

SYNEX CORP  
Form SC TO-I  
April 16, 2013

# **SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

## **SCHEDULE TO**

**TENDER OFFER STATEMENT UNDER SECTION 14(d)(1) OR 13(e)(1)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

## **SYNEX CORPORATION**

**(Name of Subject Company (Issuer) and Filing Person (Issuer))**

**4.0% Convertible Senior Notes due 2018**

**(Title of Class of Securities)**

**87162WAB6**

**(CUSIP Number of Class of Securities)**

**Simon Y. Leung**

Edgar Filing: SYNEX CORP - Form SC TO-I

Senior Vice President and General Counsel

SYNEX Corporation

44201 Nobel Drive

Fremont, California 94538

(510) 656-3333

(Name, address and telephone number of person authorized to receive notices and communications on behalf of filing person)

With Copies to:

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CALCULATION OF FILING FEE

Transaction valuation<sup>(1)</sup>  
\$143,750,000

Amount of filing fee<sup>(2)</sup>  
\$19,608

- (1) Calculated solely for purposes of determining the filing fee. The transaction valuation assumes that all 4.0% Convertible Senior Notes due 2018 (the Notes ) outstanding as of April 15, 2013 will be repurchased for a price equal to 100% of the principal amount. As of April 15, 2013, there was \$143,750,000 aggregate principal amount of Notes outstanding.
- (2) Calculated in accordance with Rule 0-11(b) of the Securities Exchange Act of 1934 and equals \$136.40 per million of the transaction valuation.

.. Check the box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid: Not applicable.  
Form or Registration No.: Not applicable.

Filing party: Not applicable.  
Date filed: Not applicable.

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“ Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.  
Check the appropriate boxes below to designate any transactions to which the statement relates:

- “ third party tender offer subject to Rule 14d-1.
- x issuer tender offer subject to Rule 13e-4.
- “ going-private transaction subject to Rule 13e-3.
- “ amendment to Schedule 13D under Rule 13d-2.

Check the following box if the filing is a final amendment reporting the results of the tender offer: “

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**INTRODUCTORY STATEMENT**

This Tender Offer Statement on Schedule TO ( Schedule TO ) is filed by SYNEX Corporation, a corporation duly organized and existing under the laws of the State of Delaware (the Company ), and relates to the right of each holder (each, a Holder ) of the Company s 4.0% Convertible Senior Notes due 2018 (the Notes ) to require the Company to repurchase the Notes upon the terms and subject to the conditions set forth in the Indenture, dated as of May 12, 2008 (the Indenture ), between the Company and U.S. Bank National Association, a national banking association, as trustee (the Trustee ), and the Notes. The right of a Holder to require the Company to repurchase the Notes, as described in the Company Notice to Holders of the 4.0% Convertible Senior Notes due 2018 issued by the Company, dated April 16, 2013, filed an exhibit to this Schedule TO, as amended or supplemented from time to time, is referred to as the Put Option.

On April 16, 2013, the Company announced that it will redeem all of the outstanding Notes on May 20, 2013 (the Redemption Date ) at a redemption price equal to 100% of the principal amount of the Notes redeemed plus any accrued and unpaid interest (including any contingent interest) up to, but not including, Redemption Date, as provided for in the Indenture and the Notes. As a result of the Company s notice of redemption, Holders may surrender for conversion any Notes called for redemption at any time prior to 5:00 p.m., New York City time, on May 17, 2013. Notes surrendered for conversion will be converted as provided for in the Indenture and the Notes.

This Schedule TO is intended to satisfy the filing and disclosure requirements of Rules 13e-4(c)(2) and 13e-4(d)(1) under the Securities Exchange Act of 1934, as amended.

**ITEMS 1 THROUGH 9.**

As permitted by General Instruction F to Schedule TO, all of the information set forth in the Put Option is incorporated by reference into this Schedule TO.

**ITEM 10. FINANCIAL STATEMENTS.**

Pursuant to Instruction 2 to Item 10 of Schedule TO, the Company s financial condition is not material to a Holder s decision whether to put the Notes to the Company because (i) the consideration being paid to Holders surrendering Notes consists solely of cash, (ii) the Put Option is not subject to any financing condition and (iii) the Put Option applies to all outstanding Notes.

**ITEM 11. ADDITIONAL INFORMATION.**

Not applicable.

**ITEM 12. EXHIBITS.**

<b>Exhibit Number</b>	<b>Description</b>
(a)(1)(A)	Company Notice to Holders of 4.0% Convertible Senior Notes due 2018 issued by SYNEX Corporation, dated April 16, 2013, including form of Repurchase Notice and form of Withdrawal Notice.
(a)(5)(A)	Press Release dated April 16, 2013.
(b)(1)	Fourth Amended and Restated Credit Agreement, dated as of November 12, 2010, by and among the Company, the lenders signatories thereto from time to time, and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 to the Company s Current Report in Form 8-K filed on November 18, 2010).

Exhibit Number	Description
(b)(2)	Amendment No. 5 to Fourth Amended and Restated Credit Agreement, dated as of October 18, 2012, by and among the Company, the lenders signatories thereto from time to time, and Bank of America, N.A. (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on October 24, 2012).
(b)(3)	Fourth Omnibus Amendment, dated as of January 11, 2010, among the Company, SIT Funding Corporation, Bank of America, N.A. and the other signatories thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 15, 2010).
(b)(4)	Third Amended and Restated Receivables Sale and Servicing Agreement, dated as of January 23, 2009, by and among the Originators party thereto from time to time, the Company and SIT Funding Corporation (incorporated by reference to Exhibit 10.34 to the Company's Annual Report in Form 10-K for the year ended November 30, 2008).
(b)(5)	Fifth Amendment to Third Amended and Restated Receivables Sale and Servicing Agreement, dated as of November 12, 2010, between the Company and SIT Funding Corporation (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on November 18, 2010).
(b)(6)	Sixth Amendment to Third Amended and Restated Receivables Sales and Servicing Agreement, dated as of October 18, 2012, between the Company and SIT Funding Corporation (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 24, 2012).
(b)(7)	Fourth Amended and Restated Receivables Funding and Administration Agreement, dated as November 12, 2010, among SIT Funding Corporation, the lenders party thereto from time to time, The Bank of Nova Scotia and PNC Capital Markets, LLC (incorporated by reference to Exhibit 10.3 to the Company's Current Report in Form 8-K filed on November 18, 2010).
(b)(8)	Third Amendment to Fourth Amended and Restated Receivables Funding and Administration Agreement, dated as of October 18, 2012, by and among SIT Funding Corporation and the lenders signatories thereto (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 24, 2012).
(d)(1)	Indenture, dated as of May 12, 2008, between SYNnex Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on May 16, 2008).
(d)(2)	Amended and Restated 2003 Stock Incentive Plan and form of agreements thereunder (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 2008).
(d)(3)	Amendment to the Amended and Restated 2003 Stock Incentive Plan, dated November 21, 2008 (incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended November 30, 2008).
(d)(4)	Form of Notice of Stock Option Grant (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2009).

