforming to the new STR (Smith Travel Research) guidelines designed to improve comparability across other lodging companies and more accurately measure industry supply growth. In addition to our lodging development pipeline, at the end of the 2013 third quarter, we also have more than 31,000 rooms approved for development but not yet under signed contracts compared to over 15,000 such rooms at the end of the 2013 second quarter. For the 2013 full year, we expect to add nearly 30,000 rooms (gross) to our system. We expect approximately 10,000 rooms to exit the system during the 2013 full year, largely due to financial and quality issues. The figures in this paragraph do not include residential and timeshare units.

CONSOLIDATED RESULTS

The following discussion presents our analysis of the significant items of the results of our operations for the 2013 third quarter compared to the 2012 third quarter, and the 2013 first three quarters compared to the 2012 first three quarters.

Revenues

Third Quarter. Revenues increased by $431 million (16 percent) to $3,160 million in the 2013 third quarter from $2,729 million in the 2012 third quarter as a result of higher cost reimbursements revenue ($352 million), higher franchise fees ($26 million), higher owned, leased, and other revenue ($20 million), higher incentive management fees ($17 million), comprised of an $11 million increase for North America and a $6 million increase outside of North America, and higher base management fees ($16 million). We estimate that the $431 million increase in revenues included $37 million of combined base management fee, franchise fee, and incentive management fee revenues due to the additional eight days of activity in the 2013 third quarter compared to the 2012 third quarter.

Cost reimbursements revenue represents reimbursements of costs incurred on behalf of managed, franchised, and licensed properties and relates, predominantly, to payroll costs at managed properties where we are the employer, but also includes reimbursements for other costs, such as those associated with our Marriott Rewards and Ritz-Carlton Rewards programs. As we record cost reimbursements based upon costs incurred with no added markup, this revenue and related expense has no impact on either our operating income or net income. The $352 million increase in total cost reimbursements revenue, to $2,562 million in the 2013 third quarter from $2,210 million in the 2012 third quarter, reflected the impact of higher property-level demand and growth across the

system. Since the end of the 2012 third quarter, our managed rooms increased by 8,060 rooms and our franchised rooms increased by 15,367 rooms, net of hotels exiting the system.

The $16 million increase in total base management fees, to $150 million in the 2013 third quarter from $134 million in the 2012 third quarter, mainly reflected the additional eight days of activity (approximately $13 million), the impact of unit growth across the system ($5 million), primarily driven by the Gaylord brand properties we began managing in the fourth quarter of 2012, stronger RevPAR due to increased demand ($4 million), and our recognition of previously deferred fees for a portfolio of hotels ($2 million), partially offset by the recognition in the 2012 third quarter of $7 million of previously deferred fees in conjunction with the sale of our equity interest in a North American-Limited Service joint venture. The $26 million increase in total franchise fees, to $175 million in the 2013 third quarter from $149 million in the 2012 third quarter, primarily reflected the additional eight days of activity (approximately $12 million), stronger RevPAR due to increased demand ($7 million), and the impact of unit growth across the system ($5 million). The $17 million increase in incentive management fees from $36 million in the 2012 third quarter to $53 million in the 2013 third quarter largely reflected the additional eight days of activity (approximately $12 million) and higher net property-level revenue, particularly for full-service hotels in North America, which resulted in higher property-level income and margins ($5 million).

The $20 million increase in owned, leased, corporate housing, and other revenue, to $220 million in the 2013 third quarter, from $200 million in the 2012 third quarter, predominantly reflected $10 million of higher owned and leased revenue, $5 million of higher termination fees, and $3 million of higher branding fees. Higher owned and leased revenue reflected strong demand in the U.S. and the additional eight days of activity. Combined branding fees for credit card endorsements and the sale of branded residential real estate by others totaled $29 million in the 2013 third quarter and $26 million in the 2012 third quarter.

First Three Quarters. Revenues increased by $1,508 million (19 percent) to $9,565 million in the 2013 first three quarters from $8,057 million in the 2012 first three quarters as a result of higher cost reimbursements revenue ($1,305 million), higher franchise fees ($83 million), higher base management fees ($70 million), higher incentive management fees ($41 million) comprised of a $31 million increase for North America and a $10 million increase outside of North America, and higher owned, leased, and other revenue ($9 million). We estimate that the $1,508 million increase in revenues included $99 million of combined base management fee, franchise fee, and incentive management fee revenues due to the additional 24 days of activity in the 2013 first three quarters compared to the 2012 first three quarters.

The $1,305 million increase in total cost reimbursements revenue, to $7,720 million in the 2013 first three quarters from $6,415 million in the 2012 first three quarters, reflected the impact of higher property-level demand and growth across the system.

The $70 million increase in total base management fees, to $469 million in the 2013 first three quarters from $399 million in the 2012 first three quarters, mainly reflected the additional 24 days of activity (approximately $38 million), the impact of unit growth across the system ($16 million), primarily driven by Gaylord brand properties we began managing in the fourth quarter of 2012, stronger RevPAR due to increased demand ($14 million), our recognition of previously deferred fees for a hotel portfolio ($4 million), and a favorable variance from fee reversals in the 2012 first three quarters to reflect contract revisions ($2 million), partially offset by the recognition in the 2012 third quarter of $7 million of previously deferred fees in conjunction with the sale of our equity interest in a North American-Limited Service joint venture. The $83 million increase in total franchise fees, to $503 million in the 2013 first three quarters from $420 million in the 2012 first three quarters, primarily reflected the additional 24 days of activity (approximately $42 million), stronger RevPAR due to increased demand ($17 million), the impact of unit growth across the system ($11 million), increased relicensing fees primarily for certain North American Limited-Service properties ($7 million), and an increase in MVW license fees ($3 million). The $41 million increase in incentive management fees from $142 million in the 2012 first three quarters to $183 million in the 2013 first three quarters largely reflected higher net property-level revenue, particularly for full-service hotels in North America, which resulted in higher property-level income and margins ($22 million) and fees for the additional 24 days of activity (approximately $19 million).

