

MARRIOTT INTERNATIONAL INC /MD/
Form 10-Q
July 28, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from _____ to _____
Commission File No. 1-13881

MARRIOTT INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Delaware	52-2055918
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

10400 Fernwood Road, Bethesda, Maryland 20817
(Address of principal executive offices) (Zip Code)
(301) 380-3000
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 254,400,460 shares of Class A Common Stock, par value \$0.01 per share, outstanding at July 15, 2016.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
REVENUES				
Base management fees	\$ 186	\$ 191	\$ 358	\$ 356
Franchise fees	235	221	442	425
Incentive management fees	94	81	195	170
Owned, leased, and other revenue	245	243	492	500
Cost reimbursements	3,142	2,953	6,187	5,751
	3,902	3,689	7,674	7,202
OPERATING COSTS AND EXPENSES				
Owned, leased, and other - direct	173	183	339	377
Reimbursed costs	3,142	2,953	6,187	5,751
Depreciation, amortization, and other	30	32	61	76
General, administrative, and other	168	152	331	297
	3,513	3,320	6,918	6,501
OPERATING INCOME	389	369	756	701
Gains and other income, net	—	20	—	20
Interest expense	(57)	(42)	(104)	(78)
Interest income	7	6	13	14
Equity in earnings	5	2	5	5
INCOME BEFORE INCOME TAXES	344	355	670	662
Provision for income taxes	(97)	(115)	(204)	(215)
NET INCOME	\$ 247	\$ 240	\$ 466	\$ 447
EARNINGS PER SHARE				
Earnings per share - basic	\$ 0.97	\$ 0.88	\$ 1.83	\$ 1.63
Earnings per share - diluted	\$ 0.96	\$ 0.87	\$ 1.80	\$ 1.59
CASH DIVIDENDS DECLARED PER SHARE	\$ 0.30	\$ 0.25	\$ 0.55	\$ 0.45

See Notes to Condensed Consolidated Financial Statements.

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MARRIOTT INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$ in millions)

(Unaudited)

	Three Months		Six Months	
	Ended		Ended	
	June 30,	June 30,	June 30,	June 30,
	2016	2015	2016	2015
Net income	\$247	\$ 240	\$466	\$ 447
Other comprehensive income (loss):				
Foreign currency translation adjustments	3	7	25	(19)
Derivative instrument adjustments, net of tax	1	(2)	(4)	7
Unrealized loss on available-for-sale securities, net of tax	(1)	(1)	—	(2)
Reclassification of losses (gains), net of tax	1	(2)	2	(4)
Total other comprehensive income (loss), net of tax	4	2	23	(18)
Comprehensive income	\$251	\$ 242	\$489	\$ 429

See Notes to Condensed Consolidated Financial Statements.

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

	(Unaudited)	
	June 30, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and equivalents	\$ 679	\$ 96
Accounts and notes receivable, net	1,152	1,103
Prepaid expenses	71	77
Other	26	30
Assets held for sale	31	78
	1,959	1,384
Property and equipment, net	1,056	1,029
Intangible assets		
Contract acquisition costs and other	1,473	1,451
Goodwill	947	943
	2,420	2,394
Equity and cost method investments	179	165
Notes receivable, net	227	215
Deferred taxes, net	586	672
Other noncurrent assets	223	223
	\$ 6,650	\$ 6,082
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities		
Current portion of long-term debt	\$ 303	\$ 300
Accounts payable	621	593
Accrued payroll and benefits	756	861
Liability for guest loyalty programs	992	952
Accrued expenses and other	572	527
	3,244	3,233
Long-term debt	4,057	3,807
Liability for guest loyalty programs	1,720	1,622
Other noncurrent liabilities	1,091	1,010
Shareholders' deficit		
Class A Common Stock	5	5
Additional paid-in-capital	2,787	2,821
Retained earnings	5,185	4,878
Treasury stock, at cost	(11,266)	(11,098)
Accumulated other comprehensive loss	(173)	(196)
	(3,462)	(3,590)
	\$ 6,650	\$ 6,082

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended	
	June 30,	June 30,
	2016	2015
OPERATING ACTIVITIES		
Net income	\$466	\$ 447
Adjustments to reconcile to cash provided by operating activities:		
Depreciation, amortization, and other	61	76
Share-based compensation	59	55
Income taxes	61	99
Liability for guest loyalty programs	131	101
Working capital changes	(45)	(68)
Other	65	42
Net cash provided by operating activities	798	752
INVESTING ACTIVITIES		
Capital expenditures	(78)	(159)
Dispositions	53	581
Loan advances	(24)	(12)
Loan collections	2	14
Contract acquisition costs	(37)	(72)
Acquisition of a business, net of cash acquired	—	(136)
Redemption of debt security	—	121
Other	12	15
Net cash (used in) provided by investing activities	(72)	352
FINANCING ACTIVITIES		
Commercial paper/Credit Facility, net	(941)	136
Issuance of long-term debt	1,483	—
Repayment of long-term debt	(294)	(4)
Issuance of Class A Common Stock	16	31
Dividends paid	(140)	(124)
Purchase of treasury stock	(249)	(1,107)
Other	(18)	—
Net cash used in financing activities	(143)	(1,068)
INCREASE IN CASH AND EQUIVALENTS	583	36
CASH AND EQUIVALENTS, beginning of period	96	104
CASH AND EQUIVALENTS, end of period	\$679	\$ 140
See Notes to Condensed Consolidated Financial Statements.		

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MARRIOTT INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

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

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

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

The accompanying Financial Statements reflect all normal and recurring adjustments necessary to present fairly our financial position as of June 30, 2016 and December 31, 2015, the results of our operations for the three and six months ended June 30, 2016 and June 30, 2015, and cash flows for the six months ended June 30, 2016 and June 30, 2015. Interim results may not be indicative of fiscal year performance because of seasonal and short-term variations. We have eliminated all material intercompany transactions and balances between entities consolidated in these Financial Statements.

New Accounting Standards

Accounting Standards Update No. 2014-09 - “Revenue from Contracts with Customers” (“ASU No. 2014-09”) ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, as well as most industry-specific guidance, and significantly enhances comparability of revenue recognition practices across entities and industries by providing a principles-based, comprehensive framework for addressing revenue recognition issues. In order for a provider of promised goods or services to recognize as revenue the consideration that it expects to receive in exchange for the promised goods or services, the provider should apply the following five steps: (1) identify the contract with a customer(s); (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU No. 2014-09 also specifies the accounting for some costs to obtain or fulfill a contract with a customer and provides enhanced disclosure requirements. The Financial Accounting Standards Board (“FASB”) has deferred ASU No. 2014-09 for one year, and with that deferral, the standard will be effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, which for us will be our 2018 first quarter. We are permitted to use either the retrospective or the modified retrospective method when adopting ASU No. 2014-09. We are still assessing the potential impact that ASU No. 2014-09 will have on our financial statements and disclosures, but we believe that there could be changes to the revenue recognition of real estate sales, franchise fees, and incentive management fees.

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

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

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

In March 2016, the FASB issued ASU No. 2016-09, which involves several aspects of the accounting for share-based payments. The new guidance will require all income tax effects of awards, including excess tax benefits, to be recorded as income tax expense (or benefit) in the income statement. Currently, excess tax benefits are recorded in additional paid-in-capital in the balance sheet. In the statement of cash flows, the new guidance requires excess tax benefits to be presented as an operating inflow rather than as a financing inflow. ASU No. 2016-09 is effective for annual and interim periods beginning after December 15, 2016. We are still assessing the potential impact that ASU No. 2016-09 will have on our financial statements and disclosures.

2. ACQUISITIONS AND DISPOSITIONS

Planned Acquisition

On November 15, 2015, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) to combine with Starwood Hotels & Resorts Worldwide, Inc. (“Starwood”). The Merger Agreement provides for the Company to combine with Starwood in a series of transactions after which Starwood will be an indirect wholly owned subsidiary of the Company (the “Starwood Combination”). On March 20, 2016, we entered into Amendment Number 1 (the “Amendment”) to the Merger Agreement. The Amendment modified the merger consideration payable to shareholders of Starwood. If the combination transactions are completed, shareholders of Starwood will receive 0.80 shares of our Class A Common Stock, par value \$0.01 per share, and \$21.00 in cash, without interest, for each share of Starwood common stock, par value \$0.01 per share, that they own immediately before these transactions. On April 8, 2016, shareholders of both Marriott and Starwood approved the combination transactions, and in the 2016 first half, we cleared the antitrust and competition reviews in a number of jurisdictions, including the United States, Canada, Saudi Arabia, Mexico, and European Union. We expect that the combination will close in the 2016 third quarter, after remaining customary conditions are satisfied, including receipt of an additional antitrust approval.

Dispositions and Planned Dispositions

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

At the end of the 2016 second quarter, we held \$31 million of assets related to the remaining Miami Beach EDITION residences (the “residences”) classified as “Assets held for sale” and \$2 million of liabilities associated with those assets, which we recorded under “Accrued expenses and other” on our Balance Sheet.

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3. EARNINGS PER SHARE

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

(in millions, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Computation of Basic Earnings Per Share				
Net income	\$247	\$ 240	\$466	\$ 447
Weighted average shares outstanding	254.3	272.4	254.3	275.1
Basic earnings per share	\$0.97	\$ 0.88	\$1.83	\$ 1.63
Computation of Diluted Earnings Per Share				
Net income	\$247	\$ 240	\$466	\$ 447
Weighted average shares outstanding	254.3	272.4	254.3	275.1
Effect of dilutive securities				
Employee stock option and appreciation right plans	1.7	2.3	1.9	2.4
Deferred stock incentive plans	0.5	0.6	0.6	0.6
Restricted stock units	1.5	2.0	1.9	2.5
Shares for diluted earnings per share	258.0	277.3	258.7	280.6
Diluted earnings per share	\$0.96	\$ 0.87	\$1.80	\$ 1.59

We compute the effect of dilutive securities using the treasury stock method and average market prices during the period. We excluded antidilutive stock options and stock appreciation rights of 0.3 million for the 2016 second quarter and 0.6 million for the 2016 first half and 0.3 million for the 2015 second quarter and 0.2 million for the 2015 first half from our calculation of diluted earnings per share because their exercise prices were greater than the average market prices.

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 (“common stock”); (2) stock appreciation rights (“SARs”) for our common stock (our “SAR Program”); (3) restricted stock units (“RSUs”) of our common stock; and (4) deferred stock units. We also issue performance-based RSUs (“PSUs”) to named executive officers and some of their direct reports under the Stock Plan. We grant awards at exercise prices or strike prices that equal the market price of our common stock on the date of grant.

We recorded share-based compensation expense for award grants of \$31 million for the 2016 second quarter and \$30 million for the 2015 second quarter, \$59 million for the 2016 first half, and \$55 million for the 2015 first half. Deferred compensation costs for unvested awards totaled \$213 million at June 30, 2016 and \$116 million at December 31, 2015.

RSUs and PSUs

We granted 1.6 million RSUs during the 2016 first half 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 granted 0.2 million PSUs during the 2016 first half to certain executive officers, subject to continued employment and the satisfaction of certain performance conditions based on achievement of pre-established targets for Adjusted EBITDA, RevPAR Index, room openings, and/or net administrative expense over, or at the end of, a three-year vesting period. We also granted 0.6 million PSUs during the 2016 first half to certain senior leaders and members of the Company’s Starwood integration team that, contingent upon the closing of the Starwood Combination and subject to continued employment, vest based upon achievement of pre-established targets related to the Starwood Combination over, or at the end of, a three-year performance period. RSUs, including PSUs, granted in the 2016 first half had a weighted average grant-date fair value of \$63.

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We granted 0.4 million SARs to officers, key employees, and non-employee directors during the 2016 first half. These SARs generally expire ten years after the grant date and both vest and may be exercised in cumulative installments of one quarter at the end of each of the first four years following the grant date. The weighted average grant-date fair value of SARs granted in the 2016 first half was \$24 and the weighted average exercise price was \$67.

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

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

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

Other Information

As of the end of the 2016 second quarter, we had 23 million remaining shares authorized under the Stock Plan.

5. INCOME TAXES

Our effective tax rate decreased from 32.4% to 28.3% for the three months ended June 30, 2016, and from 32.4% to 30.5% for the six months ended June 30, 2016, primarily due to a 2016 release of a valuation allowance related to a capital loss, partially offset by a \$5 million reserve established due to a recent examination of a tax position taken in a foreign jurisdiction.

For the 2016 second quarter, our unrecognized tax benefits balance of \$32 million increased by \$8 million from year-end 2015, consisting of \$4 million for tax positions taken during the current period and a \$4 million reserve due to a recent examination of a tax position taken in a foreign jurisdiction. The unrecognized tax benefits balance included \$22 million of tax positions that, if recognized, would impact our effective tax rate.