Exhibit Number	Description
(d)(5)	Amendment to Amended and Restated 2003 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2009).
(d)(6)	Form of Restricted Stock Award (Directors) (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2009).
(d)(7)	Form of Notice of Restricted Stock Unit Award (Performance Vesting) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 4, 2010).
(d)(8)	Amendment to Amended and Restated 2003 Stock Incentive Plan (incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended November 30, 2011).
(d)(9)	Amended and Restated 2003 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 2008).
(d)(10)	Amendment to Amended and Restated 2003 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 2008).
(d)(11)	SYNNEX Corporation 2013 Stock Incentive Plan (incorporated by reference to Appendix A to the Company's Proxy Statement on Schedule 14A filed on February 22, 2013).
(d)(12)	Amendment No. 1 to SYNnex Corporation 2013 Stock Incentive Plan (incorporated by reference to Appendix A to the Company's Definitive Additional Proxy Materials on Schedule 14A filed on March 5, 2013).
(d)(13)	Offer Letter to Marshall Witt dated March 29, 2013 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 3, 2013).
(g)	None.
(h)	None.

**ITEM 13. INFORMATION REQUIRED BY SCHEDULE 13E-3.**

Not applicable.

**SIGNATURE**

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this Schedule TO is true, complete and correct.

SYNEX CORPORATION

By: /s/ Simon Y. Leung

Name: Simon Y. Leung

Title: Senior Vice President, General Counsel

and Secretary

Date: April 16, 2013

**EXHIBIT INDEX**

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Exhibit Number	Description
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(d)(8)	Amendment to Amended and Restated 2003 Stock Incentive Plan (incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended November 30, 2011).
(d)(9)	Amended and Restated 2003 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 2008).
(d)(10)	Amendment to Amended and Restated 2003 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 2008).
(d)(11)	SYNEX Corporation 2013 Stock Incentive Plan (incorporated by reference to Appendix A to the Company's Proxy Statement on Schedule 14A filed on February 22, 2013).
(d)(12)	Amendment No. 1 to SYNEX Corporation 2013 Stock Incentive Plan (incorporated by reference to Appendix A to the Company's Definitive Additional Proxy Materials on Schedule 14A filed on March 5, 2013).
(d)(13)	Offer Letter to Marshall Witt dated March 29, 2013 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 3, 2013).
(g)	None.
(h)	None.

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Change vs. Three Months Ended June 30, 2016

JW Marriott

\$  
189.81

4.4  
%

79.6  
%

2.7  
%  
pts.

\$

238.40

0.9

%

The Ritz-Carlton

\$

267.75

4.0

%

74.9

%

0.6

%

pts.

\$

357.45

3.2

%

W Hotels

\$

261.04

0.1

%

85.5

%

0.3

%

pts.

\$

305.49

(0.2

)%

Composite North American

Luxury <sup>(1)</sup>

\$

251.16

2.4  
%

79.0  
%

1.1  
%  
pts.

\$  
317.93

1.0  
%  
Marriott Hotels  
\$  
157.57

0.5  
%

80.7  
%

0.2  
%  
pts.

\$  
195.23

0.2  
%  
Sheraton  
\$  
158.53

1.8  
%

79.4  
%

(1.1

)%  
pts.

\$  
199.65

3.2  
%  
Westin  
\$  
186.43

1.5  
%

80.5  
%

(0.9  
)%  
pts.

\$  
231.53

2.7  
%  
Composite North American  
Upper Upscale <sup>(2)</sup>  
\$  
160.28

0.8  
%

79.8  
%

(0.5  
)%  
pts.

\$  
200.76

1.4

%  
North American  
Full-Service <sup>(3)</sup>  
\$  
176.76

1.2  
%

79.7  
%

(0.2  
)%  
pts.

\$  
221.83

1.5  
%  
Courtyard  
\$  
111.78

(0.6  
)%

77.5  
%

(0.9  
)%  
pts.

\$  
144.17

0.6  
%  
Residence Inn  
\$  
130.52

3.1  
%

82.8  
%

0.5  
%  
pts.

\$  
157.67

2.5  
%  
Composite North American  
Limited-Service <sup>(4)</sup>  
\$  
116.05

0.9  
%

79.4  
%

(0.4  
)%  
pts.

\$  
146.24

1.4  
%  
North American - All <sup>(5)</sup>  
\$  
157.84

1.1  
%

79.6  
%

(0.3  
)%  
pts.

\$  
198.34

1.5  
%

## Comparable Systemwide North American Properties

	RevPAR		Occupancy			Average Daily Rate		
	Three Months Ended June 30, 2017	Change vs. Three Months Ended June 30, 2016	Three Months Ended June 30, 2017	Change vs. Three Months Ended June 30, 2016	Three Months Ended June 30, 2017	Change vs. Three Months Ended June 30, 2016		
JW Marriott	\$186.05	2.8 %	79.6%	1.4 % pts.	\$233.81	0.9 %		
The Ritz-Carlton	\$267.75	4.0 %	74.9%	0.6 % pts.	\$357.45	3.2 %		
W Hotels	\$261.04	0.1 %	85.5%	0.3 % pts.	\$305.49	(0.2) %		
Composite North American Luxury <sup>(1)</sup>	\$238.62	2.3 %	78.8%	0.8 % pts.	\$302.92	1.2 %		
Marriott Hotels	\$135.66	0.3 %	77.0%	(0.3) % pts.	\$176.09	0.8 %		
Sheraton	\$124.11	0.4 %	77.1%	(0.8) % pts.	\$160.95	1.5 %		
Westin	\$167.56	1.2 %	79.8%	(0.8) % pts.	\$209.87	2.2 %		
Composite North American Upper Upscale <sup>(2)</sup>	\$140.41	0.7 %	77.5%	(0.5) % pts.	\$181.19	1.4 %		
North American Full-Service <sup>(3)</sup>	\$151.06	1.0 %	77.6%	(0.4) % pts.	\$194.58	1.5 %		
Courtyard	\$110.27	(0.1) %	77.4%	(0.4) % pts.	\$142.42	0.4 %		
Residence Inn	\$122.31	1.2 %	82.3%	(0.6) % pts.	\$148.64	2.0 %		
Fairfield Inn & Suites	\$87.41	2.7 %	75.7%	1.2 % pts.	\$115.49	1.1 %		
Composite North American Limited-Service <sup>(4)</sup>	\$105.28	0.9 %	78.4%	(0.2) % pts.	\$134.23	1.1 %		
North American - All <sup>(5)</sup>	\$125.71	0.9 %	78.1%	(0.3) % pts.	\$161.01	1.3 %		

<sup>(1)</sup> Includes JW Marriott, The Ritz-Carlton, W Hotels, The Luxury Collection, St. Regis, and EDITION.

<sup>(2)</sup> Includes Marriott Hotels, Sheraton, Westin, Renaissance Hotels, Autograph Collection Hotels, Delta Hotels, Gaylord Hotels, Le Méridien, and Tribute Portfolio.