The $9 million increase in owned, leased, corporate housing, and other revenue, to $690 million in the 2013 first three quarters, from $681 million in the 2012 first three quarters, reflected $17 million of higher owned and leased revenue, $15 million of higher branding fees, $7 million of higher hotel agreement termination fees, and $4 million of higher other revenue, partially offset by $35 million of lower corporate housing revenue due to the sale of the ExecuStay corporate housing business in the 2012 second quarter. Higher owned and leased revenue reflected strong demand and the additional 24 days of activity, partially offset by a $2 million business interruption payment received in the 2012 second quarter from a utility company. Combined branding fees for credit card endorsements and the sale of branded residential real estate by others totaled $84 million in the 2013 first three quarters and $69 million in the 2012 first three quarters.

Operating Income

Third Quarter. Operating income increased by $32 million to $245 million in the 2013 third quarter from $213 million in the 2012 third quarter. The $32 million increase in operating income reflected a $26 million increase in franchise fees, a $17 million increase in incentive management fees, a $16 million increase in base management fees, and $8 million of higher owned, leased, corporate housing, and other revenue net of direct expenses, partially offset by a $35 million increase in general, administrative and other expenses. Approximately $26 million of the net increase in operating income was due to the additional eight days of activity in the 2013 third quarter. We discuss the reasons for the increases in base management fees, franchise fees, and incentive management fees compared to the 2012 third quarter in the preceding “Revenues” section.

The $8 million (31 percent) increase in owned, leased, corporate housing, and other revenue net of direct expenses was largely attributable to $5 million of higher termination fees, as well as $3 million of higher branding fees from the additional eight days of activity, partially offset by $2 million of lower owned and leased revenue, net of direct expenses (which included $1 million of lower owned and leased revenue, net of direct expenses from the additional eight days of activity). Lower owned and leased revenue, net of direct expenses primarily reflected $2 million in pre-opening expenses for two EDITION hotels and $3 million in lower results at one leased property in London due to tough comparisons from the Olympics in the prior year, partially offset by net stronger results at several other leased properties.

General, administrative, and other expenses increased by $35 million (27 percent) to $167 million in the 2013 third quarter from $132 million in the 2012 third quarter. The increase largely reflected approximately $12 million of expenses related to the additional eight days of activity, and the following 2013 third quarter items: $12 million of increased other expenses primarily associated with higher costs in international markets and branding and service initiatives to enhance and grow our brands globally; a $3 million impairment charge for deferred contract acquisition costs primarily for properties that had cash flow shortfalls or left our system; and $2 million of higher compensation and other overhead expenses. The increase also reflected a net increase of $3 million in legal expenses, with lower 2013 third quarter legal expenses more than offset by the impact of a favorable litigation settlement in the year ago quarter. The $35 million increase in total general, administrative, and other expenses included $14 million that we did not allocate to any of our segments, and $21 million that we allocated as follows: $7 million to our Luxury segment, $6 million to our North American Full-Service segment, $4 million to our International segment, and $4 million to our North American Limited-Service segment.

First Three Quarters. Operating income increased by $119 million to $750 million in the 2013 first three quarters from $631 million in the 2012 first three quarters. The $119 million increase in operating income reflected an $83 million increase in franchise fees, a $70 million increase in base management fees, a $41 million increase in incentive management fees, and $12 million of higher owned, leased, corporate housing, and other revenue net of direct expenses, partially offset by an $87 million increase in general, administrative and other expenses. Approximately $71 million of the net increase in operating income was due to the additional 24 days of activity in the 2013 first three quarters. We discuss the reasons for the increases in base management fees, franchise fees, and incentive management fees compared to the 2012 first three quarters in the preceding “Revenues” section.

The $12 million (11 percent) increase in owned, leased, corporate housing, and other revenue, net of direct expenses was largely attributable to $15 million of higher branding fees (which included a $6 million increase in

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branding fees from the additional 24 days of activity), $7 million of higher hotel agreement termination fees, and $4 million of higher other revenue, partially offset by $14 million of lower owned and leased revenue, net of direct expenses. Lower owned and leased revenue, net of direct expenses was primarily due to $6 million in costs related to three International segment leases we terminated, $6 million in lower results at one leased property in London, $3 million in pre-opening expenses for two EDITION hotels, and a $2 million business interruption payment received in the 2012 second quarter from a utility company for our leased property in Japan, partially offset by a $4 million increase from the additional 24 days of activity.

General, administrative, and other expenses increased by $87 million (20 percent) to $526 million in the 2013 first three quarters from $439 million in the 2012 first three quarters. The increase largely reflected approximately $37 million of expenses related to the additional 24 days of activity, as well as the following 2013 first three quarters items: $21 million of increased other expenses primarily associated with higher costs in international markets and branding and service initiatives to enhance and grow our brands globally; $11 million of higher compensation and other overhead expenses; $10 million of impairment and accelerated amortization expense for deferred contract acquisition costs primarily for properties that left our system or had cash flow shortfalls; a $5 million performance cure payment for an International segment property; $4 million of amortization expense for deferred contract acquisition costs related to the fourth quarter 2012 Gaylord brand and hotel management company acquisition; and $3 million of increased expenses due to unfavorable foreign exchange rates. The increase also reflected favorable litigation settlements in 2012, partially offset by lower 2013 legal expenses, netting to an unfavorable $5 million in legal expenses. These increases were partially offset by a favorable variance from the accelerated amortization of $8 million of deferred contract acquisition costs in the 2012 first three quarters for a North American Full-Service segment property that exited our system. The $87 million increase in total general, administrative, and other expenses included $35 million that we did not allocate to any of our segments, and $52 million that we allocated as follows: $18 million to our International segment, $18 million to our Luxury segment, $9 million to our North American Full-Service segment, and $7 million to our North American Limited-Service segment.

Gains and Other Income

We show our gains and other income for the 2013 and 2012 third quarters and first three quarters in the following table:

($ in millions)	92 Days Ended September 30, 2013	84 Days Ended September 7, 2012	276 Days Ended September 30, 2013	252 Days Ended September 7, 2012
Gains on sales of real estate and other	$1	$22	$4	$26
Gain on sale of joint venture and other investments	—	21	9	21
Income from cost method joint ventures	—	—	1	3
Impairment of cost method joint venture investment and equity securities	—	(7)	—	(7)
	$1	$36	$14	$43

Third Quarter. Gains and other income decreased by $35 million (97 percent) to $1 million in the third quarter compared to $36 million in the 2012 third quarter. This decrease in gains and other income primarily reflected an unfavorable variance to the following 2012 third quarter items: (1) a $21 million gain on the sale of a North American Limited-Service joint venture (formerly two joint ventures which were merged before the sale), reflected in the "Gain on sale of joint venture and other investments" caption above; and (2) recognition of the $20 million remaining gain we deferred in 2005 due to contingencies in the original transaction documents associated with the sale of land to one of the joint ventures, reflected in the "Gains on sales of real estate and other" caption above. This decrease in gains and other income was partially offset by a favorable variance from an other-than-temporary $7 million impairment of a cost method joint venture investment we recorded in the 2012 third quarter.