We file income tax returns, including returns for our subsidiaries, in various jurisdictions around the world. The U.S. Internal Revenue Service ("IRS") has examined our federal income tax returns, and we have settled all issues for tax years through 2013. We participate in the IRS Compliance Assurance Program, which accelerates IRS examination of key transactions with the goal of resolving any issues before the taxpayer files its return. As a result, our 2014 tax year audit is substantially complete. Our 2015 and 2016 tax year audits are currently ongoing. Various foreign, state, and local income tax returns are also under examination by the applicable taxing authorities.

We paid cash for income taxes, net of refunds, of \$128 million in the 2016 first half and \$90 million in the 2015 first half.

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6. COMMITMENTS AND CONTINGENCIES

Guarantees

We issue guarantees to certain lenders and hotel owners, chiefly to obtain long-term management contracts. The guarantees generally have a stated maximum funding amount and a term of 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 maturity. The terms of the guarantees to hotel owners generally require us to fund if the hotels do not attain specified levels of operating profit. Guarantee fundings to lenders and hotel owners are generally recoverable 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 present the maximum potential amount of our future guarantee fundings and the carrying amount of our liability for guarantees for which we are the primary obligor at June 30, 2016 in the following table:

(\$ in millions)	Maximum Potential Amount	Recorded Liability for Guarantees
Guarantee Type	of Future Fundings	Guarantees
Debt service	\$ 113	\$ 21
Operating profit	96	36
Other	8	1
Total guarantees where we are the primary obligor	\$ 217	\$ 58

Our liability at June 30, 2016, for guarantees for which we are the primary obligor is reflected in our Balance Sheets as \$58 million of “Other noncurrent liabilities.”

Our guarantees listed in the preceding table include \$11 million of debt service guarantees, \$44 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 table above does not include a “contingent purchase obligation,” which is not currently in effect, that we entered into in the 2014 first quarter to provide credit support to lenders for a construction loan. We entered into that agreement in conjunction with signing a management agreement for The Times Square EDITION hotel in New York City (currently projected to open in 2017), and the hotel’s ownership group obtaining acquisition financing and entering into agreements concerning future construction financing for the mixed use project (which includes both the hotel and adjacent retail space). Under the agreement, we granted the lenders the right, upon an uncured event of default by the hotel owner under, and an acceleration of, the mortgage loan, to require us to purchase the hotel component of the property for \$315 million during the first two years after opening (the “put option”). Because we would acquire the building upon exercise of the put option, we have not included the amount in the table above. The lenders may extend the period during which the put option is exercisable for up to three years to complete foreclosure if the loan has been accelerated and certain other conditions are met. We do not currently expect that the lenders will require us to purchase the hotel component. We have no ownership interest in this hotel.

The preceding table also does not include the following guarantees:

\$53 million of guarantees for Senior Living Services, consisting of lease obligations of \$38 million (expiring in 2019) and lifecare bonds of \$15 million (estimated to expire in 2019), for which we are secondarily liable. Sunrise Senior Living, Inc. (“Sunrise”) is the primary obligor on both the leases and \$3 million of the lifecare bonds; HCP, Inc., as successor by merger to CNL Retirement Properties, Inc. (“CNL”), is the primary obligor on the remaining \$12 million of the lifecare bonds. Before we sold the Senior Living Services business in 2003, these were our guarantees of obligations of our then consolidated Senior Living Services subsidiaries. Sunrise and CNL have indemnified us for any fundings we may be called upon to make under these guarantees. Our liability for these guarantees had a carrying value of \$3 million at June 30, 2016. In conjunction with our consent of the 2011 extension of certain lease obligations until 2018, Sunrise provided us with \$1 million of cash collateral and an \$85 million letter of credit issued by Key Bank to secure our continued exposure under

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the lease guarantees during the extension term and certain other obligations of Sunrise. The letter of credit balance was \$49 million at the end of the 2016 second quarter. During the extension term, Sunrise agreed to make an annual payment to us from the cash flow of the continuing lease facilities, subject to a \$1 million annual minimum. In the 2013 first quarter, Sunrise merged with Health Care REIT, Inc. (“HCN”), and Sunrise’s management business was acquired by an entity formed by affiliates of Kohlberg Kravis Roberts & Co. LP, Beecken Petty O’Keefe & Co., Coastwood Senior Housing Partners LLC, and HCN. In April of 2014, HCN and Revera Inc., a private provider of senior living services, acquired Sunrise’s management business.

Lease obligations, for which we became secondarily liable when we acquired the Renaissance Hotel Group N.V. in 1997, consisting of annual rent payments of approximately \$4 million and total remaining rent payments through the initial term of approximately \$17 million. The majority of these obligations expire by the end of 2020. CTF Holdings Ltd. (“CTF”) had originally provided €35 million in cash collateral in the event that we are required to fund under such guarantees, approximately \$2 million (€2 million) of which remained at June 30, 2016. Our exposure for the remaining rent payments through the initial term will decline to the extent that CTF obtains releases from the landlords or these hotels exit our system. Since the time we assumed these guarantees, we have not funded any amounts, and we do not expect to fund any amounts under these guarantees in the future.

A guarantee relating to the timeshare business, which was outstanding at the time of the 2011 Timeshare spin-off and for which we became secondarily liable as part of the spin-off. The guarantee relates to a Marriott Vacations Worldwide Corporation (“MVW”) payment obligation, for which we had an exposure of \$4 million (6 million Singapore Dollars) at June 30, 2016. MVW has indemnified us for this obligation, which we expect will expire in 2022. We have not funded any amounts under this obligation, and do not expect to do so in the future. Our liability for this obligation had a carrying value of \$1 million at June 30, 2016.

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

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

Commitments

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

A commitment to invest up to \$8 million of equity for a non-controlling 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 \$1 million of this commitment. We do not expect to fund the remaining \$7 million of this commitment prior to the end of the commitment period in 2019.

A commitment to invest up to \$22 million of equity for non-controlling interests in a partnership that plans to purchase or develop limited-service properties in Asia. We expect to fund \$2 million of this commitment in 2016. We do not expect to fund the remaining \$20 million of this commitment prior to the end of the commitment period in 2016.

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

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A commitment to invest up to \$3 million of equity into a joint venture in which we have a non-controlling interest in order to fund renovations of guest rooms. We expect to fully fund this commitment, which expires in 2016.

Various loan commitments totaling \$52 million, of which we expect to fund \$5 million in 2016, \$38 million in 2017, and \$9 million thereafter.

Various commitments to purchase information technology hardware, software, accounting, finance, and maintenance services in the normal course of business totaling \$120 million. We expect to purchase goods and services subject to these commitments as follows: \$54 million in 2016, \$51 million in 2017, \$11 million in 2018, and \$4 million thereafter.

Several commitments aggregating \$40 million, which we do not expect to fund.

Letters of Credit

At June 30, 2016, we had \$77 million of letters of credit outstanding (all outside the Credit Facility, as defined in Footnote No. 7, "Long-Term Debt"), the majority of which were for our self-insurance programs. Surety bonds issued as of June 30, 2016, totaled \$160 million, the majority of which state governments requested in connection with our self-insurance programs.

Legal Proceedings

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 received a complaint or other legal process. We are cooperating with this investigation, which continues to be ongoing.

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7. LONG-TERM DEBT

We provide detail on our long-term debt balances in the following table as of the end of the 2016 second quarter and year-end 2015:

(\$ in millions)	At Period End	
	June 30, 2016	December 31, 2015
Senior Notes:		
Series H Notes, interest rate of 6.2%, face amount of \$289, matured June 15, 2016 (effective interest rate of 6.3%)	—	289
Series I Notes, interest rate of 6.4%, face amount of \$293, maturing June 15, 2017 (effective interest rate of 6.5%)	293	293
Series K Notes, interest rate of 3.0%, face amount of \$600, maturing March 1, 2019 (effective interest rate of 4.4%)	596	595
Series L Notes, interest rate of 3.3%, face amount of \$350, maturing September 15, 2022 (effective interest rate of 3.4%)	348	348
Series M Notes, interest rate of 3.4%, face amount of \$350, maturing October 15, 2020 (effective interest rate of 3.6%)	347	347
Series N Notes, interest rate of 3.1%, face amount of \$400, maturing October 15, 2021 (effective interest rate of 3.4%)	395	395
Series O Notes, interest rate of 2.9%, face amount of \$450, maturing March 1, 2021 (effective interest rate of 3.1%)	446	446
Series P Notes, interest rate of 3.8%, face amount of \$350, maturing October 1, 2025 (effective interest rate of 4.0%)	344	343
Series Q Notes, interest rate of 2.3%, face amount of \$750, maturing January 15, 2022 (effective interest rate of 2.5%)	741	—
Series R Notes, interest rate of 3.1%, face amount of \$750, maturing June 15, 2026 (effective interest rate of 3.3%)	742	—
Commercial paper	—	938
Credit Facility	—	—
Other	108	113
	4,360	4,107
Less: Current portion of long-term debt	(303)	(300)
	\$4,057	\$ 3,807

All of our long-term debt is recourse to us but unsecured. We paid cash for interest, net of amounts capitalized, of \$65 million in the 2016 first half and \$54 million in the 2015 first half.

In the 2016 second quarter, we issued \$1,500 million aggregate principal amount of 2.300 percent Series Q Notes due 2022 (the “Series Q Notes”) and 3.125 percent Series R Notes due 2026 (the “Series R Notes”) and together with the Series Q Notes, the “Notes”). We will pay interest on the Series Q Notes on January 15 and July 15 of each year, commencing on January 15, 2017, and will pay interest on the Series R Notes on June 15 and December 15 of each year, commencing on December 15, 2016. We received net proceeds of approximately \$1,485 million from the offering of the Notes, after deducting the underwriting discount and estimated expenses. We expect to use these proceeds, together with borrowings under our Credit Facility, as defined below, to finance the cash component of the consideration to Starwood shareholders and certain fees and expenses we incur in connection with the Starwood Combination or, if the Starwood Combination is not consummated, for general corporate purposes, which may include working capital, capital expenditures, acquisitions, stock repurchases or repayment of outstanding commercial paper or other borrowings.

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

Note.

In the 2016 second quarter, we amended and restated our multicurrency revolving credit agreement (the “Credit Facility”) to extend the maturity date of the Credit Facility and increase the aggregate amount of available borrowings to up to \$4,000 million, up to \$2,500 million of which was available to us at the time of the amendment.

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Upon the closing of the Starwood Combination, which remains subject to the receipt of an additional antitrust approval and other customary closing conditions, the full \$4,000 million of aggregate commitments will be available under the Credit Facility. The availability of the Credit Facility supports our commercial paper program and general corporate needs, including working capital, capital expenditures, share repurchases, letters of credit, and acquisitions. In addition, we may use borrowings under the Credit Facility, or commercial paper supported by the Credit Facility, to finance part of the cash component of the consideration to Starwood shareholders and certain fees and expenses we incur in connection with the Starwood Combination. Borrowings under the Credit Facility generally bear interest at LIBOR (the London Interbank Offered Rate) plus a spread, based on our public debt rating. We also pay quarterly fees on the Credit Facility at a rate based on our public debt rating. While any outstanding commercial paper borrowings and/or borrowings under our Credit Facility generally have short-term maturities, we classify the outstanding borrowings as long-term based on our ability and intent to refinance the outstanding borrowings on a long-term basis. The Credit Facility expires on June 10, 2021. See the “Cash Requirements and Our Credit Facilities” caption later in this report in the “Liquidity and Capital Resources” section for information on our available borrowing capacity at June 30, 2016.

The following table presents future principal payments that are due for our debt as of the end of the 2016 second quarter:

Debt Principal Payments (net of unamortized discounts) (\$ in millions)	Amount
2016	\$ 6
2017	302
2018	9
2019	606
2020	358
Thereafter	3,079
Balance at June 30, 2016	\$ 4,360

8. NOTES RECEIVABLE

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

(\$ in millions)	At Period End	
	June 30, 2016	December 31, 2015
Senior, mezzanine, and other loans	\$ 234	\$ 221
Less current portion	(7)	(6)
	\$ 227	\$ 215

We do not have any past due notes receivable amounts at the end of the 2016 second quarter. The unamortized discounts for our notes receivable were \$29 million at the end of the 2016 second quarter and \$31 million at year-end 2015.