<sup>(3)</sup> Includes Composite North American Luxury and Composite North American Upper Upscale.

<sup>(4)</sup> Includes Courtyard, Residence Inn, Fairfield Inn & Suites, SpringHill Suites, Four Points, and TownePlace Suites. Systemwide also includes Aloft Hotels and Element Hotels.

<sup>(5)</sup> Includes North American Full-Service and Composite North American Limited-Service.

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## Comparable Company-Operated International Properties

	RevPAR		Occupancy		Average Daily Rate	
	Three Months Ended June 30, 2017	Change vs. Three Months Ended June 30, 2016	Three Months Ended June 30, 2017	Change vs. Three Months Ended June 30, 2016	Three Months Ended June 30, 2017	Change vs. Three Months Ended June 30, 2016
Greater China	\$87.83	8.1 %	71.2%	6.6 % pts.	\$123.39	(2.0 )%
Rest of Asia Pacific	\$108.86	6.5 %	71.9%	2.9 % pts.	\$151.34	2.2 %
Asia Pacific	\$95.14	7.5 %	71.4%	5.3 % pts.	\$133.18	(0.6 )%
Caribbean & Latin America	\$131.89	7.6 %	66.1%	3.0 % pts.	\$199.54	2.8 %
Europe	\$146.45	6.5 %	77.5%	1.3 % pts.	\$189.00	4.7 %
Middle East & Africa	\$96.96	2.4 %	61.9%	1.4 % pts.	\$156.66	0.2 %
Other International <sup>(1)</sup>	\$126.75	5.6 %	70.0%	1.6 % pts.	\$181.07	3.1 %
International - All <sup>(2)</sup>	\$111.14	6.4 %	70.7%	3.5 % pts.	\$157.16	1.2 %
Worldwide <sup>(3)</sup>	\$134.95	3.2 %	75.2%	1.6 % pts.	\$179.37	1.1 %

## Comparable Systemwide International Properties

	RevPAR		Occupancy		Average Daily Rate	
	Three Months Ended June 30, 2017	Change vs. Three Months Ended June 30, 2016	Three Months Ended June 30, 2017	Change vs. Three Months Ended June 30, 2016	Three Months Ended June 30, 2017	Change vs. Three Months Ended June 30, 2016
Greater China	\$88.21	8.4 %	70.8%	6.8 % pts.	\$124.64	(2.0 )%
Rest of Asia Pacific	\$110.71	5.0 %	72.0%	2.2 % pts.	\$153.65	1.8 %
Asia Pacific	\$97.61	6.8 %	71.3%	4.9 % pts.	\$136.89	(0.5 )%
Caribbean & Latin America	\$116.22	3.5 %	64.5%	1.3 % pts.	\$180.05	1.5 %
Europe	\$128.01	7.0 %	75.2%	2.4 % pts.	\$170.14	3.6 %
Middle East & Africa	\$94.05	2.4 %	62.0%	1.3 % pts.	\$151.59	0.2 %
Other International <sup>(1)</sup>	\$116.53	5.1 %	69.2%	1.8 % pts.	\$168.31	2.4 %
International - All <sup>(2)</sup>	\$108.53	5.8 %	70.1%	3.1 % pts.	\$154.79	1.1 %
Worldwide <sup>(3)</sup>	\$120.69	2.2 %	75.7%	0.7 % pts.	\$159.33	1.2 %

<sup>(1)</sup> Includes Caribbean & Latin America, Europe, and Middle East & Africa.

<sup>(2)</sup> Includes Asia Pacific and Other International.

<sup>(3)</sup> Includes North American - All and International - All.

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## Comparable Company-Operated North American Properties

	RevPAR			Occupancy			Average Daily Rate		
	Six Months Ended June 30, 2017	Change vs. Six Months Ended June 30, 2016	%	Six Months Ended June 30, 2017	Change vs. Six Months Ended June 30, 2016	% pts.	Six Months Ended June 30, 2017	Change vs. Six Months Ended June 30, 2016	%
JW Marriott	\$190.36	4.9 %		78.7%	2.0 %	pts.	\$241.91	2.1 %	
The Ritz-Carlton	\$282.43	3.5 %		75.1%	1.5 %	pts.	\$376.01	1.4 %	
W Hotels	\$241.53	0.1 %		81.4%	0.3 %	pts.	\$296.58	(0.2) %	
Composite North American Luxury <sup>(1)</sup>	\$255.46	2.9 %		78.2%	1.4 %	pts.	\$326.84	1.0 %	
Marriott Hotels	\$148.54	2.4 %		76.9%	1.0 %	pts.	\$193.18	1.0 %	
Sheraton	\$146.69	3.5 %		76.9%	0.2 %	pts.	\$190.64	3.1 %	
Westin	\$173.10	2.6 %		77.0%	(0.1) %	pts.	\$224.72	2.8 %	
Composite North American Upper Upscale <sup>(2)</sup>	\$150.56	2.8 %		76.5%	0.6 %	pts.	\$196.79	2.0 %	
North American Full-Service <sup>(3)</sup>	\$169.59	2.8 %		76.8%	0.7 %	pts.	\$220.79	1.9 %	
Courtyard	\$104.40	0.1 %		73.3%	(0.5) %	pts.	\$142.38	0.8 %	
Residence Inn	\$123.47	4.1 %		79.6%	1.1 %	pts.	\$155.18	2.6 %	
Composite North American Limited-Service <sup>(4)</sup>	\$108.84	1.5 %		75.4%	— %	pts.	\$144.43	1.5 %	
North American - All <sup>(5)</sup>	\$150.66	2.6 %		76.4%	0.5 %	pts.	\$197.31	1.9 %	

## Comparable Systemwide North American Properties

	RevPAR			Occupancy			Average Daily Rate		
	Six Months Ended June 30, 2017	Change vs. Six Months Ended June 30, 2016	%	Six Months Ended June 30, 2017	Change vs. Six Months Ended June 30, 2016	% pts.	Six Months Ended June 30, 2017	Change vs. Six Months Ended June 30, 2016	%
JW Marriott	\$188.20	3.9 %		78.7%	1.5 %	pts.	\$239.22	1.9 %	
The Ritz-Carlton	\$282.43	3.5 %		75.1%	1.5 %	pts.	\$376.01	1.4 %	
W Hotels	\$241.53	0.1 %		81.4%	0.3 %	pts.	\$296.58	(0.2) %	
Composite North American Luxury <sup>(1)</sup>	\$241.71	2.9 %		77.7%	1.3 %	pts.	\$311.05	1.2 %	
Marriott Hotels	\$128.77	1.5 %		73.5%	0.4 %	pts.	\$175.27	0.9 %	
Sheraton	\$113.95	1.9 %		73.0%	0.2 %	pts.	\$156.19	1.6 %	
Westin	\$160.63	2.8 %		77.0%	0.1 %	pts.	\$208.70	2.7 %	
Composite North American Upper Upscale <sup>(2)</sup>	\$132.99	2.3 %		74.1%	0.5 %	pts.	\$179.45	1.7 %	
North American Full-Service <sup>(3)</sup>	\$144.78	2.4 %		74.5%	0.6 %	pts.	\$194.34	1.6 %	
Courtyard	\$102.53	0.6 %		73.2%	— %	pts.	\$140.09	0.5 %	
Residence Inn	\$114.53	1.9 %		78.7%	— %	pts.	\$145.59	2.0 %	

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Fairfield Inn & Suites	\$79.26	3.0	%	70.6%	1.3% pts.	\$112.34	1.1	%
Composite North American Limited-Service <sup>(4)</sup>	\$97.67	1.5	%	74.2%	0.3% pts.	\$131.71	1.1	%
North American - All <sup>(5)</sup>	\$118.69	2.0	%	74.3%	0.4% pts.	\$159.73	1.4	%

(1) Includes JW Marriott, The Ritz-Carlton, W Hotels, The Luxury Collection, St. Regis, and EDITION.