First Three Quarters. Gains and other income decreased by $29 million (67 percent) to $14 million in the 2013 first three quarters compared to $43 million in the 2012 first three quarters. This decrease in gains and other income principally reflected a favorable variance from a total 2012 third quarter gain of $41 million on the sale of the equity

interest in a North American Limited-Service joint venture which we discuss in the preceding "Third

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Quarter" discussion. This decrease in gains and other income was partially offset by a gain of $8 million we recognized in the 2013 first three quarters on the sale of a portion of our shares of a publicly traded company and a favorable variance from an other-than-temporary $7 million impairment we recorded in the 2012 third quarter which we discuss in the preceding "Third Quarter" discussion.

Interest Expense

Third Quarter. Interest expense decreased by $1 million (3 percent) to $28 million in the 2013 third quarter compared to $29 million in the 2012 third quarter. This decrease in interest expense principally reflected a net $2 million decrease due to net Senior Note retirements and new Senior Note issuances at lower interest rates. These decreases in interest expense were partially offset by interest expense related to the additional eight days of activity in the 2013 third quarter.

First Three Quarters. Interest expense decreased by $8 million (8 percent) to $88 million in the 2013 first three quarters compared to $96 million in the 2012 first three quarters. This decrease in interest expense principally reflected a net $8 million decrease due to net Senior Note retirements and new Senior Note issuances at lower interest rates, and $7 million of increased capitalized interest associated with construction projects largely to develop three EDITION hotels. These decreases in interest expense were partially offset by interest expense related to the additional 24 days of activity in the 2013 first three quarters.

Interest Income and Income Tax

Third Quarter. Interest income increased by $2 million (67 percent) to $5 million in the 2013 third quarter compared to $3 million in the 2012 third quarter. This increase in interest income primarily reflected $2 million earned on the $65 million mandatorily redeemable preferred equity ownership interest acquired in the 2013 second quarter. See Footnote No. 5, "Fair Value of Financial Instruments" for more information on the acquisition.

Our tax provision decreased by $16 million (20 percent) to $63 million in the 2013 third quarter compared to $79 million in the 2012 third quarter. The decrease was primarily due to higher income before income taxes in jurisdictions outside of the U.S. with lower tax rates and true-ups of foreign tax provisions in the 2013 third quarter.

First Three Quarters. Interest income increased by $3 million (30 percent) to $13 million in the 2013 first three quarters compared to $10 million in the 2012 first three quarters. This increase in interest income primarily reflected $3 million earned on the mandatorily redeemable preferred equity ownership interest discussed in the preceding "Third Quarter" discussion.

Our tax provision increased by $24 million (13 percent) to $212 million in the 2013 first three quarters compared to $188 million in the 2012 first three quarters. The increase resulted from higher income before income taxes, principally due to increased demand and the additional 24 days of activity, partially offset by a lower effective tax rate in the 2013 first three quarters (30.8 percent in 2013 and 32.5 percent in 2012) primarily due to higher income before income taxes in jurisdictions outside of the U.S. with lower tax rates.

Equity in Losses

Third Quarter. Equity in losses of zero in the 2013 third quarter decreased by $1 million from equity in losses of $1 million in the 2012 third quarter. The decrease primarily reflected the sale in the 2012 third quarter of an equity interest in a North American Limited-Service Lodging segment joint venture with losses.

First Three Quarters. Equity in losses of $2 million in the 2013 first three quarters decreased by $8 million from equity in losses of $10 million in the 2012 first three quarters. The decrease primarily reflected a favorable variance from the following 2012 first three quarters items: (1) $8 million in losses at a Luxury segment joint venture for the impairment of certain underlying residential properties; and (2) a $2 million loan loss provision for certain notes receivable due from another Luxury segment joint venture. These favorable variances were partially offset by a $4 million impairment charge in the 2013 second quarter associated with a corporate joint venture (not allocated to one of our segments) that we determined was fully impaired because we do not expect to recover the investment.

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Net Income

Third Quarter. Net income increased by $17 million to $160 million in the 2013 third quarter from $143 million in the 2012 third quarter, and diluted earnings per share increased by $0.08 per share (18 percent) to $0.52 per share from $0.44 per share in the 2012 third quarter. As discussed in more detail in the preceding sections beginning with "Revenues" or as shown in the Consolidated Statements of Income, the $17 million increase in net income compared to the year-ago quarter was due to higher franchise fees ($26 million), higher incentive management fees ($17 million), higher base management fees ($16 million), lower income taxes ($16 million), higher owned, leased, corporate housing, and other revenue net of direct expenses ($8 million), higher interest income ($2 million), lower equity in losses ($1 million), and lower interest expense ($1 million). These increases were partially offset by higher general, administrative, and other expenses ($35 million) and lower gains and other income ($35 million).

First Three Quarters. Net income increased by $85 million to $475 million in the 2013 first three quarters from $390 million in the 2012 first three quarters, and diluted earnings per share increased by $0.35 per share (30 percent) to $1.51 per share from $1.16 per share in the 2012 first three quarters. As discussed in more detail in the preceding sections beginning with "Revenues" or as shown in the Consolidated Statements of Income, the $85 million increase in net income compared to the year-ago period was due to higher franchise fees ($83 million), higher base management fees ($70 million), higher incentive management fees ($41 million), higher owned, leased, corporate housing, and other revenue net of direct expenses ($12 million), lower interest expense ($8 million), lower equity in losses ($8 million), and higher interest income ($3 million). These increases were partially offset by higher general, administrative, and other expenses ($87 million), lower gains and other income ($29 million), and higher income taxes ($24 million).