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The following table presents 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 2016 second quarter:

Notes Receivable Principal Payments (net of reserves and unamortized discounts) and Interest Rates (\$ in millions)	Amount
2016	\$ 5
2017	3
2018	62
2019	5
2020	6
Thereafter	153
Balance at June 30, 2016	\$ 234
Weighted average interest rate at June 30, 2016	7.7%
Range of stated interest rates at June 30, 2016	0 - 18%

At the end of the 2016 second quarter, our recorded investment in impaired senior, mezzanine, and other loans was \$74 million and we had \$57 million allowance for credit losses, leaving \$17 million of exposure to our investment in impaired loans. At year-end 2015, our recorded investment in impaired senior, mezzanine, and other loans was \$72 million, and we had a \$55 million allowance for credit losses, leaving \$17 million of exposure to our investment in impaired loans. Our average investment in impaired notes receivable totaled \$73 million for the 2016 second quarter, \$73 million for the 2016 first half, \$69 million for the 2015 second quarter, and \$67 million for the 2015 first half.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

(\$ in millions)	June 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Senior, mezzanine, and other loans	\$227	\$ 214	\$215	\$ 209
Marketable securities	35	35	37	37
Total noncurrent financial assets	\$262	\$ 249	\$252	\$ 246
Senior notes	\$(3,959)	\$(4,117)	\$(2,766)	\$(2,826)
Commercial paper	—	—	(938)	(938)
Other long-term debt	(94)	(109)	(99)	(108)
Other noncurrent liabilities	(62)	(62)	(63)	(63)
Total noncurrent financial liabilities	\$(4,115)	\$(4,288)	\$(3,866)	\$(3,935)

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

We carry our marketable securities at fair value. Our marketable securities include debt securities of the U.S. Government, its sponsored agencies and other U.S. corporations invested for our self-insurance programs, as well as shares of publicly traded companies, which we value using directly observable Level 1 inputs. The carrying value of these marketable securities was \$35 million at the end of the 2016 second quarter.

We estimate the fair value of our other long-term debt, including the current portion and excluding leases, using expected future payments discounted at risk-adjusted rates, which are Level 3 inputs. We determine the fair value of our senior notes using quoted market prices, which are directly observable Level 1 inputs. As noted in Footnote No. 7, "Long-Term Debt," even though our commercial paper borrowings generally have short-term

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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 year-end 2015, 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. 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 2016 second quarter and year-end 2015, we determined that the carrying values of our guarantee liabilities approximated their fair values based on Level 3 inputs.

See the “Fair Value Measurements” caption of Footnote No. 2, “Summary of Significant Accounting Policies” of our 2015 Form 10-K for more information on the input levels we use in determining fair value.

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

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

(\$ in millions)	Foreign Currency Translation Adjustments	Derivative Instrument Adjustments	Available-For-Sale Securities Unrealized Adjustments	Accumulated Other Comprehensive Loss
Balance at year-end 2015	\$ (192)	\$ (8)	\$ 4	\$ (196)
Other comprehensive income (loss) before reclassifications ⁽¹⁾	25	(4)	—	21
Reclassification of losses from accumulated other comprehensive loss	—	2	—	2
Net other comprehensive income (loss)	25	(2)	—	23
Balance at June 30, 2016	\$ (167)	\$ (10)	\$ 4	\$ (173)

(\$ in millions)	Foreign Currency Translation Adjustments	Derivative Instrument Adjustments	Available-For-Sale Securities Unrealized Adjustments	Accumulated Other Comprehensive Loss
Balance at year-end 2014	\$ (72)	\$ (9)	\$ 11	\$ (70)
Other comprehensive (loss) income before reclassifications ⁽¹⁾	(19)	7	(2)	(14)
Reclassification of losses (gains) from accumulated other comprehensive loss	3	(7)	—	(4)
Net other comprehensive (loss) income	(16)	—	(2)	(18)
Balance at June 30, 2015	\$ (88)	\$ 9	\$ 9	\$ (88)

Other comprehensive income (loss) before reclassifications for foreign currency translation adjustments includes (1) intra-entity foreign currency transactions that are of a long-term investment nature. These resulted in a loss of \$3 million for the 2016 first half and a gain of \$36 million for the 2015 first half.

The following table details the changes in common shares outstanding and shareholders' deficit for the 2016 first half: (in millions, except per share amounts)

Common Shares Outstanding	Total	Class A Common Stock	Additional Paid-in- Capital	Retained Earnings	Treasury at Cost	Stock, Other Comprehensive Loss	Accumulated Other Comprehensive Loss
256.3	Balance at year-end 2015	\$ (3,590)	\$ 5	\$ 2,821	\$ 4,878	\$ (11,098)	\$ (196)
—	Net income	466	—	—	466	—	—
—	Other comprehensive income	23	—	—	—	—	23
—	Cash dividends (\$0.55 per share)	(140)	—	—	(140)	—	—
1.8	Employee stock plan	4	—	(34)	(19)	57	—
(3.7)	Purchase of treasury stock	(225)	—	—	—	(225)	—

254.4 Balance at June 30, 2016 \$(3,462) \$5 \$ 2,787 \$5,185 \$ (11,266) \$ (173)

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11. BUSINESS SEGMENTS

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

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

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

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

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

We evaluate the performance of our operating segments using “segment profits” which is based largely on the results of the segment without allocating corporate expenses, income taxes, or indirect general, administrative, and other expenses. We allocate gains and losses, equity in earnings or losses from our joint ventures, and direct general, administrative, and other expenses to each of our segments. The caption “Other unallocated corporate” in the subsequent discussion represents a portion of our revenues, general, administrative, and other expenses, equity in earnings or losses, and other gains or losses that we do not allocate to our segments. It also includes license fees we receive from our credit card programs and license fees from MVW.

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

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Segment Revenues

	Three Months Ended		Six Months Ended	
(\$ in millions)	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
North American Full-Service Segment	\$2,360	\$2,252	\$4,681	\$4,427
North American Limited-Service Segment	906	821	1,739	1,559
International	571	549	1,127	1,091
Total segment revenues	3,837	3,622	7,547	7,077
Other unallocated corporate	65	67	127	125
Total consolidated revenues	\$3,902	\$3,689	\$7,674	\$7,202

Segment Profits

	Three Months Ended		Six Months Ended	
(\$ in millions)	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
North American Full-Service Segment	\$173	\$152	\$358	\$298
North American Limited-Service Segment	191	179	346	330
International	75	57	150	134
Total segment profits	439	388	854	762
Other unallocated corporate	(45)	3	(93)	(36)
Interest expense, net of interest income	(50)	(36)	(91)	(64)
Income taxes	(97)	(115)	(204)	(215)
Net income	\$247	\$240	\$466	\$447

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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

We are a worldwide operator, franchisor, and licensor of hotels and timeshare properties in 88 countries and territories under 19 brand names at the end of the 2016 second quarter. We also develop, operate, and market residential properties and provide services to home/condominium owner associations. Under our business model, we typically manage or franchise hotels, rather than own them. We report our operations in three segments: North American Full-Service, North American Limited-Service, and International.

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

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

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

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

Pending Combination with Starwood Hotels & Resorts Worldwide, Inc.

On November 15, 2015, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) to combine with Starwood Hotels & Resorts Worldwide, Inc. (“Starwood”). The Merger Agreement provides for the Company to combine with Starwood in a series of transactions after which Starwood will be an indirect wholly owned subsidiary of the Company (the “Starwood Combination”). On March 20, 2016, we entered into Amendment Number 1 (the “Amendment”) to the Merger Agreement. The Amendment modified the merger consideration payable to shareholders of Starwood. If the combination transactions are completed, shareholders of Starwood will receive 0.80 shares of our Class A Common Stock, par value \$0.01 per share, and \$21.00 in cash, without interest, for each share of Starwood common stock, par value \$0.01 per share, that they own immediately before these transactions. On April 8, 2016, shareholders of both Marriott and Starwood approved the combination transactions, and in the 2016 first half, we cleared the antitrust and competition reviews in a number of jurisdictions, including the United States, Canada, Saudi Arabia, Mexico, and European Union. We expect that the combination will close in the 2016 third quarter, after remaining customary conditions are satisfied, including receipt of an additional antitrust approval.

Performance Measures

We believe Revenue per Available Room (“RevPAR”), which we calculate by dividing room sales for comparable properties by room nights available for the period, is a meaningful indicator of our performance because it measures the period-over-period change in room revenues for comparable properties. RevPAR may not be comparable to similarly titled measures, such as revenues. We also believe occupancy and average daily rate (“ADR”), which are components of calculating RevPAR, are meaningful indicators of our performance. Occupancy, which we calculate by dividing occupied rooms by total rooms available, measures the utilization of a property’s available capacity. ADR, which we calculate by dividing property room revenue by total rooms sold, measures average room price and is useful in assessing pricing levels.

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

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

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

Business Trends

Our 2016 first half results reflected general economic growth and favorable demand for our brands in many markets around the world, although such economic growth was weaker than the Company expected at the beginning of the year. First half results also reflected a year-over-year increase in the number of properties in our system. For the three months ended June 30, 2016, comparable worldwide systemwide RevPAR increased 2.9 percent to \$118.97, ADR increased 1.9 percent on a constant dollar basis to \$154.25, and occupancy increased 0.8 percentage points to 77.1 percent, compared to the same period a year ago. For the six months ended June 30, 2016, comparable worldwide systemwide RevPAR increased 2.8 percent to \$112.45, ADR increased 2.2 percent on a constant dollar basis to \$153.53, and occupancy increased 0.5 percentage points to 73.2 percent, compared to the same period a year ago. In North America, 2016 first half lodging demand reflected strong group business, higher levels of discounted leisure travel, but weaker premium-priced corporate transient demand. Demand was particularly strong in the Los Angeles, San Francisco, Dallas, and Atlanta markets. Revenue growth was constrained in certain markets by new select-service lodging supply, weak demand from the oil and gas industries, the impact of the strong dollar on international travel to U.S. gateway markets, and moderate GDP growth.

In the 2016 first half, bookings for future group business in the U.S. remained strong. Group revenue pace for the remainder of 2016 for systemwide full-service hotels (Marriott, JW Marriott, Renaissance, The Ritz-Carlton, and Gaylord brands) in North America was up five percent as of June 30, 2016, compared to the 2015 first half group revenue pace for the remainder of 2015.

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

We monitor market conditions and provide the tools for our hotels to price rooms daily in accordance with individual property demand levels, generally adjusting room rates as demand changes. Our hotels modify the mix of business to improve revenue as demand changes. Demand for higher rated rooms continued in many markets in the 2016 first half, which allowed our hotels to optimize mix in markets with low supply growth and increase ADR. For our company-operated properties, we continue to focus on enhancing property-level house profit margins and making productivity improvements.

System Growth and Pipeline

During the 2016 first half, we added 148 properties (20,724 rooms), while 18 properties (2,330 rooms) exited our system, increasing our total properties to 4,554. Approximately 34 percent of new rooms are located outside North America, and 15 percent of the room additions are conversions from competitor brands.

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At the end of the 2016 second quarter, we had more than 285,000 rooms in our development pipeline, which includes hotel rooms under construction, hotel rooms under signed contracts, and approximately 33,000 hotel rooms approved for development but not yet under signed contracts. This development pipeline information does not include rooms that would join our system through the Starwood Combination.

CONSOLIDATED RESULTS

The following discussion presents our analysis of results of our operations for the 2016 second quarter compared to the 2015 second quarter and the 2016 first half compared to the 2015 first half.

Revenues

(\$ in millions)	Three Months Ended				Six Months Ended			
	June 30,	June 30,	Change		June	June	Change	
	2016	2015	2016 vs.	2015	2016	2015	2016 vs.	2015
Base management fees	\$186	\$191	\$(5)	(3)%	\$358	\$356	\$2	1%
Franchise fees	235	221	14	6%	442	425	17	4%
Incentive management fees	94	81	13	16%	195	170	25	15%
	515	493	22	4%	995	951	44	5%
Owned, leased, and other revenue	245	243	2	1%	492	500	(8)	(2)%
Cost reimbursements	3,142	2,953	189	6%	6,187	5,751	436	8%
	\$3,902	\$3,689	\$213	6%	\$7,674	\$7,202	\$472	7%

Second Quarter. The \$5 million decrease in base management fees reflected lower deferred fees (\$9 million), the impact of unfavorable foreign exchange rates (\$4 million), and properties that converted from managed to franchised (\$2 million), partially offset by stronger sales at existing properties (\$5 million) and the impact of unit growth across our system (\$5 million).

The \$14 million increase in franchise fees reflected the impact of unit growth across our system (\$12 million), stronger sales at existing properties (\$5 million), and higher fees due to properties that converted from managed to franchised (\$3 million), partially offset by lower relicensing fees (\$3 million) and the impact of unfavorable foreign exchange rates (\$2 million).

The \$13 million increase in incentive management fees reflected higher net house profit, unit growth across our segments, and incentive fees earned from a limited-service portfolio (\$5 million), partially offset by the impact of unfavorable foreign exchange rates (\$2 million).

The \$2 million increase in owned, leased, and other revenue reflected \$7 million in higher other revenue predominately from branding fees (\$5 million), partially offset by \$5 million of lower owned and leased revenue. The decrease in owned and leased revenue was due to properties that converted to managed (\$13 million), partially offset by improved results at properties following renovations (\$9 million).

The \$189 million increase in cost reimbursements revenue reflected growth in the Marriott Rewards program, the impact of higher property occupancies, and growth across our system.