(2) Includes Marriott Hotels, Sheraton, Westin, Renaissance Hotels, Autograph Collection Hotels, Delta Hotels, Gaylord Hotels, Le Méridien, and Tribute Portfolio.

(3) Includes Composite North American Luxury and Composite North American Upper Upscale.

(4) Includes Courtyard, Residence Inn, Fairfield Inn & Suites, SpringHill Suites, Four Points, and TownePlace Suites. Systemwide also includes Aloft Hotels and Element Hotels.

(5) Includes North American Full-Service and Composite North American Limited-Service.

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## Comparable Company-Operated International Properties

	RevPAR		Occupancy		Average Daily Rate	
	Six Months Ended June 30, 2017	Change vs. Six Months Ended June 30, 2016	Six Months Ended June 30, 2017	Change vs. Six Months Ended June 30, 2016	Six Months Ended June 30, 2017	Change vs. Six Months Ended June 30, 2016
Greater China	\$85.43	6.6 %	68.5 %	6.6 % pts.	\$124.77	(3.7) %
Rest of Asia Pacific	\$113.99	6.0 %	74.1 %	3.4 % pts.	\$153.92	1.1 %
Asia Pacific	\$95.37	6.4 %	70.4 %	5.5 % pts.	\$135.44	(2.0) %
Caribbean & Latin America	\$146.84	3.4 %	67.5 %	2.4 % pts.	\$217.42	(0.2) %
Europe	\$123.83	6.5 %	71.0 %	1.8 % pts.	\$174.41	3.7 %
Middle East & Africa	\$108.76	0.6 %	65.4 %	1.5 % pts.	\$166.34	(1.7) %
Other International <sup>(1)</sup>	\$122.99	3.9 %	68.4 %	1.8 % pts.	\$179.75	1.2 %
International - All <sup>(2)</sup>	\$109.34	5.0 %	69.4 %	3.7 % pts.	\$157.53	(0.5) %
Worldwide <sup>(3)</sup>	\$130.41	3.5 %	73.0 %	2.1 % pts.	\$178.76	0.6 %

## Comparable Systemwide International Properties

	RevPAR		Occupancy		Average Daily Rate	
	Six Months Ended June 30, 2017	Change vs. Six Months Ended June 30, 2016	Six Months Ended June 30, 2017	Change vs. Six Months Ended June 30, 2016	Six Months Ended June 30, 2017	Change vs. Six Months Ended June 30, 2016
Greater China	\$85.68	6.9 %	68.0 %	6.7 % pts.	\$125.94	(3.7) %
Rest of Asia Pacific	\$113.62	4.6 %	73.8 %	2.6 % pts.	\$153.99	0.9 %
Asia Pacific	\$97.36	5.8 %	70.4 %	5.0 % pts.	\$138.23	(1.7) %
Caribbean & Latin America	\$122.86	0.7 %	64.5 %	0.8 % pts.	\$190.59	(0.5) %
Europe	\$108.60	7.1 %	68.4 %	2.7 % pts.	\$158.78	2.8 %
Middle East & Africa	\$104.42	0.8 %	65.1 %	1.6 % pts.	\$160.28	(1.6) %
Other International <sup>(1)</sup>	\$111.15	3.7 %	66.6 %	2.0 % pts.	\$166.93	0.7 %
International - All <sup>(2)</sup>	\$105.31	4.5 %	68.2 %	3.3 % pts.	\$154.38	(0.4) %
Worldwide <sup>(3)</sup>	\$114.78	2.7 %	72.5 %	1.2 % pts.	\$158.26	0.9 %

<sup>(1)</sup> Includes Caribbean & Latin America, Europe, and Middle East & Africa.

<sup>(2)</sup> Includes Asia Pacific and Other International.

<sup>(3)</sup> Includes North American - All and International - All.

## CONSOLIDATED RESULTS

The following discussion presents an analysis of our consolidated results of operations for the 2017 second quarter compared to the 2016 second quarter and the 2017 first half compared to the 2016 first half. In accordance with GAAP, our Income Statements include Starwood's results of operations in the three and six months ended June 30, 2017, but do not include Starwood's results of operations in the three and six months ended June 30, 2016, as we did not own Starwood during that period.

## Fee Revenues

(\$ in millions)	Three Months Ended			Six Months Ended		
	June 30, 2017	June 30, 2016	Change vs. 2017 vs.	June 30, 2017	June 30, 2016	Change vs. 2017 vs.

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	2016				2016			
Base management fees	\$285	\$186	\$99	53%	\$549	\$358	\$191	53%
Franchise fees	416	273	143	52%	781	523	258	49%
Incentive management fees	148	94	54	57%	301	195	106	54%
	\$849	\$553	\$296	54%	\$1,631	\$1,076	\$555	52%

Second Quarter. The \$99 million increase in base management fees primarily reflected \$95 million from the Starwood Combination and \$5 million from Legacy-Marriott RevPAR and unit growth.

The \$143 million increase in franchise fees primarily reflected \$111 million from the Starwood Combination, \$16 million from Legacy-Marriott unit growth, \$9 million of higher Legacy-Marriott branding fees, \$4 million from stronger RevPAR at Legacy-Marriott properties, and \$4 million of higher Legacy-Marriott relicensing fees.

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The \$54 million increase in incentive management fees primarily reflected \$49 million from the Starwood Combination and higher net house profits at Legacy-Marriott properties.

In the 2017 second quarter, we earned incentive management fees from 64 percent of our managed properties. In North America, we earned incentive management fees from 57 percent of our managed properties, and outside North America, we earned incentive management fees from 70 percent of our managed properties. In addition, 56 percent of our incentive management fees were earned at properties outside of North America.

First Half. The \$191 million increase in base management fees primarily reflected \$183 million from the Starwood Combination and \$11 million from Legacy-Marriott RevPAR and unit growth.

The \$258 million increase in franchise fees primarily reflected \$211 million from the Starwood Combination, \$25 million from Legacy-Marriott unit growth, \$8 million from stronger RevPAR at Legacy-Marriott properties, \$7 million of higher Legacy-Marriott relicensing fees, and \$4 million of higher Legacy-Marriott branding fees.