Earnings Before Interest Expense, Taxes, Depreciation and Amortization ("EBITDA") and Adjusted EBITDA

EBITDA, a financial measure that is not prescribed or authorized by United States generally accepted accounting principles ("GAAP"), reflects earnings excluding the impact of interest expense, provision for income taxes, depreciation and amortization. We believe that EBITDA is a meaningful indicator of operating performance because we use it to measure our ability to service debt, fund capital expenditures, and expand our business. We also use EBITDA, as do analysts, lenders, investors and others, to evaluate companies because it excludes certain items that can vary widely across different industries or among companies within the same industry. For example, interest expense can be dependent on a company's capital structure, debt levels, and credit ratings. Accordingly, the impact of interest expense on earnings can vary significantly among companies. The tax positions of companies can also vary because of their differing abilities to take advantage of tax benefits and because of 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. EBITDA also excludes depreciation and amortization 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 believe that Adjusted EBITDA, another non-GAAP financial measure, is a meaningful indicator of operating performance. Our Adjusted EBITDA reflects an adjustment for the $41 million pre-tax gain on the 2012 third quarter sale of an equity interest in a North American Limited-Service joint venture discussed earlier in the "Gains and Other Income" caption. We believe that Adjusted EBITDA that excludes this item is a meaningful measure of our operating performance because it permits period-over-period comparisons of our ongoing core operations before this item and facilitates our comparison of results from our ongoing operations before this item with results from other lodging companies.

EBITDA and Adjusted EBITDA have limitations and should not be considered in isolation or as substitutes for performance measures calculated under GAAP. Both of these non-GAAP measures exclude certain cash expenses that we are obligated to make. In addition, other companies in our industry may calculate EBITDA and in particular Adjusted EBITDA differently than we do or may not calculate them at all, limiting EBITDA's and Adjusted EBITDA's usefulness as comparative measures.

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We show our EBITDA and Adjusted EBITDA calculations for the 2013 and 2012 third quarters and the 2013 and 2012 first three quarters and reconcile those measures with Net Income in the following table:

($ in millions)	92 Days Ended September 30, 2013	84 Days Ended September 7, 2012	276 Days Ended September 30, 2013	252 Days Ended September 7, 2012
Net Income	$160	$143	$475	$390
Interest expense	28	29	88	96
Tax provision	63	79	212	188
Depreciation and amortization	39	33	113	100
Less: Depreciation reimbursed by third-party owners	(5)	(3)	(14)	(11)
Interest expense from unconsolidated joint ventures	1	1	3	9
Depreciation and amortization from unconsolidated joint ventures	3	2	9	16
EBITDA	$289	$284	$886	$788
Less: Gain on Courtyard joint venture sale, pretax	—	(41)	—	(41)
Adjusted EBITDA	$289	$243	$886	$747

BUSINESS SEGMENTS

We are a diversified lodging company with operations in four business segments: North American Full-Service Lodging, North American Limited-Service Lodging, International Lodging, and Luxury Lodging. See Footnote No. 12, “Business Segments,” to our Financial Statements for further information on our segments including how we aggregate our individual brands into each segment and other information about each segment, including revenues and assets, as well as a reconciliation of segment results to net income.

We added 154 properties (31,882 rooms) and 43 properties (9,165 rooms) exited our system since the end of the 2012 third quarter. These figures do not include residential units. During that time we also added two residential properties (140 units) and no residential properties exited the system.

See the "CONSOLIDATED RESULTS" caption earlier in this report for additional information.

Third Quarter. Total segment financial results decreased by $1 million to $288 million in the 2013 third quarter from $289 million in the 2012 third quarter, and total segment revenues increased by $432 million to $3,091 million in the 2013 third quarter, a 16 percent increase from revenues of $2,659 million in the 2012 third quarter.

The quarter-over-quarter increase in segment revenues of $432 million was a result of a $360 million increase in cost reimbursements revenue, a $26 million increase in franchise fees, a $17 million increase in incentive management fees, a $16 million increase in base management fees, and a $13 million increase in owned, leased, corporate housing, and other revenue. The quarter-over-quarter decrease in segment results of $1 million across our lodging business reflected $41 million of lower gains and other income and a $21 million increase in general, administrative, and other expenses, mostly offset by a $26 million increase in franchise fees, a $17 million increase in incentive management fees, a $16 million increase in base management fees, and a $2 million increase in owned, leased, corporate housing, and other revenue net of direct expenses. For more information on the variances see the preceding sections beginning with “Revenues.”

In the 2013 third quarter, 32 percent of our managed properties paid incentive management fees to us versus 28 percent in the 2012 third quarter. In addition, in the 2013 third quarter, 66 percent of our incentive fees came from properties outside the United States, versus 79 percent in the 2012 third quarter. In North America, 16 percent of managed properties paid incentive management fees to us in the 2013 third quarter, compared to 12 percent in the 2012 third quarter. Further, in North America, 23 North American Full-Service segment properties and 17 North American Limited-Service segment properties earned a combined $10 million in incentive management fees in the 2013 third quarter, but did not earn any incentive management fees in the year-ago quarter.

See “Statistics” below for detailed information on Systemwide RevPAR and Company-operated RevPAR by segment, region, and brand.

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First Three Quarters. Total segment financial results increased by $97 million to $902 million in the 2013 first three quarters from $805 million in the 2012 first three quarters, and total segment revenues increased by $1,506 million to $9,366 million in the 2013 first three quarters, a 19 percent increase from revenues of $7,860 million in the 2012 first three quarters.

The year-over-year increase in segment revenues of $1,506 million was a result of a $1,325 million increase in cost reimbursements revenue, an $81 million increase in franchise fees, a $70 million increase in base management fees, and a $41 million increase in incentive management fees, partially offset by an $11 million decrease in owned, leased, corporate housing, and other revenue. The year-over-year increase in segment results of $97 million across our lodging business reflected an $81 million increase in franchise fees, a $70 million increase in base management fees, a $41 million increase in incentive management fees, and $7 million in decreased joint venture equity losses, partially offset by a $52 million increase in general, administrative, and other expenses, $43 million of lower gains and other income, and a $7 million decrease in owned, leased, corporate housing, and other revenue net of direct expenses. For more information on the variances see the preceding sections beginning with “Revenues.”

In the 2013 first three quarters, 38 percent of our managed properties paid incentive management fees to us versus 32 percent in the 2012 first three quarters. In addition, in the 2013 first three quarters, 56 percent of our incentive fees came from properties outside the United States, versus 65 percent in the 2012 first three quarters. In North America, 22 percent of managed properties paid incentive management fees to us in the 2013 first three quarters, compared to 15 percent in the 2012 first three quarters. Further, in North America, 32 North American Full-Service segment properties, 24 North American Limited-Service segment properties, and 2 Luxury segment properties earned a combined $15 million in incentive management fees in the 2013 first three quarters, but did not earn any incentive management fees in the 2012 first three quarters.