First Half. The \$2 million increase in base management fees reflected stronger sales at existing properties (\$11 million) and the impact of unit growth across our system (\$11 million), partially offset by lower deferred fees (\$9 million), the impact of unfavorable foreign exchange rates (\$9 million), and higher fees due to properties that converted from managed to franchised (\$3 million).

The \$17 million increase in franchise fees reflected the impact of unit growth across our system (\$24 million), stronger sales at existing properties (\$8 million), and higher fees due to properties that converted from managed to franchised (\$4 million), partially offset by lower relicensing fees (\$18 million) and the impact of unfavorable foreign exchange rates (\$4 million).

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The \$25 million increase in incentive management fees reflected higher net house profit, unit growth across our segments, incentive fees earned from a limited-service portfolio (\$6 million), and \$4 million of higher deferred fees, partially offset by the impact of unfavorable foreign exchange rates (\$4 million).

The \$8 million decrease in owned, leased, and other revenue reflected \$34 million of lower owned and leased revenue, partially offset by \$26 million in higher other revenue predominately from branding fees (\$22 million). The decrease in owned and leased revenue primarily reflected properties that converted to managed (\$42 million), partially offset by improved results at properties following renovations (\$13 million).

The \$436 million increase in cost reimbursements revenue reflected growth in the Marriott Rewards program, the impact of higher property occupancies, and growth across our system.

Operating Income

Second Quarter. Operating income increased by \$20 million to \$389 million in the 2016 second quarter from \$369 million in the 2015 second quarter. The increase in operating income reflected a \$22 million increase in fee revenue, a \$12 million increase in owned, leased, and other revenue, net of direct expenses, and a \$2 million decrease in depreciation, amortization, and other expense, partially offset by a \$16 million increase in general, administrative, and other expenses. We discuss the reasons for the increases in fee revenue (base management fees, franchise fees, and incentive management fees) compared to the 2015 second quarter in the preceding “Revenues” section.

Owned, leased, and other revenue, net of direct expenses increased by \$12 million (20 percent) to \$72 million in the 2016 second quarter from \$60 million in the 2015 second quarter. The increase was largely attributable to \$5 million of higher owned and leased revenue, net of direct expenses and \$5 million in higher branding fees. The \$5 million of higher owned and leased revenue, net of direct expenses reflected \$3 million in lower pre-opening expenses and \$3 million of net favorable operating results following renovations, partially offset by \$2 million from properties that converted to managed.

Depreciation, amortization, and other expense decreased by \$2 million (6 percent) to \$30 million in the 2016 second quarter from \$32 million in the 2015 second quarter. The decrease primarily reflected a \$4 million favorable variance to the 2015 impairment charge on corporate equipment.

General, administrative, and other expenses increased by \$16 million (11 percent) to \$168 million in the 2016 second quarter from \$152 million in the 2015 second quarter due to \$14 million in Starwood transaction and transition costs and \$5 million of higher administrative costs, partially offset by \$2 million in lower reserves for guarantee funding.

First Half. Operating income increased by \$55 million to \$756 million in the 2016 first half from \$701 million in the 2015 first half. The increase in operating income reflected a \$44 million increase in fee revenue, a \$30 million increase in owned, leased, and other revenue, net of direct expenses, and a \$15 million decrease in depreciation, amortization, and other expense, partially offset by a \$34 million increase in general, administrative, and other expenses. We discuss the reasons for the increases in fee revenue (base management fees, franchise fees, and incentive management fees) compared to the 2015 first half in the preceding “Revenues” section.

Owned, leased, and other revenue, net of direct expenses increased by \$30 million (24 percent) to \$153 million in the 2016 first half from \$123 million in the 2015 first half. The increase was largely attributable to \$22 million in higher branding fees, \$3 million of higher termination fees, and \$2 million of higher owned and leased revenue, net of direct expenses. The \$2 million of higher owned and leased revenue, net of direct expenses reflected \$6 million of net favorable operating results following renovations and \$4 million of lower pre-opening expenses, partially offset by \$9 million from a property that converted to managed.

Depreciation, amortization, and other expense decreased by \$15 million (20 percent) to \$61 million in the 2016 first half from \$76 million in the 2015 first half. The decrease primarily reflected a favorable variance to the 2015 impairment charges on the EDITION hotels (\$12 million) and corporate equipment (\$4 million).

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General, administrative, and other expenses increased by \$34 million (11 percent) to \$331 million in the 2016 first half from \$297 million in the 2015 first half. The increase reflected \$22 million in Starwood transaction and transition costs, \$14 million of higher legal expenses net of litigation resolutions, and \$11 million of higher administrative costs, partially offset by \$12 million in lower reserves for guarantee funding.

Gains and Other Income, Net

Second Quarter. Gains and other income, net decreased by \$20 million (100 percent) to \$0 million in the 2016 second quarter compared to \$20 million in the 2015 second quarter. The decrease is primarily due to the net gain that we recorded in the prior year, which consisted of a \$41 million gain on the redemption of a preferred equity ownership interest, partially offset by \$22 million of losses on dispositions of real estate.

First Half. Gains and other income, net decreased by \$20 million (100 percent) to \$0 million in the 2016 first half compared to \$20 million in the 2015 first half due to the changes described in the preceding “Second Quarter” discussion.

Interest Expense

Second Quarter. Interest expense increased by \$15 million (36 percent) to \$57 million in the 2016 second quarter compared to \$42 million in the 2015 second quarter. The increase was due to the amortization of costs for a bridge term loan facility commitment that we obtained in the 2016 first quarter and terminated in the 2016 second quarter (\$11 million) and the issuances of Series Q and R Notes in the 2016 second quarter and Series O and P Notes in the 2015 third quarter (\$9 million), partially offset by the maturities of Series H Notes in the 2016 second quarter and Series G Notes in the 2015 fourth quarter (\$5 million).

First Half. Interest expense increased by \$26 million (33 percent) to \$104 million in the 2016 first half compared to \$78 million in the 2015 first half. The increase was primarily due the issuances of Series Q and R Notes in the 2016 second quarter and Series O and P Notes in the 2015 third quarter (\$15 million), the amortization of costs for a bridge term loan facility commitment that we obtained in the 2016 first quarter and terminated in the 2016 second quarter (\$13 million), and net lower capitalized interest as a result of the completion of The New York (Madison Square Park) EDITION in the 2015 second quarter (\$6 million), partially offset by the maturities of Series H notes in the 2016 second quarter and Series G Notes in the 2015 fourth quarter (\$10 million).

Provision for Income Tax

Second Quarter. Provision for income tax decreased by \$18 million (16 percent) to \$97 million in the 2016 second quarter compared to \$115 million in the 2015 second quarter. The decrease was primarily due to lower pre-tax earnings and a 2016 release of a valuation allowance related to a capital loss, partially offset by a \$5 million reserve established due to a recent examination of a tax position taken in a foreign jurisdiction.

First Half. Provision for income tax decreased by \$11 million (5 percent) to \$204 million in the 2016 first half, compared to \$215 million in the 2015 first half. The decrease was primarily due to a 2016 release of a valuation allowance related to a capital loss, partially offset by a \$5 million reserve established due to a recent examination of a tax position taken in a foreign jurisdiction.

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

Earnings Before Interest Expense, Taxes, Depreciation and Amortization (“EBITDA”), a financial measure not required by, or presented in accordance with, U.S. GAAP, reflects Net Income excluding the impact of interest expense, provision for income taxes, and depreciation and amortization. Our non-GAAP measure of Adjusted EBITDA further adjusts EBITDA to exclude (1) pre-tax transaction and transition costs associated with the Starwood Combination, which we recorded in the “General, administrative, and other” caption of our Income Statements in the 2016 second quarter and 2016 first half, (2) the \$41 million pre-tax gain on the redemption of a preferred equity ownership interest accounted for as a debt security and the \$22 million pre-tax loss on dispositions of real estate, which we recorded in the “Gains and other income, net” caption of our Income Statements in the 2015 second quarter, (3) pre-tax impairment charges of \$12 million in the 2015 first quarter, which we recorded in

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the “Depreciation, amortization, and other” caption of our Income Statements, and (4) share-based compensation expense for all periods presented.

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

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

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

(\$ in millions)	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net Income	\$247	\$240	\$466	\$447
Interest expense	57	42	104	78
Tax Provision	97	115	204	215
Depreciation and amortization	30	32	61	64
Depreciation classified in Reimbursed costs	14	14	28	28
Interest expense from unconsolidated joint ventures	1	—	2	1
Depreciation and amortization from unconsolidated joint ventures	3	2	6	5
EBITDA	449	445	\$871	\$838
Starwood transaction and transition costs	14	—	22	—
Gain on redemption of debt security	—	(41)	—	(41)
Loss on dispositions of real estate	—	22	—	22
EDITION impairment charges	—	—	—	12
Share-based compensation (including share-based compensation reimbursed by third-party owners)	31	31	59	55
Adjusted EBITDA	\$494	\$457	\$952	\$886

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We are a diversified global lodging company with operations in three reportable business segments: North American Full-Service, North American Limited-Service, and International. See Footnote No. 11, “Business Segments,” to our Financial Statements for other information about each segment, including revenues and a reconciliation of segment profits to net income.

We added 285 properties (41,752 rooms), and 50 properties (6,301 rooms) exited our system since the end of the 2015 second quarter.

See the “CONSOLIDATED RESULTS” caption earlier in this report for further information.

(\$ in millions)	Three Months Ended			Six Months Ended		
	June 30,	June 30,	Change	June 30,	June 30,	Change
	2016	2015	2016 vs. 2015	2016	2015	2016 vs. 2015
Total segment revenues	\$3,837	\$3,622	\$215 6 %	\$7,547	\$7,077	\$470 7 %
Total segment profits	\$439	\$388	\$51 13%	\$854	\$762	\$92 12%

Second Quarter. The quarter-over-quarter increase in segment revenues of \$215 million was a result of \$194 million of higher cost reimbursements revenue, \$13 million of higher franchise fees, and \$13 million of higher incentive management fees, partially offset by \$5 million of lower base management fees. The quarter-over-quarter increase in segment profits of \$51 million reflected \$20 million of prior year losses recorded in gains and other income, net, \$13 million of higher franchise fees, \$13 million of higher incentive management fees, an \$11 million increase in owned, leased, and other revenue, net of direct expenses, and a \$3 million increase in equity in earnings, partially offset by \$5 million of lower base management fees, \$2 million of higher general, administrative, and other expenses, and \$2 million of higher depreciation, amortization, and other expense. For more information on the variances see the preceding sections beginning with “Revenues.”

In the 2016 second quarter, 64 percent of our managed properties paid incentive management fees to us versus 59 percent in the 2015 second quarter. In North America, 62 percent of managed properties paid incentive fees in the 2016 second quarter compared to 55 percent in the 2015 second quarter. Outside North America, 66 percent of managed properties paid incentive fees in both the 2016 second quarter and the 2015 second quarter. The percentage of North American properties that paid incentive management fees to us increased compared to the 2015 second quarter due to a large North American Limited-Service portfolio of properties that paid incentive management fees in the 2016 second quarter but did not do so in the 2015 second quarter. In addition, in the 2016 second quarter, 42 percent of our incentive management fees came from properties outside of North America versus 45 percent in the 2015 second quarter.

Compared to the 2015 second quarter, worldwide comparable company-operated house profit margins in the 2016 second quarter increased by 60 basis points and worldwide comparable company-operated house profit per available room (“HP-PAR”) increased by 4.8 percent on a constant U.S. dollar basis, reflecting rate increases, improved productivity, and lower utility costs. These same factors contributed to North American company-operated house profit margins increasing by 100 basis points compared to the 2015 second quarter. HP-PAR at those same properties increased by 6.5 percent. International company-operated house profit margins decreased by 10 basis points due to declines in our Middle East region. HP-PAR at International company-operated properties increased by 1.3 percent primarily reflecting increased demand and higher RevPAR in most locations, improved productivity, and solid cost controls.

First Half. The year-over-year increase in segment revenues of \$470 million was a result of \$443 million of higher cost reimbursements revenue, \$25 million of higher incentive management fees, \$16 million of higher franchise fees, and \$2 million of higher base management fees, partially offset by \$16 million of lower owned, leased, and other revenue. The year-over-year increase in segment profits of \$92 million across our business reflected \$25 million of higher incentive management fees, a \$22 million increase in owned, leased, and other revenue, net of direct expenses, \$20 million of prior year losses recorded in gains and other income, net, \$16 million of higher franchise fees, a \$6 million decrease in general, administrative, and other expenses, a \$2 million

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increase in base management fees, and a \$1 million increase in equity in earnings. For more information on the variances see the preceding sections beginning with “Revenues.”