The \$106 million increase in incentive management fees primarily reflected \$102 million from the Starwood Combination and higher net house profits at Legacy-Marriott properties.

In the 2017 first half, we earned incentive management fees from 68 percent of our managed properties. In North America, we earned incentive management fees from 60 percent of our managed properties, and outside North America, we earned incentive management fees from 75 percent of our managed properties. In addition, 58 percent of our incentive management fees were earned at properties outside of North America.

Owned, Leased, and Other

(\$ in millions)	Three Months Ended				Six Months Ended			
	June 30,		Change		June 30,		Change	
	2017	2016	2017 vs.	2016	2017	2016	2017 vs.	2016
Owned, leased, and other revenue	\$458	\$ 207	\$251	121%	\$897	\$ 411	\$486	118%
Owned, leased, and other - direct expenses	355	173	182	105%	713	339	374	110%
	\$103	\$ 34	\$69	203%	\$184	\$ 72	\$112	156%

Second Quarter. Owned, leased, and other revenue, net of direct expenses increased by \$69 million, primarily due to \$62 million from the Starwood Combination and \$5 million from Legacy-Marriott business interruption insurance proceeds.

First Half. Owned, leased, and other revenue, net of direct expenses increased by \$112 million, primarily due to \$104 million from the Starwood Combination and \$6 million from Legacy-Marriott business interruption insurance proceeds.

Cost Reimbursements

(\$ in millions)	Three Months Ended				Six Months Ended			
	June 30,		Change		June 30,		Change	
	2017	2016	2017 vs.	2016	2017	2016	2017 vs.	2016
Cost reimbursements revenue	\$4,488	\$ 3,142	\$ 1,346	43%	\$8,828	\$ 6,187	\$ 2,641	43%
Reimbursed costs	4,488	3,142	1,346	43%	8,828	6,187	2,641	43%

Second Quarter. The \$1,346 million increase in cost reimbursements revenue and reimbursed costs primarily reflected the Starwood Combination, higher property occupancies, and unit growth across our system.

First Half. The \$2,641 million increase in cost reimbursements revenue and reimbursed costs primarily reflected the Starwood Combination, higher property occupancies, and unit growth across our system.

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## Other Operating Expenses

(\$ in millions)	Three Months Ended				Six Months Ended			
	June 30,	June 30,	Change		June 30,	June 30,	Change	
	2017	2016	2017 vs.	2016	2017	2016	2017 vs.	2016
Depreciation, amortization, and other	\$85	\$ 30	\$55	183%	\$150	\$ 61	\$89	146%
General, administrative, and other	226	154	72	47 %	436	309	127	41 %
Merger-related costs and charges	21	14	7	50 %	72	22	50	227%

Second Quarter. Depreciation, amortization, and other expenses increased by \$55 million, primarily reflecting depreciation and amortization on assets acquired in the Starwood Combination, including \$12 million of expenses relating to prior periods as a result of measurement period adjustments made during the 2017 second quarter. General, administrative, and other expenses increased by \$72 million, primarily due to the Starwood Combination. Merger-related costs and charges increased by \$7 million. For more information, see Footnote 3 “Merger-related costs and charges.”

First Half. Depreciation, amortization, and other expenses increased by \$89 million, primarily reflecting depreciation and amortization on assets acquired in the Starwood Combination, including \$3 million of expenses relating to prior periods as a result of measurement period adjustments made during the 2017 second quarter. General, administrative, and other expenses increased by \$127 million, primarily due to the Starwood Combination. Merger-related costs and charges increased by \$50 million. For more information, see Footnote 3 “Merger-related costs and charges.”

## Non-Operating Income (Expense)

(\$ in millions)	Three Months Ended				Six Months Ended			
	June 30,	June 30,	Change		June 30,	June 30,	Change	
	2017	2016	2017 vs.	2016	2017	2016	2017 vs.	2016
Gains and other income, net	\$25	\$ —	\$25	nm	\$25	\$ —	\$25	nm
Interest expense	(73 )	(57 )	16	28 %	(143)	(104 )	39	38 %
Interest income	8	7	1	14 %	15	13	2	15 %
Equity in earnings	12	5	7	140%	23	5	18	360%

nm means percentage change is not meaningful.

Second Quarter. Gains and other income, net increased by \$25 million primarily due to the gain on the sale of a North American Full-Service hotel in the 2017 second quarter.

Interest expense increased by \$16 million, primarily due to an increase in debt as a result of the Starwood Combination, higher commercial paper borrowings and interest rates, and higher interest on Senior Notes issuances net of maturities, partially offset by an \$11 million favorable variance to the bridge term loan facility commitment costs that we incurred in 2016.

Equity in earnings increased by \$7 million, primarily due to the Starwood Combination.

First Half. Gains and other income, net increased by \$25 million primarily due to the gain on the sale of a North American Full-Service hotel in the 2017 second quarter.

Interest expense increased by \$39 million, primarily due to an increase in debt as a result of the Starwood Combination, higher commercial paper borrowings and interest rates, and higher interest on Senior Notes issuances

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net of maturities, partially offset by a \$13 million favorable variance to the bridge term loan facility commitment costs that we incurred in 2016.

Equity in earnings increased by \$18 million, primarily due to the Starwood Combination.

## Income Taxes

(\$ in millions)	Three Months Ended			Six Months Ended		
	June 30, 2017	June 30, 2016	Change 2017 vs. 2016	June 30, 2017	June 30, 2016	Change 2017 vs. 2016

Provision for income taxes	\$ (178)	\$ (97 )	\$ 81 84%	\$ (298)	\$ (204 )	\$ 94 46%
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Second Quarter. Provision for income taxes increased by \$81 million. The increase was primarily due to the Starwood Combination (\$70 million), an unfavorable comparison to the 2016 release of a valuation allowance (\$15 million), an increase in Legacy-Marriott pre-tax earnings (\$15 million), and the gain on the sale of a North American Full-Service hotel (\$9 million). The increase was partially offset by a tax benefit from the adoption of ASU 2016-09 (\$13 million) and the release of a tax reserve due to a favorable settlement of an uncertain tax position (\$12 million).

First Half. Provision for income taxes increased by \$94 million. The increase was primarily due to the Starwood Combination (\$125 million), an unfavorable comparison to the 2016 release of a valuation allowance (\$15 million), an increase in Legacy-Marriott pre-tax earnings (\$9 million), and the gain on sale of a North American Full-Service hotel (\$9 million). The increase was partially offset by a tax benefit from the adoption of ASU 2016-09 (\$56 million) and the release of a tax reserve due to a favorable settlement of an uncertain tax position (\$12 million).

## BUSINESS SEGMENTS

The following discussion presents our analysis of the operating results of our reportable business segments for the 2017 second quarter compared to the 2016 second quarter and the 2017 first half compared to the 2016 first half. See Footnote 11 "Business Segments" for other information about each segment, including a reconciliation of segment profits to net income.