Summary of Properties by Brand

Including residential properties, we added 44 lodging properties (6,580 rooms) during the 2013 third quarter, while 8 properties (2,220 rooms) exited the system, increasing our total properties to 3,883 (670,507 rooms). These figures include 37 home and condominium products (4,067 units), for which we manage the related owners’ associations. Unless otherwise indicated, our references to Marriott Hotels throughout this report include JW Marriott and Marriott Conference Centers, references to Renaissance Hotels include Renaissance ClubSport, and references to Fairfield Inn & Suites include Fairfield Inn.

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At September 30, 2013, we operated, franchised, and licensed the following properties by brand:

	Company-Operated		Franchised / Licensed		Other [3]	
Brand	Properties	Rooms	Properties	Rooms	Properties	Rooms
U.S. Locations						
Marriott Hotels	133	68,982	182	55,380	—	—
Marriott Conference Centers	10	2,915	—	—	—	—
JW Marriott	15	9,735	7	2,914	—	—
Renaissance Hotels	33	15,035	41	11,805	—	—
Renaissance ClubSport	—	—	2	349	—	—
Gaylord Hotels	5	8,098	—	—	—	—
Autograph Collection	—	—	30	8,059	—	—
The Ritz-Carlton	37	11,048	—	—	—	—
The Ritz-Carlton-Residential [1]	30	3,598	—	—	—	—
Courtyard	275	43,200	555	73,349	—	—
Fairfield Inn & Suites	4	1,197	690	62,088	—	—
SpringHill Suites	29	4,582	274	30,971	—	—
Residence Inn	123	17,884	499	57,215	—	—
TownePlace Suites	22	2,440	196	19,190	—	—
Timeshare [2]	—	—	48	10,560	—	—
Total U.S. Locations	716	188,714	2,524	331,880	—	—
Non-U.S. Locations						
Marriott Hotels	137	40,456	35	10,340	—	—
JW Marriott	35	12,841	4	1,016	—	—
Renaissance Hotels	56	18,478	22	6,725	—	—
Autograph Collection	1	308	14	1,729	5	348
The Ritz-Carlton	42	12,660	—	—	—	—
The Ritz-Carlton-Residential [1]	7	469	—	—	—	—
The Ritz-Carlton Serviced Apartments	4	579	—	—	—	—
EDITION	2	251	—	—	—	—
AC Hotels by Marriott	—	—	—	—	75	8,491
Bulgari Hotels & Resorts	2	117	1	85	—	—
Marriott Executive Apartments	27	4,295	—	—	—	—
Courtyard	60	12,829	56	9,898	—	—
Fairfield Inn & Suites	—	—	16	1,896	—	—
SpringHill Suites	—	—	2	299	—	—
Residence Inn	6	749	17	2,480	—	—
TownePlace Suites	—	—	2	278	—	—
Timeshare [2]	—	—	15	2,296	—	—
Total Non-U.S. Locations	379	104,032	184	37,042	80	8,839
Total	1,095	292,746	2,708	368,922	80	8,839

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

(2) 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. Includes products that are in active sales as well as those that are sold out. MVW's property and room counts are reported on a period-end basis for the

MVW quarter ended September 6, 2013.

(3) Properties operated by or franchised in connection with unconsolidated joint ventures that hold management agreements and also provide services to franchised properties.

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Total Lodging and Timeshare Products by Segment

At September 30, 2013, we operated, franchised, and licensed the following properties by segment:

	Total Lodging and Timeshare Products					
	Properties			Rooms		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
North American Full-Service Lodging Segment (1)						
Marriott Hotels	315	15	330	124,362	5,355	129,717
Marriott Conference Centers	10	—	10	2,915	—	2,915
JW Marriott	22	1	23	12,649	221	12,870
Renaissance Hotels	74	2	76	26,840	790	27,630
Renaissance ClubSport	2	—	2	349	—	349
Gaylord Hotels	5	—	5	8,098	—	8,098
Autograph Collection	30	—	30	8,059	—	8,059
	458	18	476	183,272	6,366	189,638
North American Limited-Service Lodging Segment (1)						
Courtyard	830	21	851	116,549	3,835	120,384
Fairfield Inn & Suites	694	14	708	63,285	1,562	64,847
SpringHill Suites	303	2	305	35,553	299	35,852
Residence Inn	622	19	641	75,099	2,808	77,907
TownePlace Suites	218	2	220	21,630	278	21,908
	2,667	58	2,725	312,116	8,782	320,898
International Lodging Segment (1)						
Marriott Hotels	—	157	157	—	45,441	45,441
JW Marriott	—	38	38	—	13,636	13,636
Renaissance Hotels	—	76	76	—	24,413	24,413
Autograph Collection	—	15	15	—	2,037	2,037
Courtyard	—	95	95	—	18,892	18,892
Fairfield Inn & Suites	—	2	2	—	334	334
Residence Inn	—	4	4	—	421	421
Marriott Executive Apartments	—	27	27	—	4,295	4,295
	—	414	414	—	109,469	109,469
Luxury Lodging Segment						
The Ritz-Carlton	37	42	79	11,048	12,660	23,708
Bulgari Hotels & Resorts	—	3	3	—	202	202
EDITION	—	2	2	—	251	251
The Ritz-Carlton-Residential (2)	30	7	37	3,598	469	4,067
The Ritz-Carlton Serviced Apartments	—	4	4	—	579	579
	67	58	125	14,646	14,161	28,807
Unconsolidated Joint Ventures						
Autograph Collection	—	5	5	—	348	348
AC Hotels by Marriott	—	75	75	—	8,491	8,491
	—	80	80	—	8,839	8,839
Timeshare (3)	48	15	63	10,560	2,296	12,856
Total	3,240	643	3,883	520,594	149,913	670,507

(1) North American includes properties located in the United States and Canada. International includes properties located outside the United States and Canada.

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

(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. Includes products that are in active sales as well as those that are sold out. MVW's property and room counts are reported on a period-end basis for the MVW quarter ended September 6, 2013.