In the 2016 first half, 68 percent of our managed properties paid incentive management fees to us versus 63 percent in the 2015 first half. In North America, 66 percent of managed properties paid incentive fees in the 2016 first half compared to 58 percent in the 2015 first half. Outside North America, 70 percent of managed properties paid incentive fees in the 2016 first half versus 71 percent in the 2015 first half. The percentage of North American properties that paid incentive management fees to us increased compared to the 2015 first half due to a large North American Limited-Service portfolio of properties that paid incentive management fees in the 2016 first half but did not do so in the 2015 first half. In addition, in the 2016 first half, 44 percent of our incentive management fees came from properties outside of North America versus 47 percent in the 2015 first half.

Compared to the 2015 first half, worldwide comparable company-operated house profit margins in the 2016 first half increased by 70 basis points and HP-PAR increased by 4.8 percent on a constant U.S. dollar basis, reflecting rate increases, improved productivity, and solid cost controls. These same factors contributed to North American company-operated house profit margins increasing by 90 basis points compared to the 2015 first half. HP-PAR at those same properties increased by 5.9 percent. International company-operated house profit margins increased by 10 basis points, and HP-PAR at those properties increased by 2.6 percent reflecting increased demand, higher RevPAR in most locations, and improved productivity.

See “Segment and Brand Statistics” below for detailed information on systemwide RevPAR and company-operated RevPAR by segment, region, and brand.

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Property and Room Summaries

We operated, franchised, and licensed the following properties by segment and brand at June 30, 2016:

	Company-Operated		Franchised / Licensed		Other ⁽²⁾		Total	
	Properties	Rooms	Properties	Rooms	Properties	Rooms	Properties	Rooms
North American Full-Service								
Marriott Hotels	123	66,332	207	64,560	—	—	330	130,892
JW Marriott	15	9,695	10	4,469	—	—	25	14,164
Marriott Conference Centers	10	2,879	—	—	—	—	10	2,879
Renaissance Hotels	28	12,239	56	15,799	—	—	84	28,038
Autograph Collection Hotels	3	1,065	57	12,649	—	—	60	13,714
Delta Hotels and Resorts	25	6,764	12	3,020	—	—	37	9,784
Gaylord Hotels	5	8,098	—	—	—	—	5	8,098
The Ritz-Carlton	39	11,410	1	429	—	—	40	11,839
The Ritz-Carlton Residences ⁽¹⁾	32	4,001	1	55	—	—	33	4,056
EDITION	2	567	—	—	—	—	2	567
EDITION Residences ⁽¹⁾	1	25	—	—	—	—	1	25
Total North American Full-Service	283	123,075	344	100,981	—	—	627	224,056
North American Limited-Service								
Courtyard	275	43,637	661	88,010	—	—	936	131,647
Residence Inn	113	16,982	590	69,106	—	—	703	86,088
Fairfield Inn & Suites	5	1,324	788	71,532	—	—	793	72,856
SpringHill Suites	31	4,973	318	36,524	—	—	349	41,497
TownePlace Suites	15	1,740	273	27,214	—	—	288	28,954
AC Hotels by Marriott	—	—	—	—	8	1,352	8	1,352
Moxy Hotels	—	—	2	294	—	—	2	294
Total North American Limited-Service	439	68,656	2,632	292,680	8	1,352	3,079	362,688
Total North American	722	191,731	2,976	393,661	8	1,352	3,706	586,744
International								
Marriott Hotels	153	43,265	42	12,510	—	—	195	55,775
JW Marriott	47	18,554	5	1,355	—	—	52	19,909
Marriott Executive Apartments	27	4,131	—	—	—	—	27	4,131
Renaissance Hotels	53	16,956	25	6,957	—	—	78	23,913
Autograph Collection Hotels	3	584	34	9,291	5	348	42	10,223
Protea Hotels	46	5,701	51	3,583	—	—	97	9,284
The Ritz-Carlton	52	14,686	—	—	—	—	52	14,686
The Ritz-Carlton Residences ⁽¹⁾	8	416	—	—	—	—	8	416
The Ritz-Carlton Serviced Apartments	4	579	—	—	—	—	4	579
Bulgari Hotels & Resorts	2	117	1	85	—	—	3	202
Bulgari Residences ⁽¹⁾	1	5	—	—	—	—	1	5
EDITION	1	173	1	78	—	—	2	251
Courtyard	76	16,068	51	9,685	—	—	127	25,753
Residence Inn	5	517	2	200	—	—	7	717
Fairfield Inn & Suites	6	848	2	386	—	—	8	1,234
AC Hotels by Marriott	—	—	—	—	83	10,277	83	10,277
Moxy Hotels	—	—	2	414	—	—	2	414

Total International	484	122,600	216	44,544	88	10,625	788	177,769
Timeshare ⁽³⁾	—	—	60	12,889	—	—	60	12,889
Total	1,206	314,331	3,252	451,094	96	11,977	4,554	777,402

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

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

(3) Timeshare properties licensed by MVW under the Marriott Vacation Club, The Ritz-Carlton Destination Club, The Ritz-Carlton Residences, and Grand Residences by Marriott brand names. MVW's property and room counts are reported on a period-end basis for the MVW quarter ended June 17, 2016 and include products that are in active sales as well as those that are sold out.

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Segment and Brand Statistics

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

	Comparable Company-Operated North American Properties			Comparable Systemwide North American Properties					
	Three Months Ended June 30, 2016	Change vs. Three Months Ended June 30, 2015		Three Months Ended June 30, 2016	Change vs. Three Months Ended June 30, 2015				
North American Full-Service									
Marriott Hotels									
Occupancy	80.8	%	1.5	% pts.	77.7	%	1.3	%	pts.
Average Daily Rate	\$ 204.79		1.2	%	\$ 181.68		1.6	%	
RevPAR	\$ 165.48		3.2	%	\$ 141.10		3.4	%	
Renaissance Hotels									
Occupancy	82.1	%	3.0	% pts.	79.7	%	2.0	%	pts.
Average Daily Rate	\$ 194.98		3.7	%	\$ 173.84		3.5	%	
RevPAR	\$ 160.06		7.6	%	\$ 138.49		6.1	%	
Autograph Collection Hotels									
Occupancy	nm		nm		78.5	%	0.6	%	pts.
Average Daily Rate	nm		nm		\$ 233.04		1.6	%	
RevPAR	nm		nm		\$ 182.88		2.4	%	
The Ritz-Carlton									
Occupancy	74.5	%	1.0	% pts.	74.5	%	1.0	%	pts.
Average Daily Rate	\$ 345.03		0.2	%	\$ 345.03		0.2	%	
RevPAR	\$ 257.21		1.5	%	\$ 257.21		1.5	%	
Composite North American Full-Service									
Occupancy	80.1	%	1.8	% pts.	77.9	%	1.4	%	pts.
Average Daily Rate	\$ 215.97		1.4	%	\$ 192.26		1.8	%	
RevPAR	\$ 172.97		3.8	%	\$ 149.68		3.7	%	
North American Limited-Service									
Courtyard									
Occupancy	78.6	%	1.4	% pts.	78.1	%	0.7	%	pts.
Average Daily Rate	\$ 144.88		1.5	%	\$ 142.56		2.3	%	
RevPAR	\$ 113.81		3.4	%	\$ 111.32		3.2	%	
Residence Inn									
Occupancy	82.5	%	0.7	% pts.	83.1	%	0.3	%	pts.
Average Daily Rate	\$ 152.21		2.1	%	\$ 145.15		2.3	%	
RevPAR	\$ 125.64		3.0	%	\$ 120.63		2.6	%	
Fairfield Inn & Suites									
Occupancy	nm		nm		74.7	%	(0.4)	%	pts.
Average Daily Rate	nm		nm		\$ 113.62		2.0	%	
RevPAR	nm		nm		\$ 84.92		1.4	%	
TownePlace Suites									
Occupancy	81.0	%	0.2	% pts.	79.7	%	1.1	%	pts.

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Average Daily Rate	\$ 106.92		4.0	%		\$ 106.68		2.9	%	
RevPAR	\$ 86.56		4.3	%		\$ 85.04		4.4	%	
SpringHill Suites										
Occupancy	82.2	%	1.3	%	pts.	79.5	%	1.0	%	pts.
Average Daily Rate	\$ 131.25		1.5	%		\$ 124.40		2.3	%	
RevPAR	\$ 107.94		3.2	%		\$ 98.90		3.6	%	
Composite North American Limited-Service										
Occupancy	79.9	%	1.2	%	pts.	78.9	%	0.4	%	pts.
Average Daily Rate	\$ 144.35		1.7	%		\$ 133.15		2.3	%	
RevPAR	\$ 115.38		3.3	%		\$ 105.09		2.8	%	
Composite North American - All										
Occupancy	80.0	%	1.6	%	pts.	78.6	%	0.8	%	pts.
Average Daily Rate	\$ 185.01		1.6	%		\$ 153.17		2.2	%	
RevPAR	\$ 148.04		3.6	%		\$ 120.33		3.2	%	

nm means not meaningful as the brand is predominantly franchised.

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	Comparable Company-Operated Properties				Comparable Systemwide Properties				
	Three Months Ended June 30, 2016		Change vs. Three Months Ended June 30, 2015		Three Months Ended June 30, 2016		Change vs. Three Months Ended June 30, 2015		
International									
Caribbean and Latin America									
Occupancy	70.2	%	(1.7)	)%	pts. 69.2	%	(0.7)	)%	pts.
Average Daily Rate	\$ 218.68		(0.1)	)%	\$ 209.44		0.2	%	
RevPAR	\$ 153.47		(2.6)	)%	\$ 144.97		(0.7))%	
Europe									
Occupancy	76.7	%	(0.3)	)%	pts. 74.1	%	0.3	%	pts.
Average Daily Rate	\$ 158.42		2.9	%	\$ 154.18		2.9	%	
RevPAR	\$ 121.50		2.5	%	\$ 114.17		3.4	%	
Middle East and Africa									
Occupancy	61.0	%	(2.1)	)%	pts. 60.5	%	(2.1)	)%	pts.
Average Daily Rate	\$ 142.68		(3.8)	)%	\$ 135.01		(2.6))%	
RevPAR	\$ 87.07		(7.1)	)%	\$ 81.66		(5.9))%	
Asia Pacific									
Occupancy	74.8	%	4.2	%	pts. 75.5	%	3.7	%	pts.
Average Daily Rate	\$ 142.97		(0.7)	)%	\$ 149.94		0.5	%	
RevPAR	\$ 106.95		5.2	%	\$ 113.21		5.7	%	
Total International ⁽¹⁾									
Occupancy	72.3	%	0.8	%	pts. 71.4	%	0.7	%	pts.
Average Daily Rate	\$ 156.25		(0.1)	)%	\$ 159.03		0.9	%	
RevPAR	\$ 112.91		1.1	%	\$ 113.53		1.9	%	
Total Worldwide ⁽²⁾									
Occupancy	77.1	%	1.3	%	pts. 77.1	%	0.8	%	pts.
Average Daily Rate	\$ 174.92		1.1	%	\$ 154.25		1.9	%	
RevPAR	\$ 134.89		2.8	%	\$ 118.97		2.9	%	

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

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

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	Comparable Company-Operated North American Properties				Comparable Systemwide North American Properties			
	Six Months Ended June 30, 2016		Change vs. Six Months Ended June 30, 2015		Six Months Ended June 30, 2016		Change vs. Six Months Ended June 30, 2015	
North-American Full-Service Marriott Hotels								
Occupancy	76.9	%	1.1	%	pts. 73.7	%	0.7	% pts.
Average Daily Rate	\$ 201.82		1.8	%	\$ 181.09		2.1	%
RevPAR	\$ 155.15		3.3	%	\$ 133.46		3.1	%
Renaissance Hotels								
Occupancy	78.6	%	1.1	%	pts. 75.9	%	0.6	% pts.
Average Daily Rate	\$ 191.71		3.4	%	\$ 171.82		3.0	%
RevPAR	\$ 150.75		4.8	%	\$ 130.42		3.9	%
Autograph Collection Hotels								
Occupancy	nm		nm		pts. 76.3	%	1.0	% pts.
Average Daily Rate	nm		nm		\$ 230.42		1.2	%
RevPAR	nm		nm		\$ 175.75		2.6	%
The Ritz-Carlton								
Occupancy	73.4	%	1.4	%	pts. 73.4	%	1.4	% pts.
Average Daily Rate	\$ 365.46		2.0	%	\$ 365.46		2.0	%
RevPAR	\$ 268.08		3.9	%	\$ 268.08		3.9	%
Composite North American Full-Service								
Occupancy	76.6	%	1.2	%	pts. 74.2	%	0.8	% pts.
Average Daily Rate	\$ 215.86		2.0	%	\$ 192.79		2.2	%
RevPAR	\$ 165.25		3.7	%	\$ 143.02		3.3	%
North American Limited-Service								
Courtyard								
Occupancy	74.0	%	1.0	%	pts. 73.5	%	0.4	% pts.
Average Daily Rate	\$ 143.00		1.9	%	\$ 139.96		2.3	%
RevPAR	\$ 105.85		3.3	%	\$ 102.92		2.9	%
Residence Inn								
Occupancy	78.8	%	0.3	%	pts. 78.9	%	(0.1)	)% pts.
Average Daily Rate	\$ 149.87		2.6	%	\$ 142.26		2.6	%
RevPAR	\$ 118.06		3.0	%	\$ 112.26		2.4	%
Fairfield Inn & Suites								
Occupancy	nm		nm		pts. 69.6	%	(0.7)	)% pts.
Average Daily Rate	nm		nm		\$ 110.38		2.0	%
RevPAR	nm		nm		\$ 76.83		1.0	%
TownePlace Suites								
Occupancy	73.7	%	0.1	%	pts. 75.1	%	0.6	% pts.
Average Daily Rate	\$ 105.09		3.2	%	\$ 105.30		2.4	%
RevPAR	\$ 77.41		3.4	%	\$ 79.06		3.3	%
SpringHill Suites								
Occupancy	77.7	%	1.8	%	pts. 75.0	%	0.2	% pts.
Average Daily Rate	\$ 129.48		1.3	%	\$ 121.78		2.1	%

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RevPAR	\$ 100.56		3.8	%	\$ 91.36		2.4	%	
Composite North American Limited-Service									
Occupancy	75.6	%	0.9	%	pts. 74.4	%	0.1	%	pts.
Average Daily Rate	\$ 142.52		2.1	%	\$ 130.51		2.3	%	
RevPAR	\$ 107.71		3.3	%	\$ 97.04		2.4	%	
Composite North American - All									
Occupancy	76.1	%	1.1	%	pts. 74.3	%	0.3	%	pts.
Average Daily Rate	\$ 184.35		2.1	%	\$ 151.76		2.4	%	
RevPAR	\$ 140.34		3.5	%	\$ 112.75		2.8	%	

nm means not meaningful as the brand is predominantly franchised.