## North American Full-Service

Since the end of the 2016 second quarter, across our North American Full-Service segment, we added 436 properties (158,028 rooms), including 398 properties (147,623 rooms) from the Starwood Combination on the Merger Date, and seven properties (1,129 rooms) left our system.

(\$ in millions)	Three Months Ended			Six Months Ended		
	June 30, 2017	June 30, 2016	Change 2017 vs. 2016	June 30, 2017	June 30, 2016	Change 2017 vs. 2016
Segment revenues	\$3,619	\$2,360	\$1,259 53%	\$7,195	\$4,681	\$2,514 54%
Segment profits	\$332	\$173	\$159 92%	\$621	\$358	\$263 73%

Second Quarter. North American Full-Service segment profits increased by \$159 million, primarily due to the following changes:

- \$103 million of higher base management and franchise fees, primarily reflecting \$100 million of Legacy-Starwood fees;

- \$16 million of higher incentive management fees, primarily driven by \$11 million of Legacy-Starwood incentive fees and higher net house profits at several Legacy-Marriott managed hotels;

- \$31 million of higher owned, leased, and other revenue, net of direct expenses, primarily reflecting \$23 million from the Starwood Combination and \$5 million from business interruption insurance proceeds;

- \$17 million of higher depreciation, amortization, and other expenses, primarily due to the Starwood Combination; and

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\$25 million of higher gains and other income, net primarily due to the gain on sale of a North American Full-Service hotel in the 2017 second quarter.

Cost reimbursements revenue and expenses for our North American Full-Service segment properties totaled \$3,122 million in the 2017 second quarter, compared to \$2,108 million in the 2016 second quarter.

First Half. North American Full-Service segment profits increased by \$263 million, primarily due to the following changes:

\$188 million of higher base management and franchise fees, primarily reflecting \$188 million of Legacy-Starwood fees, \$6 million of higher Legacy-Marriott unit growth, and \$4 million of stronger RevPAR at Legacy-Marriott hotels, partially offset by \$11 million of lower Legacy-Marriott residential branding fees;

\$25 million of higher incentive management fees, primarily driven by \$18 million of Legacy-Starwood incentive fees and higher net house profits at several Legacy-Marriott managed hotels;

\$55 million of higher owned, leased, and other revenue, net of direct expenses, primarily reflecting \$49 million from the Starwood Combination and \$5 million of business interruption insurance proceeds;

\$30 million of higher depreciation, amortization, and other expenses, primarily due to the Starwood Combination; and

\$24 million of higher gains and other income, net primarily due to the gain on sale of a North American Full-Service hotel in the 2017 second quarter.

Cost reimbursements revenue and expenses for our North American Full-Service segment properties totaled \$6,200 million in the 2017 first half, compared to \$4,158 million in the 2016 first half.

#### North American Limited-Service

Since the end of the 2016 second quarter, across our North American Limited-Service segment, we added 469 properties (63,130 rooms), including 226 properties (34,294 rooms) from the Starwood Combination on the Merger Date, and nine properties (950 rooms) left our system.

(\$ in millions)	Three Months Ended			Six Months Ended		
	June 30, 2017	June 30, 2016	Change 2017 vs. 2016	June 30, 2017	June 30, 2016	Change 2017 vs. 2016

Segment revenues	\$1,032	\$906	\$126 14%	\$1,956	\$1,739	\$217 12%
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Segment profits	\$224	\$191	\$33 17%	\$401	\$346	\$55 16%
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Second Quarter. North American Limited-Service segment profits increased by \$33 million, primarily due to the following changes:

\$35 million of higher base management and franchise fees, primarily driven by \$17 million of Legacy-Starwood fees, \$11 million of higher Legacy-Marriott fees as a result of unit growth, and \$5 million of higher Legacy-Marriott relicensing fees; and

\$4 million of lower incentive management fees, primarily driven by lower net house profits at two portfolios of managed hotels.

Cost reimbursements revenue and expenses for our North American Limited-Service segment properties totaled \$765 million in the 2017 second quarter, compared to \$671 million in the 2016 second quarter.

First Half. North American Limited-Service segment profits increased by \$55 million, primarily due to the following changes:

\$62 million of higher base management and franchise fees, primarily driven by \$31 million of Legacy-Starwood fees,

\$20 million of higher Legacy-Marriott fees as a result of unit growth, and \$8 million of higher Legacy-Marriott relicensing fees; and

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\$6 million of lower incentive management fees, primarily driven by lower net house profits at a few portfolios of managed hotels.

Cost reimbursements revenue and expenses for our North American Limited-Service segment properties totaled \$1,467 million in the 2017 first half, compared to \$1,310 million in the 2016 first half.

## Asia Pacific

Since the end of the 2016 second quarter, across our Asia Pacific segment, we added 391 properties (119,601 rooms), including 335 properties (103,611 rooms) from the Starwood Combination on the Merger Date, and nine properties (3,388 rooms) left our system.

	Three Months Ended			Six Months Ended		
	June	June	Change	June	June	Change
(\$ in millions)	30,	30,	2017 vs.	30,	30,	2017 vs.
	2017	2016	2016	2017	2016	2016
Segment revenues	\$319	\$146	\$173 118%	\$631	\$287	\$344 120%
Segment profits	\$67	\$27	\$40 148%	\$149	\$54	\$95 176%

Second Quarter. Asia Pacific segment profits increased by \$40 million, primarily due to the following changes:

\$32 million of higher base management and franchise fees, primarily due to \$28 million of Legacy-Starwood fees and \$3 million of higher Legacy-Marriott residential branding fees;

\$24 million of higher incentive management fees, primarily due to \$22 million of Legacy-Starwood fees;

\$11 million of higher owned, leased, and other revenue, net of direct expenses, primarily from the Starwood Combination;

\$13 million of higher depreciation, amortization, and other expenses, primarily due to the Starwood Combination; and  
 \$13 million of higher general, administrative, and other expenses, primarily due to the Starwood Combination.

Cost reimbursements revenue and expenses for our Asia Pacific segment properties totaled \$169 million in the 2017 second quarter, compared to \$81 million in the 2016 second quarter.

First Half. Asia Pacific segment profits increased by \$95 million, primarily due to the following changes:

\$62 million of higher base management and franchise fees, primarily due to \$55 million of Legacy-Starwood fees and \$4 million of higher Legacy-Marriott branding fees;

\$55 million of higher incentive management fees, primarily due to \$49 million of Legacy-Starwood fees and higher net house profits at Legacy-Marriott managed hotels;

\$13 million of higher owned, leased, and other revenue, net of direct expenses primarily from the Starwood Combination;

\$17 million of higher depreciation, amortization, and other expenses, primarily due to the Starwood Combination;

\$23 million of higher general, administrative, and other expenses, primarily due to the Starwood Combination; and

\$6 million of higher equity in earnings, primarily due to the Starwood Combination.

Cost reimbursements revenue and expenses for our Asia Pacific segment properties totaled \$335 million in the 2017 first half, compared to \$161 million in the 2016 first half.