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The following tables show occupancy, average daily rate, and RevPAR for comparable properties, for each of the brands in our North American Full-Service and North American Limited-Service segments, for our International segment by region, and our Luxury segment. 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 (1)		Comparable Systemwide North American Properties (1)	
	Three Months Ended September 30, 2013	Change vs. Three Months Ended September 30, 2012	Three Months Ended September 30, 2013	Change vs. Three Months Ended September 30, 2012
Marriott Hotels				
Occupancy	75.1%	0.6% pts.	73.2%	0.7% pts.
Average Daily Rate	$172.54	4.7%	$159.50	4.4%
RevPAR	$129.53	5.5%	$116.74	5.4%
Renaissance Hotels				
Occupancy	74.3%	0.6% pts.	73.0%	0.7% pts.
Average Daily Rate	$161.64	2.3%	$148.25	3.2%
RevPAR	$120.06	3.2%	$108.27	4.2%
Autograph Collection				
Occupancy	*	*	77.8%	2.3% pts.
Average Daily Rate	*	*	$192.53	2.2%
RevPAR	*	*	$149.77	5.4%
Composite North American Full-Service				
Occupancy	75.0%	0.6% pts.	73.3%	0.8% pts.
Average Daily Rate	$171.10	4.4%	$158.98	4.2%
RevPAR	$128.26	5.2%	$116.56	5.3%
The Ritz-Carlton North America				
Occupancy	70.5%	0.9% pts.	70.5%	0.9% pts.
Average Daily Rate	$308.96	7.4%	$308.96	7.4%
RevPAR	$217.77	8.8%	$217.77	8.8%
Composite North American Full-Service and Luxury				
Occupancy	74.5%	0.6% pts.	73.2%	0.8% pts.
Average Daily Rate	$184.20	4.9%	$167.17	4.5%
RevPAR	$137.26	5.7%	$122.30	5.6%
Residence Inn				
Occupancy	80.0%	—% pts.	81.9%	0.5% pts.
Average Daily Rate	$127.88	2.5%	$127.51	3.6%
RevPAR	$102.29	2.5%	$104.45	4.2%
Courtyard				
Occupancy	72.0%	1.5% pts.	74.1%	1.3% pts.
Average Daily Rate	$121.93	4.0%	$124.51	3.7%
RevPAR	$87.74	6.2%	$92.25	5.5%
Fairfield Inn & Suites				
Occupancy	nm	nm pts.	73.0%	1.1% pts.
Average Daily Rate	nm	nm	$101.02	3.4%
RevPAR	nm	nm	$73.72	5.0%
TownePlace Suites				
Occupancy	76.6%	(0.3)% pts.	76.9%	0.2% pts.
Average Daily Rate	$90.17	6.3%	$92.53	1.9%
RevPAR	$69.10	5.9%	$71.13	2.1%

SpringHill Suites								
Occupancy	74.5	%	0.2	% pts.	75.9	%	1.7	% pts.
Average Daily Rate	$102.04		1.0	%	$109.10		3.1	%
RevPAR	$76.00		1.3	%	$82.77		5.5	%
Composite North American Limited-Service								
Occupancy	74.6	%	1.0	% pts.	76.1	%	1.0	% pts.
Average Daily Rate	$120.78		3.5	%	$116.80		3.5	%
RevPAR	$90.04		4.9	%	$88.91		4.9	%
Composite North American - All								
Occupancy	74.5	%	0.8	% pts.	75.0	%	0.9	% pts.
Average Daily Rate	$157.60		4.4	%	$134.60		3.9	%
RevPAR	$117.46		5.5	%	$101.01		5.2	%

* There are no company-operated properties.
nm means not meaningful as the brand is predominantly franchised.
(1) Statistics include only properties located in the United States.

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	Comparable Company-Operated Properties		Comparable Systemwide Properties	
	Three Months Ended September 30, 2013	Change vs. Three Months Ended September 30, 2012	Three Months Ended September 30, 2013	Change vs. Three Months Ended September 30, 2012
Caribbean and Latin America				
Occupancy	71.6%	0.5% pts.	71.3%	1.6% pts.
Average Daily Rate	$192.09	8.1%	$167.64	5.1%
RevPAR	$137.62	8.9%	$119.51	7.5%
Europe				
Occupancy	80.4%	3.1% pts.	79.1%	3.1% pts.
Average Daily Rate	$169.52	(3.4)%	$164.08	(1.7)%
RevPAR	$136.27	0.5%	$129.76	2.2%
Middle East and Africa				
Occupancy	46.3%	(10.8)% pts.	47.4%	(9.7)% pts.
Average Daily Rate	$142.57	7.7%	$138.65	6.9%
RevPAR	$66.03	(12.7)%	$65.72	(11.3)%
Asia Pacific				
Occupancy	73.5%	2.9% pts.	74.2%	2.9% pts.
Average Daily Rate	$133.20	(1.3)%	$142.79	(0.2)%
RevPAR	$97.97	2.8%	$105.90	3.8%
Regional Composite (1)				
Occupancy	73.0%	1.2% pts.	73.3%	1.6% pts.
Average Daily Rate	$156.38	(0.3)%	$155.98	0.5%
RevPAR	$114.14	1.3%	$114.32	2.7%
International Luxury (2)				
Occupancy	61.1%	0.1% pts.	61.1%	0.1% pts.
Average Daily Rate	$339.55	7.1%	$339.55	7.1%
RevPAR	$207.36	7.3%	$207.36	7.3%
Total International (3)				
Occupancy	71.6%	1.1% pts.	72.1%	1.5% pts.
Average Daily Rate	$174.97	0.9%	$170.90	1.3%
RevPAR	$125.23	2.5%	$123.24	3.4%

(1) Company-operated statistics include properties located outside of the United States and Canada for the Marriott Hotels, Renaissance Hotels, Courtyard, and Residence Inn brands. In addition to the foregoing brands, systemwide statistics also include properties located outside of the United States and Canada for Autograph Collection and Fairfield Inn & Suites brands.

(2) International Luxury includes The Ritz-Carlton properties located outside the United States and Canada, as well as Bulgari Hotels & Resorts and EDITION properties.

(3) Total International includes Regional Composite statistics and International Luxury statistics.