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	Comparable Company-Operated Properties				Comparable Systemwide Properties			
	Six Months Ended June 30, 2016		Change vs. Six Months Ended June 30, 2015		Six Months Ended June 30, 2016		Change vs. Six Months Ended June 30, 2015	
International								
Caribbean and Latin America								
Occupancy	72.6	%	(1.0)	)%	pts.68.7	%	(0.1)	)% pts.
Average Daily Rate	\$ 252.69		3.2	%	\$ 227.30		1.9	%
RevPAR	\$ 183.34		1.8	%	\$ 156.18		1.8	%
Europe								
Occupancy	70.4	%	(0.5)	)%	pts.67.6	%	0.1	% pts.
Average Daily Rate	\$ 150.76		3.1	%	\$ 146.72		2.9	%
RevPAR	\$ 106.12		2.4	%	\$ 99.18		3.1	%
Middle East and Africa								
Occupancy	65.4	%	(0.7)	)%	pts.64.3	%	(0.7)	)% pts.
Average Daily Rate	\$ 151.71		(3.9)	)%	\$ 142.97		(2.7))%
RevPAR	\$ 99.27		(4.9)	)%	\$ 92.00		(3.8))%
Asia Pacific								
Occupancy	72.9	%	4.2	%	pts.73.7	%	3.9	% pts.
Average Daily Rate	\$ 147.16		(0.2)	)%	\$ 152.52		0.9	%
RevPAR	\$ 107.31		6.0	%	\$ 112.33		6.5	%
Total International ⁽¹⁾								
Occupancy	70.6	%	1.1	%	pts.69.0	%	1.0	% pts.
Average Daily Rate	\$ 160.71		0.5	%	\$ 161.20		1.2	%
RevPAR	\$ 113.41		2.2	%	\$ 111.22		2.7	%
Total Worldwide ⁽²⁾								
Occupancy	74.0	%	1.1	%	pts.73.2	%	0.5	% pts.
Average Daily Rate	\$ 175.91		1.6	%	\$ 153.53		2.2	%
RevPAR	\$ 130.26		3.1	%	\$ 112.45		2.8	%

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

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

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

(\$ in millions)	Three Months Ended			Six Months Ended		
	June 30, 2016	June 30, 2015	Change 2016 vs. 2015	June 30, 2016	June 30, 2015	Change 2016 vs. 2015
Segment revenues	\$2,360	\$2,252	\$108 5 %	\$4,681	\$4,427	\$254 6 %
Segment profits	\$173	\$152	\$21 14%	\$358	\$298	\$60 20%

Since the end of the 2015 second quarter, across our North American Full-Service segment we added 21 properties (4,511 rooms) and five properties (782 rooms) left our system.

Second Quarter. For the three months ended June 30, 2016, compared to the three months ended June 30, 2015, RevPAR for comparable systemwide North American Full-Service properties increased by 3.7 percent to \$149.68, occupancy for these properties increased by 1.4 percentage points to 77.9 percent, and ADR increased by 1.8 percent to \$192.26.

The \$21 million increase in segment profits, compared to the 2015 second quarter, was driven by \$9 million of higher owned, leased, and other revenue, net of direct expenses, \$6 million of higher franchise fees, \$3 million of higher incentive management fees, \$2 million of lower general, administrative, and other expenses, \$1 million of higher base management fees, and \$1 million of higher gains and other income, net, partially offset by \$1 million of lower equity in earnings.

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

Higher owned, leased, and other revenue, net of direct expenses primarily reflected \$4 million of lower pre-opening costs and \$3 million of higher branding fees.

Cost reimbursements revenue and expenses for our North American Full-Service segment properties totaled \$2,108 million in the 2016 second quarter, compared to \$2,017 million in the 2015 second quarter.

First Half. For the six months ended June 30, 2016, compared to the six months ended June 30, 2015, RevPAR for comparable systemwide North American Full-Service properties increased by 3.3 percent to \$143.02, occupancy for these properties increased by 0.8 percentage points to 74.2 percent, and ADR increased by 2.2 percent to \$192.79.

The \$60 million increase in segment profits, compared to the 2015 first half, was driven by \$26 million of higher owned, leased, and other revenue, net of direct expenses, \$13 million of higher franchise fees, \$10 million of higher incentive management fees, \$8 million of lower general, administrative, and other expenses, and \$6 million of higher base management fees, partially offset by \$2 million of lower equity in earnings, and \$1 million of lower gains and other income, net.

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

Higher owned, leased, and other revenue, net of direct expenses primarily reflected \$15 million of higher branding fees, \$5 million of lower pre-opening costs, and \$3 million of improved operating results.

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

Cost reimbursements revenue and expenses for our North American Full-Service segment properties totaled \$4,158 million in the 2016 first half, compared to \$3,946 million in the 2015 first half.

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

(\$ in millions)	Three Months Ended			Six Months Ended		
	June 30,	June 30,	Change	June 30,	June 30,	Change
	2016	2015	2016 vs. 2015	2016	2015	2016 vs. 2015
Segment revenues	\$906	\$821	\$85 10%	\$1,739	\$1,559	\$180 12%
Segment profits	\$191	\$179	\$12 7 %	\$346	\$330	\$16 5 %

Since the end of the 2015 second quarter, across our North American Limited-Service segment we added 192 properties (21,649 rooms) and 24 properties (2,560 rooms) left our system. The majority of the properties that left our system were from the Residence Inn and Fairfield Inn & Suites brands.

Second Quarter. For the three months ended June 30, 2016, compared to the three months ended June 30, 2015, RevPAR for comparable systemwide North American Limited-Service properties increased by 2.8 percent to \$105.09, occupancy for these properties increased by 0.4 percentage points to 78.9 percent, and ADR increased by 2.3 percent to \$133.15.

The \$12 million increase in segment profits, compared to the 2015 second quarter, reflected \$8 million of higher incentive management fees, \$7 million of higher franchise fees, \$2 million of higher gains and other income, net, and \$1 million of higher equity in earnings, partially offset by \$5 million of lower base management fees, and \$1 million of higher general, administrative, and other expenses.

Base management fees were lower due to a \$9 million decrease in deferred fee recognition, partially offset by \$3 million of stronger RevPAR driven by rate and unit growth. Higher franchise fees were primarily due to \$11 million of stronger RevPAR driven by rate and unit growth, partially offset by \$3 million of lower relicensing fees. Increased incentive management fees were primarily driven by higher net house profits at a portfolio of managed hotels.

Higher gains and other income, net was primarily due to a \$4 million disposal loss for a North American Limited-Service segment plot of land that we recorded in the 2015 second quarter.

Cost reimbursements revenue and expenses for our North American Limited-Service segment properties totaled \$671 million in the 2016 second quarter, compared to \$595 million in the 2015 second quarter.

First Half. For the six months ended June 30, 2016, compared to the six months ended June 30, 2015, RevPAR for comparable systemwide North American Limited-Service properties increased by 2.4 percent to \$97.04, occupancy for these properties increased by 0.1 percentage points to 74.4 percent, and ADR increased by 2.3 percent to \$130.51. The \$16 million increase in segment profits, compared to the 2015 first half, reflected \$10 million of higher incentive management fees, \$4 million of lower general, administrative, and other expenses, \$3 million of higher gains and other income, net, \$1 million of lower depreciation, amortization, and other expense, \$1 million of higher owned, leased, and other revenue, net of direct expenses, partially offset by \$3 million of lower base management fees, and unchanged franchise fees.

Base management fees were lower due to a \$9 million decrease in deferred fee recognition, partially offset by \$5 million of stronger RevPAR driven by rate and unit growth. Franchise fees were unchanged, primarily reflecting \$20 million of stronger RevPAR driven by rate and unit growth, partially offset by \$19 million of lower relicensing fees.

Increased incentive management fees were primarily driven by incentive fees earned from a limited-service portfolio. Lower general, administrative, and other expenses were primarily due to reversals of guarantee accruals.

Higher gains and other income, net was primarily due to a \$4 million disposal loss for a North American Limited-Service segment plot of land that we recorded in the 2015 second quarter.

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Cost reimbursements revenue and expenses for our North American Limited-Service segment properties totaled \$1,310 million in the 2016 first half, compared to \$1,138 million in the 2015 first half.

International includes properties, regardless of brand, that are located outside the United States and Canada.

(\$ in millions)	Three Months Ended			Six Months Ended		
	June 30, 2016	June 30, 2015	Change 2016 vs. 2015	June 30, 2016	June 30, 2015	Change 2016 vs. 2015
Segment revenues	\$571	\$549	\$22 4 %	\$1,127	\$1,091	\$36 3 %
Segment profits	\$75	\$57	\$18 32%	\$150	\$134	\$16 12%

Since the end of the 2016 second quarter, across our International regions we added 72 properties (15,592 rooms), and 21 properties (2,959 rooms) left our system. The majority of the properties that left our system were from the Protea Hotels brand.

Second Quarter. For the three months ended June 30, 2016, compared to the three months ended June 30, 2015, RevPAR for comparable systemwide International properties increased by 1.9 percent to \$113.53, occupancy for these properties increased by 0.7 percentage points to 71.4 percent, and ADR increased by 0.9 percent to \$159.03. See "Business and Overview" for a discussion of results in the various International regions.

The \$18 million increase in segment profits, compared to the 2015 second quarter, consisted of \$17 million of higher gains and other income, net, \$3 million of higher equity in earnings, \$2 million of higher incentive management fees, and \$2 million of higher owned, leased, and other revenue, net of direct expenses, partially offset by \$3 million of higher general, administrative, and other expenses, \$2 million of higher depreciation, amortization, and other expense, and \$1 million of lower base management and franchise fees.

Lower base management and franchise fees were due to the impact of \$5 million in unfavorable foreign exchange rates, partially offset by \$4 million of stronger RevPAR, driven by both occupancy and rate, and unit growth.

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

Cost reimbursements revenue and expenses for our International properties totaled \$351 million in the 2016 second quarter, compared to \$324 million in the 2015 second quarter.

First Half. For the six months ended June 30, 2016, compared to the six months ended June 30, 2015, RevPAR for comparable systemwide International properties increased by 2.7 percent to \$111.22, occupancy for these properties increased by 1.0 percentage points to 69.0 percent, and ADR increased by 1.2 percent to \$161.20. See "Business and Overview" for a discussion of results in the various International regions.

The \$16 million increase in segment profits, compared to the 2015 first half, consisted of \$18 million of higher gains and other income, net, \$5 million of higher incentive management fees, \$3 million of higher equity in earnings, and \$2 million of higher base management and franchise fees, partially offset by \$6 million of higher general, administrative, and other expenses, \$5 million of lower owned, leased, and other revenue, net of direct expenses, and \$1 million of higher depreciation, amortization, and other expense.

Higher base management and franchise fees were due to \$12 million of stronger RevPAR, driven by both occupancy and rate, and unit growth, partially offset by the impact of \$10 million in unfavorable foreign exchange rates. The increase in incentive management fees was due to a \$3 million increase in deferred fee recognition and \$3 million from new managed properties, partially offset by the impact of \$4 million in unfavorable foreign exchange rates. Lower owned, leased, and other revenue, net of direct expenses largely reflected \$9 million from a property that converted from owned to managed, partially offset by \$4 million net stronger performance at several properties following renovations.