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## Other International

Since the end of the 2016 second quarter, across our Other International regions, we added 422 properties (99,508 rooms), including 361 properties (88,230 rooms) from the Starwood Combination on the Merger Date, and 19 properties (2,844 rooms) left our system.

	Three Months Ended			Six Months Ended		
	June 2017	June 2016	Change 2017 vs. 2016	June 2017	June 2016	Change 2017 vs. 2016
(\$ in millions)	30,	30,	2017 vs. 2016	30,	30,	2017 vs. 2016
Segment revenues	\$676	\$425	\$251 59 %	\$1,278	\$840	\$438 52 %
Segment profits	\$98	\$48	\$50 104 %	\$184	\$96	\$88 92 %

Second Quarter. Other International segment profits increased by \$50 million, primarily due to the following changes: \$36 million of higher base management and franchise fees, primarily due to \$33 million of Legacy-Starwood fees; \$18 million of higher incentive management fees, primarily due to \$16 million of Legacy-Starwood incentive management fees; \$24 million of higher owned, leased, and other revenue, net of direct expenses, primarily reflecting \$29 million from the Starwood Combination, partially offset by \$3 million of lower profits at Legacy-Marriott properties under renovations in Europe; \$17 million of higher depreciation, amortization, and other expenses, primarily due to the Starwood Combination; and \$11 million of higher general, administrative, and other expenses, primarily due to the Starwood Combination.

Cost reimbursements revenue and expenses for our Other International segment properties totaled \$378 million in the 2017 second quarter, compared to \$270 million in the 2016 second quarter.

First Half. Other International segment profits increased by \$88 million, primarily due to the following changes: \$64 million of higher base management and franchise fees, primarily due to \$62 million of Legacy-Starwood fees and \$6 million from Legacy-Marriott RevPAR and unit growth; \$32 million of higher incentive management fees, primarily due to \$35 million of Legacy-Starwood incentive management fees, partially offset by lower net house profits at Legacy-Marriott hotels in Latin America and the Middle East; \$37 million of higher owned, leased, and other revenue, net of direct expenses, primarily reflecting \$39 million from the Starwood Combination; \$26 million of higher depreciation, amortization, and other expenses, primarily due to the Starwood Combination; and \$23 million of higher general, administrative, and other expenses, primarily due to the Starwood Combination.

Cost reimbursements revenue and expenses for our Other International properties totaled \$716 million in the 2017 first half, compared to \$532 million in the 2016 first half.

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SHARE-BASED COMPENSATION

We award: (1) stock options to purchase our common stock; (2) stock appreciation rights (“SARs”) for our common stock; (3) restricted stock units (“RSUs”) of our common stock; and (4) deferred stock units. We also issue performance-based RSUs (“PSUs”) to named executive officers and some of their direct reports. See Footnote 5 “Share-Based Compensation” for more information.

NEW ACCOUNTING STANDARDS

See Footnote 1 “Basis of Presentation” for information on our anticipated adoption of recently issued accounting standards.

LIQUIDITY AND CAPITAL RESOURCES

Cash Requirements and Our Credit Facility

We are party to the Credit Facility that provides for up to \$4,000 million of aggregate effective borrowings to support our commercial paper program and general corporate needs, including working capital, capital expenditures, share repurchases, letters of credit, and acquisitions. 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.

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 Earnings Before Interest Expense, Taxes, Depreciation, and Amortization (“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 will 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 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, 2017, our available borrowing capacity amounted to \$2,065 million and reflected borrowing capacity of \$1,567 million under our Credit Facility and our cash balance of \$498 million. We calculated that borrowing capacity by taking \$4,000 million of effective aggregate bank commitments under our Credit Facility and subtracting \$2,433 million of outstanding commercial paper (there being no outstanding letters of credit under our Credit Facility).

We monitor the status of the capital markets and regularly evaluate the effect that changes in capital market conditions may have on our ability to execute our announced growth plans. We expect to continue meeting part of our financing and liquidity needs, primarily through commercial paper borrowings, issuances of Senior Notes, and access to long-term committed credit facilities. If conditions in the lodging industry deteriorate, or if disruptions in the capital markets take place as they did in the immediate aftermath of both the 2008 worldwide financial crisis

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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.

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 2017 second quarter, our long-term debt had a weighted average interest rate of 2.8 percent and a weighted average maturity of approximately 5.5 years. The ratio of fixed-rate long-term debt to total long-term debt was 0.7 to 1.0 at the end of the 2017 second quarter.

Cash and cash equivalents totaled \$498 million at June 30, 2017, a decrease of \$360 million from year-end 2016, reflecting cash outflows associated with the following: purchase of treasury stock (\$1,328 million), repayment of long-term debt (\$301 million), dividend payments (\$240 million), other financing outflows for the payment of employee share-based compensation tax withholdings (\$135 million), capital expenditures (\$104 million), contract acquisition costs (\$91 million), and loan advances, net of collections (\$38 million). The following cash inflows partially offset these cash outflows: net cash provided by operating activities (\$1,302 million), proceeds from the sale of two North American Full-Service hotels (\$475 million), and higher commercial paper borrowings (\$105 million). Our ratio of current assets to current liabilities was 0.5 to 1.0 at the end of the 2017 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 \$104 million in the 2017 first half and \$78 million in the 2016 first half. The increase in capital expenditures from the 2016 first half is primarily due to improvements to hotels acquired in the Starwood Combination and improvements to our worldwide systems, partially offset by lower spending at a North American Full-Service owned hotel. See our Statements of Cash Flows for information on investment spending for the 2017 first half. We expect consolidated investment spending for the 2017 full year will total approximately \$500 million to \$700 million, including approximately \$175 million for maintenance capital spending. Consolidated investment spending also includes other capital expenditures, loan advances, contract acquisition costs, acquisitions, and equity and other investments.

Over time, we have sold hotels, 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. In the Starwood Combination, we acquired various hotels and joint venture interests in various hotels, which we have sold or may seek to sell. We also expect to continue making selective and opportunistic investments to add units to our lodging business, which may include new construction, loans, and noncontrolling equity investments.

**Share Repurchases**

We purchased 7.3 million shares of our common stock during the 2017 second quarter, at an average price of \$98.62 per share. As of June 30, 2017, 17.4 million shares remained available for repurchase under authorizations from our Board of Directors.

**Dividends**

Our Board of Directors declared the following quarterly cash dividends in 2017: (1) \$0.30 per share declared on February 10, 2017 and paid March 31, 2017 to shareholders of record on February 24, 2017 and (2) \$0.33 per share declared on May 5, 2017 and paid June 30, 2017 to shareholders of record on May 19, 2017.

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Contractual Obligations and Off-Balance Sheet Arrangements

As of the end of the 2017 second quarter, there have been no significant changes to our “Contractual Obligations” table, “Other Commitments” table, or “Letters of Credit” paragraph in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” of our 2016 Form 10-K, other than those described below.