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	Comparable Company-Operated Properties		Comparable Systemwide Properties	
	Three Months Ended September 30, 2013	Change vs. Three Months Ended September 30, 2012	Three Months Ended September 30, 2013	Change vs. Three Months Ended September 30, 2012
Composite Luxury [1]				
Occupancy	65.9 %	0.5 % pts.	65.9 %	0.5 % pts.
Average Daily Rate	$322.77	7.2 %	$322.77	7.2 %
RevPAR	$212.70	8.1 %	$212.70	8.1 %
Total Worldwide [2]				
Occupancy	73.6 %	0.9 % pts.	74.6 %	1.0 % pts.
Average Daily Rate	$162.97	3.2 %	$140.53	3.4 %
RevPAR	$119.93	4.4 %	$104.77	4.8 %

(1) Composite Luxury includes worldwide properties for The Ritz-Carlton, Bulgari Hotels & Resorts, and EDITION brands.

(2) Company-operated statistics include properties worldwide for Marriott Hotels, Renaissance Hotels, The Ritz-Carlton, Bulgari Hotels & Resorts, EDITION, Residence Inn, Courtyard, Fairfield Inn & Suites, TownePlace Suites, and SpringHill Suites brands. In addition to the foregoing brands, systemwide statistics also include properties worldwide for the Autograph Collection brand.

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	Comparable Company-Operated North American Properties (1)		Comparable Systemwide North American Properties (1)	
	Nine Months Ended September 30, 2013	Change vs. Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Change vs. Nine Months Ended September 30, 2012
Marriott Hotels				
Occupancy	74.6%	0.7% pts.	72.5%	1.0% pts.
Average Daily Rate	$177.73	4.6%	$163.51	4.0%
RevPAR	$132.60	5.6%	$118.52	5.4%
Renaissance Hotels				
Occupancy	75.0%	0.4% pts.	72.7%	0.9% pts.
Average Daily Rate	$170.37	3.5%	$153.11	3.5%
RevPAR	$127.73	4.2%	$111.37	4.8%
Autograph Collection				
Occupancy	*	*	77.2%	1.6% pts.
Average Daily Rate	*	*	$201.70	4.0%
RevPAR	*	*	$155.65	6.3%
Composite North American Full-Service				
Occupancy	74.7%	0.6% pts.	72.7%	1.0% pts.
Average Daily Rate	$176.75	4.5%	$163.29	4.0%
RevPAR	$131.95	5.4%	$118.67	5.4%
The Ritz-Carlton North America				
Occupancy	72.2%	1.3% pts.	72.2%	1.3% pts.
Average Daily Rate	$319.98	6.3%	$319.98	6.3%
RevPAR	$230.95	8.2%	$230.95	8.2%
Composite North American Full-Service and Luxury				
Occupancy	74.4%	0.7% pts.	72.6%	1.0% pts.
Average Daily Rate	$190.71	4.8%	$172.11	4.2%
RevPAR	$141.89	5.8%	$125.03	5.7%
Residence Inn				
Occupancy	77.7%	0.8% pts.	78.9%	0.5% pts.
Average Daily Rate	$128.06	2.8%	$125.57	3.8%
RevPAR	$99.51	3.8%	$99.13	4.4%
Courtyard				
Occupancy	69.7%	0.6% pts.	71.6%	0.8% pts.
Average Daily Rate	$122.25	4.3%	$123.50	3.9%
RevPAR	$85.17	5.2%	$88.43	5.0%
Fairfield Inn & Suites				
Occupancy	nm	nm pts.	69.4%	0.6% pts.
Average Daily Rate	nm	nm	$98.70	3.6%
RevPAR	nm	nm	$68.52	4.6%
TownePlace Suites				
Occupancy	70.1%	(2.7)% pts.	73.4%	(0.5)% pts.
Average Daily Rate	$88.89	6.8%	$92.06	2.4%
RevPAR	$62.36	2.8%	$67.54	1.7%

SpringHill Suites								
Occupancy	73.4	%	1.5	% pts.	73.6	%	1.2	% pts.
Average Daily Rate	$107.40		2.4	%	$108.32		3.5	%
RevPAR	$78.83		4.5	%	$79.72		5.2	%
Composite North American Limited-Service								
Occupancy	72.2	%	0.6	% pts.	73.3	%	0.6	% pts.
Average Daily Rate	$121.43		3.9	%	$115.41		3.7	%
RevPAR	$87.70		4.8	%	$84.55		4.6	%
Composite North American - All								
Occupancy	73.5	%	0.7	% pts.	73.0	%	0.8	% pts.
Average Daily Rate	$162.16		4.5	%	$135.85		4.0	%
RevPAR	$119.17		5.5	%	$99.22		5.1	%

* There are no company-operated properties.
nm means not meaningful as the brand is predominantly franchised.
(1) Statistics include only properties located in the United States.

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	Comparable Company-Operated Properties		Comparable Systemwide Properties	
	Nine Months Ended September 30, 2013	Change vs. Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Change vs. Nine Months Ended September 30, 2012
Caribbean and Latin America				
Occupancy	74.4 %	0.6 % pts.	72.7 %	1.8 % pts.
Average Daily Rate	$208.03	5.1 %	$182.24	3.4 %
RevPAR	$154.70	6.0 %	$132.52	5.9 %
Europe				
Occupancy	73.9 %	1.7 % pts.	72.3 %	1.7 % pts.
Average Daily Rate	$170.44	(2.4)%	$165.35	(1.6)%
RevPAR	$125.93	(0.1)%	$119.51	0.8 %
Middle East and Africa				
Occupancy	55.9 %	(0.7)% pts.	56.5 %	(0.4)% pts.
Average Daily Rate	$145.70	2.8 %	$142.31	2.9 %
RevPAR	$81.45	1.4 %	$80.39	2.2 %
Asia Pacific				
Occupancy	72.0 %	1.7 % pts.	72.4 %	1.8 % pts.
Average Daily Rate	$140.98	0.3 %	$145.72	0.6 %
RevPAR	$101.51	2.7 %	$105.56	3.2 %
Regional Composite (1)				
Occupancy	71.2 %	1.3 % pts.	70.9 %	1.6 % pts.
Average Daily Rate	$161.61	— %	$159.73	0.3 %
RevPAR	$115.11	1.9 %	$113.29	2.5 %
International Luxury (2)				
Occupancy	65.1 %	2.2 % pts.	65.1 %	2.2 % pts.
Average Daily Rate	$365.24	4.2 %	$365.24	4.2 %
RevPAR	$237.90	7.8 %	$237.90	7.8 %
Total International (3)				
Occupancy	70.5 %	1.4 % pts.	70.4 %	1.6 % pts.
Average Daily Rate	$183.99	1.1 %	$177.97	1.1 %
RevPAR	$129.72	3.1 %	$125.24	3.5 %

(1) Company-operated statistics include properties located outside of the United States and Canada for the Marriott Hotels, Renaissance Hotels, Courtyard, and Residence Inn brands. In addition to the foregoing brands, systemwide statistics also include properties located outside of the United States and Canada for Autograph Collection and Fairfield Inn & Suites brands.