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

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

Cost reimbursements revenue and expenses for our International properties totaled \$693 million in the 2016 first half, compared to \$634 million in the 2015 first half.

SHARE-BASED COMPENSATION

Under our Stock and Cash Incentive Plan, we award: (1) stock options to purchase our common stock; (2) stock appreciation rights (“SARs”) for our common stock; (3) restricted stock units (“RSUs”) of our common stock; and (4) deferred stock units. We also issue performance-based RSUs (“PSUs”) to named executive officers and some of their direct reports under the Stock Plan.

During the 2016 first half, we granted 1.6 million RSUs, 0.8 million PSUs, and 0.4 million SARs. See Footnote No. 4, “Share-Based Compensation,” for more information.

NEW ACCOUNTING STANDARDS

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

LIQUIDITY AND CAPITAL RESOURCES

Cash Requirements and Our Credit Facilities

In the 2016 second quarter, we amended and restated our multicurrency revolving credit agreement (the “Credit Facility”) to extend the maturity date of the Credit Facility and increase the aggregate amount of available borrowings to up to \$4,000 million, up to \$2,500 million of which was available to us at the time of the amendment. Upon the closing of the Starwood Combination, which remains subject to the receipt of an additional antitrust approval and other customary closing conditions, the full \$4,000 million of aggregate commitments will be available under the Credit Facility. The availability of the Credit Facility supports our commercial paper program and general corporate needs, including working capital, capital expenditures, share repurchases, letters of credit, and acquisitions. In addition, we may use borrowings under the Credit Facility, or commercial paper supported by the Credit Facility, to finance part of the cash component of the consideration to Starwood shareholders and certain fees and expenses we incur in connection with the Starwood Combination. Borrowings under the Credit Facility generally bear interest at LIBOR (the London Interbank Offered Rate) plus a spread, based on our public debt rating. We also pay quarterly fees on the Credit Facility at a rate based on our public debt rating. The term of the facility expires on June 10, 2021. The Credit Facility contains certain covenants, including a single financial covenant that limits our maximum leverage (consisting of the ratio of Adjusted Total Debt to Consolidated EBITDA, giving pro forma effect for certain material acquisitions, each as defined in the Credit Facility) to not more than 4 to 1. Our outstanding public debt does not contain a corresponding financial covenant or a requirement that we maintain certain financial ratios. We currently satisfy the covenants in our Credit Facility and public debt instruments, including the leverage covenant under the Credit Facility, and do not expect the covenants to restrict our ability to meet our anticipated borrowing and guarantee levels or increase those levels should we decide to do so in the future.

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

We issue commercial paper in the United States. We do not have purchase commitments from buyers for our commercial paper; therefore, our ability to issue commercial paper is subject to market demand. We classify any outstanding commercial paper and Credit Facility borrowings as long-term based on our ability and intent to

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refinance them on a long-term basis. We reserve unused capacity under our Credit Facility to repay outstanding commercial paper borrowings in the event that the commercial paper market is not available to us for any reason when outstanding borrowings mature. We do not expect that fluctuations in the demand for commercial paper will affect our liquidity, given our borrowing capacity under the Credit Facility.

At June 30, 2016, our available borrowing capacity amounted to \$3,179 million and reflected borrowing capacity of \$2,500 million under our Credit Facility and our cash balance of \$679 million (there being no outstanding commercial paper or letters of credit under our Credit Facility).

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

Cash and cash equivalents totaled \$679 million at June 30, 2016, an increase of \$583 million from year-end 2015, reflecting cash inflows associated with the following: operating activities (\$798 million), issuance of long-term debt net of repayments (\$1,189 million), disposition of a North American Limited-Service segment plot of land (\$46 million), common stock issuances (\$16 million), and net other investing cash inflows (\$12 million). The following cash outflows partially offset these cash inflows: pay down of commercial paper borrowings (\$941 million), purchase of treasury stock (\$249 million), dividend payments (\$140 million), capital expenditures (\$78 million), contract acquisition costs (\$37 million), loan advances, net of collections (\$22 million), and net other financing cash outflows (\$18 million).

Our ratio of current assets to current liabilities was 0.6 to 1.0 at the end of the 2016 second quarter. We minimize working capital through cash management, strict credit-granting policies, and aggressive collection efforts. We also have significant borrowing capacity under our Credit Facility should we need additional working capital.

We made capital expenditures of \$78 million in the 2016 first half and \$159 million in the 2015 first half that included expenditures for the development and construction of new hotels, as well as improvements to existing properties and systems initiatives. The decrease in capital expenditures in the 2015 first half is primarily due to lower spending for our EDITION hotels compared to the year-ago period. See our Condensed Consolidated Statements of Cash Flows for information on investment spending for the 2016 first half. We expect investment spending for the 2016 full year will total approximately \$450 million to \$550 million, including approximately \$100 million for maintenance capital spending. Investment spending also includes other capital expenditures, loan advances, contract acquisition costs, acquisitions, and equity and other investments. Our anticipated investment spending does not include additional investments we may make in connection with the Starwood Combination. We expect cash outflows for transaction costs related to the closing of the Starwood Combination will total \$130 million to \$150 million.

Over time, we have sold lodging properties, both completed and under development, subject to long-term management agreements. The ability of third-party purchasers to raise the debt and equity capital necessary to acquire such properties depends in part on the perceived risks inherent in the lodging industry and other constraints inherent in the capital markets as a whole. We monitor the status of the capital markets and regularly evaluate the potential impact of changes in capital market conditions on our business operations. We expect to continue making selective and opportunistic investments to add units to our lodging business, which may include loans and noncontrolling equity investments.

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Fluctuations in the values of hotel real estate generally have little impact on our overall operating results because: (1) we own less than one percent of hotels that we operate or franchise; (2) management and franchise fees are generally based upon hotel revenues and profits rather than current hotel property values; and (3) our management agreements generally do not terminate upon hotel sale or foreclosure.

Contractual Obligations

As of the end of the 2016 second quarter, there have been no significant changes to our “Contractual Obligations” table in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” of our 2015 Form 10-K, other than those resulting from changes in the amount of outstanding debt discussed below.

At the end of the 2016 second quarter, debt increased by \$253 million to \$4,360 million, compared to \$4,107 million at year-end 2015, primarily reflecting an increase of \$1,483 million (\$1,500 million face amount) from the issuances of Series Q and R Notes discussed in Footnote No. 7, “Long-Term Debt,” partially offset by a \$938 million decrease in commercial paper borrowings and a \$289 million decrease from the maturity of Series H Notes. At the end of the 2016 second quarter, future debt payments plus interest totaled \$5,180 million and are due as follows: \$69 million in 2016; \$440 million in 2017; \$135 million in 2018; \$722 million in 2019; \$464 million in 2020; and \$3,350 million thereafter.

Our financial objectives include diversifying our financing sources, optimizing the mix and maturity of our long-term debt, and reducing our working capital. At the end of the 2016 second quarter, our long-term debt had a weighted average interest rate of 3.0 percent and a weighted average maturity of approximately 6 years. We expect these amounts may change over the short term as a result of indebtedness that we expect to incur in connection with the Starwood Combination as discussed above.

Guarantee Commitments

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

At the end of the 2016 first half, guarantees where we are the primary obligor decreased by \$11 million to \$217 million, compared to \$228 million at year-end 2015, reflecting an \$11 million decrease in operating profit and other guarantees. At the end of the 2016 first half, guarantees for which we are secondarily liable decreased by \$13 million to \$79 million, compared to \$92 million at year-end 2015. At the end of the 2016 first half, future guarantee commitments expire as follows: \$14 million in 2016; \$43 million in 2017; \$35 million in 2018; \$66 million in 2019; \$35 million in 2020; and \$103 million thereafter.

See the “Guarantees” caption in Footnote No. 6, “Commitments and Contingencies” for additional information on our guarantees.

Share Repurchases

As of June 30, 2016, approximately 35.7 million shares remained available for repurchase under authorizations from our Board of Directors. In light of the additional debt incurred to fund the cash component of the consideration to Starwood shareholders in connection with the Starwood Combination, we expect to be more selective in our share repurchase activity until we reduce debt to our leverage targets.

Dividends

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

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk has not materially changed since December 31, 2015.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

Internal Control Over Financial Reporting

We made no changes in internal control over financial reporting during the 2016 second quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

See the information under “Legal Proceedings” in Footnote No. 6, “Commitments and Contingencies” to our Financial Statements in Part I, Item 1 of this Form 10-Q.

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

Item 1A. Risk Factors

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

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

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

Risks Relating to the Starwood Combination

We are subject to various uncertainties and contractual restrictions, including the risk of litigation, while the Starwood Combination remains pending that could cause disruption and may make it more difficult to maintain relationships with employees, hotel owners, hotel franchisees, suppliers or customers. Uncertainty about the effect of the Starwood Combination on employees, hotel owners, hotel franchisees, suppliers, and customers may have an adverse effect on our business. Although we have taken steps designed to reduce any adverse effects, these uncertainties could impair our ability to attract, retain, and motivate key personnel until the Starwood Combination

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is completed and for a period of time after that, and could cause customers, suppliers, and others that deal with us to seek to change our existing business relationships.

The pursuit of the Starwood Combination and the preparation for the integration may place a significant burden on our management and internal resources. The diversion of management's attention away from day-to-day business concerns and any difficulties encountered in the transition and integration process could adversely affect our financial results. In addition, the Merger Agreement restricts each company, without the other's consent, from making certain acquisitions and taking other specified actions until the Starwood Combination closes or the Merger Agreement terminates. These restrictions could prevent us from pursuing otherwise attractive business opportunities and making other changes to our business before completion of the Starwood Combination or termination of the Merger Agreement.

One of the conditions to the closing of the Starwood Combination is the absence of any judgment, order, law or other legal restraint by a court or other governmental entity of competent jurisdiction that prevents the consummation of the Starwood Combination. Although a number of lawsuits challenging the Starwood Combination that were filed on behalf of purported shareholders of Starwood were dismissed, additional legal proceedings could be filed in the future which could prevent the Starwood Combination from becoming effective, or delay its becoming effective within the expected time frame.

Failure to complete the Starwood Combination could negatively impact our stock price and our future business and financial results. If we do not complete the Starwood Combination, our ongoing business could be adversely affected, and we may be subject to several risks, including the following:

- having to pay certain costs relating to the Starwood Combination, such as legal, accounting, financial advisor, and other fees and expenses;
- our stock price could decline to the extent that the current market prices reflect a market assumption that the Starwood Combination will be completed; and
- having had our management focus on the Starwood Combination instead of on pursuing other opportunities that could have been beneficial to us.

If the Starwood Combination is not completed, we cannot assure you that these risks will not materialize and will not materially adversely affect our business, financial results, and stock price.

Our ability to complete the Starwood Combination is subject to certain closing conditions and the receipt of consents and approval from a government entity which may impose conditions that could adversely affect us or cause the Starwood Combination to be abandoned. The Merger Agreement contains certain closing conditions, including, among others, the absence of any judgment, order, law, or other legal restraint by a court or other governmental entity of competent jurisdiction that prevents the consummation of the Starwood Combination. We cannot assure you that the remaining closing conditions under the Merger Agreement will be satisfied, or that any required conditions will not materially adversely affect the combined company after the Starwood Combination closes, or will not result in the abandonment or delay of the Starwood Combination.

In addition, before the Starwood Combination may be completed, approval and declaration of non-objection must be obtained from the Ministry of Commerce of the People's Republic of China. This regulatory and governmental entity could impose conditions on the granting of such approvals. Such conditions and the process of obtaining regulatory approval could have the effect of delaying closing of the Starwood Combination or of imposing additional costs or limitations on the combined company following the closing. The regulatory approval may not be received at all, may not be received in a timely fashion, or may contain conditions. In addition, Starwood's and Marriott's respective obligations to complete the Starwood Combination are conditioned on the receipt of the regulatory approval or waiver by the other party of such condition.

Any delay in completing the Starwood Combination could reduce or eliminate the benefits that we expect to achieve. As discussed above, the Starwood Combination is subject to a number of conditions beyond Starwood's

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and our control that could prevent, delay, or otherwise materially adversely affect the completion of the combination. We cannot predict whether and when these conditions will be satisfied. Any delay in completing the Starwood Combination could cause the combined company not to realize some or all of the synergies that we expect to achieve if the Starwood Combination is successfully completed within the expected time frame.

The combined company may not be able to integrate successfully and many of the anticipated benefits of combining Starwood and Marriott may not be realized. We entered into the Merger Agreement with the expectation that the Starwood Combination will result in various benefits, including, among other things, operating efficiencies. Achieving those anticipated benefits is subject to a number of uncertainties, including whether we can integrate the business of Starwood in an efficient and effective manner.

The integration process could also take longer than we anticipate and could result in the loss of valuable employees, the disruption of each company's ongoing businesses, processes and systems or inconsistencies in standards, controls, procedures, practices, policies and compensation arrangements, any of which could adversely affect the combined company's ability to achieve the benefits we anticipate. The combined company's resulting portfolio of approximately 30 brands could be challenging for us to maintain and grow, and the harmonization of our different reservations and other systems and business practices could be more difficult, disruptive, and time consuming than we anticipate. The combined company's results of operations could also be adversely affected by any issues attributable to either company's operations that arise or are based on events or actions that occur before the Starwood Combination closes. The combined company may also have difficulty addressing possible differences in corporate cultures and management philosophies. The integration process is subject to a number of uncertainties, and we cannot assure you that the benefits we anticipate will be realized at all or as quickly as we expect. If we do not achieve those benefits, our costs could increase, our expected net income could decrease, and the combined company's future business, financial condition, operating results, and prospects could suffer.

We will incur substantial transaction costs in connection with the Starwood Combination. We expect to incur a number of non-recurring expenses both before and after completing the Starwood Combination, including in obtaining necessary consents and approvals and combining the operations of the two companies. These fees and costs will be substantial. We may also incur unanticipated costs in the integration of the businesses of Starwood and Marriott.

Although we expect that the elimination of certain duplicative costs, as well as the realization of other efficiencies related to the integration of the two businesses, will offset the incremental transaction-related costs over time, this net benefit may not be achieved in the near term, or at all. Further, if the Starwood Combination is not completed, we would have to recognize certain of these expenses without realizing the expected benefits of the combination.

Our shareholders will be diluted by the Starwood Combination. The Starwood Combination will dilute the ownership position of our current shareholders. We currently estimate that, upon completion of the combination, our shareholders before the merger will own approximately 66% and former Starwood shareholders will own approximately 34% of the combined company's outstanding common stock. Because of this, our current shareholders may have less influence on the management and policies of the combined company than they now have on us.

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

The combined company may not be able to retain Marriott and/or Starwood personnel successfully after the Starwood Combination is completed. The success of the Starwood Combination will depend in part on the combined company's ability to retain the talents and dedication of key employees that Marriott and Starwood currently employ. It is possible that these employees may decide not to remain with Marriott or Starwood, as applicable, while the Starwood Combination is pending or with the combined company after the combination is

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consummated. If key employees terminate their employment, or if the combined company cannot maintain a sufficient number of employees to maintain effective operations, the combined company's business activities could be adversely affected and management's attention could be diverted from successfully integrating Starwood to hiring suitable replacements, all of which may cause the combined company's business to suffer. In addition, we may not be able to locate suitable replacements for any key employees who leave either company, or offer employment to potential replacements on reasonable terms.

Risks Relating to Our Business

Operational Risks

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

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

The growing significance of our operations outside of the United States, particularly following the Starwood Combination, makes us increasingly susceptible to the risks of doing business internationally, which could lower our revenues, increase our costs, reduce our profits, disrupt our business, or damage our reputation. At the end of the 2016 second quarter, we operated or franchised hotels and resorts in 88 countries, and our operations outside the United States represented approximately 17 percent of our revenues in the 2016 first half. Starwood reported that as of December 31, 2015 it operated or franchised hotels and resorts in approximately 100 countries, and that more than half of its properties were outside of the United States. We expect that our international revenues will continue to grow, particularly following the Starwood Combination. As a result, we are increasingly exposed to the challenges and risks of doing business outside the United States, many of which are outside of our control, and which could reduce our revenues or profits, increase our costs, result in significant liabilities or sanctions, otherwise disrupt our business, or damage our reputation. These challenges include: (1) compliance with complex and changing laws, regulations and government policies that may impact our operations, such as foreign ownership restrictions, import and export controls, and trade restrictions; (2) compliance with U.S. and foreign laws that affect the activities of companies abroad, such as competition laws, currency regulations, and other laws affecting dealings with certain nations; (3) limitations on our ability to repatriate non-U.S. earnings in a tax effective manner, or in some cases at all due to foreign exchange restrictions; (4) the difficulties involved in managing an organization doing business in many different countries; (5) uncertainties as to the enforceability of contract and intellectual property rights under local laws; (6) rapid changes in government policy, political or civil unrest in the Middle East and elsewhere, acts of terrorism, or the threat of international boycotts or U.S. anti-boycott legislation; and (7) currency exchange rate fluctuations, which may impact the results and cash flows of our international operations.

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

Exchange rate fluctuations and foreign exchange hedging arrangements could result in significant foreign currency gains and losses and affect our business results. We earn revenues and incur expenses in foreign currencies as part of our operations outside of the United States. Accordingly, fluctuations in currency exchange rates may significantly increase the amount of U.S. dollars required for foreign currency expenses or significantly decrease the U.S. dollars we receive from foreign currency revenues. We are also exposed to currency translation risk because the results of our business outside of the U.S. are generally reported in local currency, which we then translate to U.S. dollars for inclusion in our consolidated financial statements. As a result, changes between the foreign exchange rates and the U.S. dollar affect the amounts we record for our foreign assets, liabilities, revenues and expenses, and could have a negative effect on our financial results. We expect that our exposure to foreign currency exchange rate fluctuations will grow as the relative contribution of our non-U.S. operations increases. Our efforts to mitigate some of our foreign currency exposure by entering into foreign exchange hedging agreements with financial institutions to reduce exposures to some of the principal currencies in which we receive management and franchise fees may not be successful. In this regard, these hedging agreements do not cover all currencies in which we do business, do not eliminate foreign currency risk entirely for the currencies that they do cover, and involve costs and risks of their own in the form of transaction costs, credit requirements and counterparty risk.

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

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

Risks relating to natural or man-made disasters, contagious disease, terrorist activity, and war could reduce the demand for lodging, which may adversely affect our revenues. So called "Acts of God," such as hurricanes, earthquakes, tsunamis, and other natural disasters, such as Hurricane Sandy in the Northeastern United States, the earthquake and

tsunami in Japan, and man-made disasters in recent years as well as the potential spread of contagious diseases such as MERS (Middle East Respiratory Syndrome), Zika virus, and Ebola in locations where

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we own, manage, or franchise significant properties and areas of the world from which we draw a large number of customers, could cause a decline in business or leisure travel and reduce demand for lodging. Actual or threatened war, terrorist activity, political unrest, or civil strife, such as recent events in Brussels, Paris, Ukraine and Russia, the Middle East, and other geopolitical uncertainty could have a similar effect. Any one or more of these events may reduce the overall demand for hotel rooms and corporate apartments or limit the prices that we can obtain for them, both of which could adversely affect our profits.

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

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

Actions by our franchisees and licensees could adversely affect our image and reputation. We franchise and license many of our brand names and trademarks to third parties in connection with lodging, timeshare, residential services, and our credit card programs. Under the terms of their agreements with us, our franchisees and licensees interact directly with customers and other third parties under our brand and trade names. If these franchisees or licensees fail to maintain or act in accordance with applicable brand standards; experience operational problems, including any data breach involving customer information; or project a brand image inconsistent with ours, our image and reputation could suffer. Although our franchise and license agreements provide us with recourse and remedies in the event of a breach by the franchisee or licensee, including termination of the agreements under certain circumstances, pursuing any such recourse, remedy, or termination could be expensive and time consuming. In addition, we cannot assure you that a court would ultimately enforce our contractual termination rights in every instance.

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

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Development and Financing Risks

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

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

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

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

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

Risks associated with development and sale of residential properties associated with our lodging properties or brands may reduce our profits. In certain hotel and timeshare projects we participate, directly or through noncontrolling interests and/or licensing agreements, in the development and sale of residential properties

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

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

If owners of hotels that we manage or franchise cannot repay or refinance mortgage loans secured by their properties, our revenues and profits could decrease and our business could be harmed. The owners of many of our managed or franchised properties have pledged their hotels as collateral for mortgage loans that they entered into when those properties were purchased or refinanced. If those owners cannot repay or refinance maturing indebtedness on favorable terms or at all, the lenders could declare a default, accelerate the related debt, and repossess the property.

Such sales or repossessions could, in some cases, result in the termination of our management or franchise agreements and eliminate our anticipated income and cash flows, which could negatively affect our results of operations.

Planned transactions we announce may be delayed, not occur at all, or involve unanticipated costs. From time to time we announce transactions that we expect will close at a future date, such as our anticipated acquisition of Starwood Hotels & Resorts. If the conditions to consummating these transactions are neither satisfied nor waived by the time we expect, the closings could be delayed or not occur at all.

Technology, Information Protection, and Privacy Risks

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

An increase in the use of third-party Internet services to book online hotel reservations could adversely impact our business. Some of our hotel rooms are booked through Internet travel intermediaries such as Expedia.com[®], Priceline.com[®], Booking.com[™], Travelocity.com[®] and Orbitz.com[®], as well as lesser-known online travel service

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

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

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

Cyber-attacks could have a disruptive effect on our business. Efforts to hack or breach security measures, failures of systems or software to operate as designed or intended, viruses, operator error, or inadvertent releases of data may materially impact our, including our owners', franchisees', licensees', or service providers', information systems and records. Our reliance on computer, Internet-based and mobile systems and communications and the frequency and sophistication of efforts by hackers to gain unauthorized access to such systems have increased significantly in recent years. A significant theft, loss, or fraudulent use of customer, employee, or company data could adversely impact our reputation and could result in remedial and other expenses, fines, or litigation. Breaches in the security of our information systems or those of our owners, franchisees, licensees, or service providers or other disruptions in data services could lead to an interruption in the operation of our systems, resulting in operational inefficiencies and a loss of profits. In addition, although we carry cyber/privacy liability insurance that is designed to protect us against certain losses related to cyber risks, such insurance coverage may be insufficient to cover all losses or all types of claims that may arise in connection with cyber-attacks, security breaches, and other related breaches.

Changes in privacy law could increase our operating costs and adversely affect our ability to market our products effectively. We are subject to numerous laws, regulations, and contractual obligations designed to protect personal information, including foreign data protection laws, various U.S. federal and state laws, and credit card industry security standards and other applicable information privacy and security standards. Compliance with changes in applicable privacy regulations may increase our operating costs.

Additionally, we rely on a variety of direct marketing techniques, including email marketing, online advertising, and postal mailings. Any further restrictions in laws such as the CANSPAM Act, and various U.S. state laws, or new federal laws on marketing and solicitation or international data protection laws that govern these activities could adversely affect the continuing effectiveness of email, online advertising, and postal mailing

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techniques and could force further changes in our marketing strategy. If this occurs, we may not be able to develop adequate alternative marketing strategies, which could impact the amount and timing of our sales of certain products. We also obtain access to potential customers from travel service providers or other companies with whom we have substantial relationships and market to some individuals on these lists directly or by including our marketing message in the other company's marketing materials. If access to these lists was prohibited or otherwise restricted, our ability to develop new customers and introduce them to our products could be impaired.

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

Other Risks

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

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

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

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Item 6. Exhibits

Exhibit No.	Description	Incorporation by Reference (where a report is indicated below, that document has been previously filed with the SEC and the applicable exhibit is incorporated by reference thereto) Exhibit No. 3.(i) to our Form 8-K filed August 22, 2006 (File No. 001-13881).
3.1	Restated Certificate of Incorporation.	
3.2	Amended and Restated Bylaws.	Exhibit No. 3.(ii) to our Form 8-K filed June 18, 2014 (File No. 001-13881).
4.1	Form of Note for the 2.300% Series Q Notes due 2022.	Exhibit No. 4.1 to our Form 8-K filed June 10, 2016 (File No. 001-13881).
4.2	Form of Note for the 3.125% Series R Notes due 2026.	Exhibit No. 4.2 to our Form 8-K filed June 10, 2016 (File No. 001-13881).
10	U.S. \$4,000,000,000 Fourth Amended and Restated Credit Agreement dated as of June 10, 2016 with Bank of America, N.A. as administrative agent and certain banks.	Exhibit No. 10 to our Form 8-K filed June 13, 2016 (File No. 001-13881).
12	Statement of Computation of Ratio of Earnings to Fixed Charges.	Filed with this report.
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).	Filed with this report.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).	Filed with this report.
32	Section 1350 Certifications.	Furnished with this report.
101.INS	XBRL Instance Document.	Submitted electronically with this report.
101.SCH	XBRL Taxonomy Extension Schema Document.	Submitted electronically with this report.
101.CAL	XBRL Taxonomy Calculation Linkbase Document.	Submitted electronically with this report.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Submitted electronically with this report.
101.LAB	XBRL Taxonomy Label Linkbase Document.	

Submitted electronically with this report.

101.PRE XBRL Taxonomy Presentation Linkbase Document.

Submitted electronically with this report.

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

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SIGNATURE

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

MARRIOTT INTERNATIONAL, INC.

28th day of July, 2016

/s/ Bao Giang Val Bauduin

Bao Giang Val Bauduin

Controller and Chief Accounting Officer

(Duly Authorized Officer)