(2) International Luxury includes The Ritz-Carlton properties located outside the United States and Canada, as well as Bulgari Hotels & Resorts and EDITION properties.

(3) Total International includes Regional Composite statistics and International Luxury statistics.

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	Comparable Company-Operated Properties		Comparable Systemwide Properties	
	Nine Months Ended September 30, 2013	Change vs. Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Change vs. Nine Months Ended September 30, 2012
Composite Luxury [1]				
Occupancy	68.7 %	1.7 % pts.	68.7 %	1.7 % pts.
Average Daily Rate	$340.88	5.3 %	$340.88	5.3 %
RevPAR	$234.34	8.0 %	$234.34	8.0 %
Total Worldwide [2]				
Occupancy	72.5 %	0.9 % pts.	72.6 %	0.9 % pts.
Average Daily Rate	$168.90	3.4 %	$142.76	3.4 %
RevPAR	$122.52	4.7 %	$103.62	4.8 %

(1) Composite Luxury includes worldwide properties for The Ritz-Carlton, Bulgari Hotels & Resorts, and EDITION brands.

(2) Company-operated statistics include properties worldwide for Marriott Hotels, Renaissance Hotels, The Ritz-Carlton, Bulgari Hotels & Resorts, EDITION, Residence Inn, Courtyard, Fairfield Inn & Suites, TownePlace Suites, and SpringHill Suites brands. In addition to the foregoing brands, systemwide statistics also include properties worldwide for the Autograph Collection brand.

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North American Full-Service Lodging includes Marriott Hotels, JW Marriott, Renaissance Hotels, Gaylord Hotels, and Autograph Collection.

($ in millions)	92 Days Ended September 30, 2013	84 Days Ended September 7, 2012	Change 2013/2012		276 Days Ended September 30, 2013	252 Days Ended September 7, 2012	Change 2013/2012	
Segment revenues	$1,595	$1,332	20	%	$4,935	$4,006	23	%
Segment results	$96	$76	26	%	$341	$275	24	%

Since the 2012 third quarter, across our North American Full-Service Lodging segment we added 20 properties (12,018 rooms) and 12 properties (4,616 rooms) left the system.

Third Quarter. For the three months ended September 30, 2013, compared to the three months ended September 30, 2012, RevPAR for comparable systemwide North American Full-Service properties increased by 5.3 percent to $116.56, occupancy for these properties increased by 0.8 percentage points to 73.3 percent, and average daily rates increased by 4.2 percent to $158.98.

The $20 million increase in segment results, compared to the 2012 third quarter, was driven by $17 million of higher base management and franchise fees, and $9 million of higher incentive management fees, partially offset by $6 million of higher general, administrative, and other expenses. Higher base management and franchise fees stemmed from both higher RevPAR due to increased demand and unit growth, including the Gaylord brand properties we began managing in the 2012 fourth quarter, and also reflected fees for the additional eight days of activity. The $9 million increase in incentive management fees primarily reflected fees for the additional eight days of activity, as well as higher property-level revenue which resulted in higher property-level income and margins. The $6 million increase in general, administrative, and other expenses largely reflected the following 2013 third quarter items: $3 million of increased amortization of deferred contract acquisition costs, primarily associated with the Gaylord brand and hotel management company acquisition and $3 million in other net miscellaneous cost increases (which included expenses for the additional eight days of activity).

Cost reimbursements revenue and expenses for our North American Full-Service Lodging segment properties totaled $1,438 million in the 2013 third quarter, compared to $1,206 million in the 2012 third quarter.

First Three Quarters. For the nine months ended September 30, 2013, compared to the nine months ended September 30, 2012, RevPAR for comparable systemwide North American Full-Service properties increased by 5.4 percent to $118.67, occupancy for these properties increased by 1.0 percentage points to 72.7 percent, and average daily rates increased by 4.0 percent to $163.29.

The $66 million increase in segment results, compared to the 2012 first three quarters, was driven by $56 million of higher base management and franchise fees and $25 million of higher incentive management fees, partially offset by $9 million of higher general, administrative, and other expenses and $6 million of lower owned, leased, and other revenue net of direct expenses. Higher base management and franchise fees stemmed from both higher RevPAR due to increased demand and unit growth, including the Gaylord brand properties we began managing in the 2012 fourth quarter, and also reflected fees for the additional 24 days of activity. The $25 million increase in incentive management fees primarily reflected fees for the additional 24 days of activity, as well as higher property-level revenue which resulted in higher property-level income. The $9 million increase in general, administrative, and other expenses reflected the following 2013 first three quarters items: $4 million of amortization of deferred contract acquisition costs associated with the Gaylord brand and hotel management company acquisition, the $3 million impairment of deferred contract acquisition costs related to three properties that left the system, and $10 million in other net miscellaneous cost increases (which included expenses for the additional 24 days of activity). These increases were partially offset by a favorable variance from the accelerated amortization through the 2012 second quarter of $8 million of deferred contract acquisition costs for a property that exited our system and for which we earned a $14 million termination fee. The $6 million decrease in owned, leased, and other revenue net of direct expenses was primarily driven by our recognition in the 2012 second quarter of a $14 million termination fee for one property, partially offset by $7 million in termination fees received in the 2013 first three quarters for four properties and $3 million of stronger results at one leased property.

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Cost reimbursements revenue and expenses for our North American Full-Service Lodging segment properties totaled $4,411 million in the 2013 first three quarters, compared to $3,570 million in the 2012 first three quarters.

North American Limited-Service Lodging includes Courtyard, Fairfield Inn & Suites, SpringHill Suites, Residence Inn, TownePlace Suites, and included Marriott ExecuStay until we sold that business in the 2012 second quarter.

($ in millions)	92 Days Ended September 30, 2013	84 Days Ended September 7, 2012	Change 2013/2012		276 Days Ended September 30, 2013	252 Days Ended September 7, 2012	Change 2013/2012	
Segment revenues	$695	$612	14	%	$1,970	$1,735	14	%
Segment results	$131	$157						