Our Series I Notes matured in June 2017, and we increased our commercial paper borrowings. See Footnote 8 “Long-Term Debt” for detail on our long-term debt balances.

During the 2017 first half, our future minimum operating lease obligations decreased by approximately \$194 million. See the “Dispositions and Planned Dispositions” caption of Footnote 2 “Acquisitions and Dispositions” for additional information.

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 2016 Form 10-K. Since the date of our 2016 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, 2016.

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 2017 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 7 “Commitments and Contingencies” to our Financial Statements in Part I, Item 1 of this Form 10-Q.

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

**Item 1A. Risk Factors**

**Risks and Uncertainties**

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 some 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 generally and the travel business in particular that might result from the new U.S. administration’s policies in such areas as trade, travel, immigration, healthcare, 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, or government hiring restrictions and any further limitations that may result from presidential or congressional action or inaction. As a result of such current economic conditions and uncertainty, we continue to experience weakened demand for our hotel rooms in some markets. Recent improvements in demand trends in other markets may not continue, and our future financial results and growth could be further harmed or constrained if the recovery stalls or conditions worsen.

**Risks Relating to Our Integration of Starwood**

The diversion of resources and management’s attention to the integration of Starwood could adversely affect our day-to-day business. The integration of Starwood places 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.

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We may not be able to integrate Starwood successfully and many of the anticipated benefits of combining Starwood and Marriott may not be realized. We decided to acquire Starwood 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, and we cannot assure you that those benefits will be realized as fully or as quickly as we expect. If we do not achieve those benefits, our costs could increase, our expected net income could decrease, and our future business, financial condition, operating results, and prospects could suffer.

The integration process could take longer than we anticipate and involve unanticipated costs. Disruptions of each company's ongoing businesses, processes, and systems or inconsistencies in standards, controls, procedures, practices, policies, and compensation arrangements could adversely affect the combined company. We may also have difficulty addressing differences in corporate cultures and management philosophies, and in harmonizing our different reservations and other systems and business practices. Although we expect that the elimination of certain duplicative costs, as well as the realization of other efficiencies related to the integration of the two businesses, will over time offset the substantial incremental transaction and merger-related costs and charges we incurred in connection with the Starwood Combination, we may not achieve this net benefit in the near term, or at all.

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

We may not be able to retain Legacy-Starwood personnel successfully. The success of the Starwood Combination will depend in part on our ability to retain the talents and dedication of key Legacy-Starwood employees. It remains possible that these employees may decide not to remain with us. If key Legacy-Starwood employees who we would like to retain terminate their employment, the loss of institutional knowledge and key business relationships could cause our business to suffer.

### 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. 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 and political environment in each of our operating regions, the resulting unknown pace of both business and leisure travel, and any future incidents or changes in those regions.



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The growing significance of our operations outside of the United States, including as a result of the Starwood Combination, makes us increasingly susceptible to the risks of doing business internationally, which could lower our revenues, increase our costs, reduce our profits, disrupt our business, or damage our reputation. At the end of the 2017 second quarter, we operated or franchised hotels and resorts in 125 countries and territories. The properties we operate or franchise outside of the United States represented more than 36 percent of the rooms in our system at the end of the 2017 second quarter. We expect that our international operations, and resulting revenues, will continue to grow. As a result, we are increasingly exposed to the challenges and risks of doing business outside the United States, many of which are outside of our control, and which could reduce our revenues or profits, increase our costs, result in significant liabilities or sanctions, otherwise disrupt our business, or damage our reputation. These challenges include: (1) compliance with complex and changing laws, regulations, and government policies that may impact our operations, such as foreign ownership restrictions, import and export controls, and trade restrictions; (2) compliance with U.S. and foreign laws that affect the activities of companies abroad, such as competition laws, currency regulations, and other laws affecting dealings with certain nations; (3) limitations on our ability to repatriate non-U.S. earnings in a tax effective manner, or in some cases at all due to foreign exchange restrictions; (4) the difficulties involved in managing an organization doing business in many different countries; (5) uncertainties as to the enforceability of contract and intellectual property rights under local laws; (6) rapid changes in government policy, political or civil unrest in the Middle East and elsewhere, acts of terrorism, or the threat of international boycotts or U.S. anti-boycott legislation; and (7) currency exchange rate fluctuations, which may impact the results and cash flows of our international operations.

Any failure by our international operations to comply with anti-corruption laws or trade sanctions could increase our costs, reduce our profits, limit our growth, harm our reputation, or subject us to broader liability. We are subject to restrictions imposed by the U.S. Foreign Corrupt Practices Act (the “FCPA”) 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. These laws also require us to maintain adequate internal controls and accurate books and records. As a result of the Starwood Combination, we now have more properties in countries outside of the U.S., including in many parts of the world where corruption is common, and our compliance with anti-corruption laws may potentially conflict with local customs and practices. The compliance programs, internal controls and policies we and, prior to the Merger Date, Starwood, 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 or have a material adverse effect on our business, damage our reputation, or result in lawsuits being brought against the Company or its officers or directors. In addition, the operation of these laws or an imposition of further restrictions in these areas could increase our cost of operations, reduce our profits or cause us to forgo development opportunities, or cease operations in certain countries, that would otherwise support growth. In connection with the Starwood Combination, we are currently assessing various regulatory compliance matters at several foreign Legacy-Starwood locations, including compliance with the FCPA. The results of this assessment may give rise to contingencies that could require us to record balance sheet liabilities or accrue expenses, the amounts of which we are not able to currently estimate.

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

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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 addition, these hedging agreements also do not cover all currencies in which we do business, do not eliminate foreign currency risk entirely for the currencies that they do cover, and involve costs and risks of their own in the form of transaction costs, credit requirements and counterparty risk.

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

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

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

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



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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. Many other factors also can influence our reputation and the value of our brands, including service, food quality and safety, availability and management of scarce natural resources, supply chain management, diversity, human rights, and support for local communities. If the reputation or perceived quality of our brands declines, our market share, reputation, business, financial condition, or results of operations could be affected.

If our brands, goodwill or other intangible assets become impaired, we may be required to record significant non-cash charges to earnings. As of June 30, 2017, we had \$17.4 billion of goodwill and other intangible assets, including \$14.9 billion attributable to the Starwood Combination (based on the preliminary purchase accounting for the Starwood Combination). The amount of goodwill acquired in the Starwood Combination could increase over the year following the acquisition if we determine that the value of physical assets acquired is less than, or the amount of liabilities assumed (including under Starwood's guest loyalty program) is greater than, we preliminarily estimated. We review goodwill and indefinite-lived intangible assets for impairment annually or whenever events or circumstances indicate impairment may have occurred. Estimated fair values of our brands or reporting units could change if, for example, there are changes in the business climate, unanticipated changes in the competitive environment, adverse legal or regulatory actions or developments, changes in customers' perception of and the reputation of the Legacy-Starwood brands, or changes in interest rates, operating cash flows, or market capitalization. Because of the significance of our goodwill and intangible assets, any future impairment of these assets could require material non-cash charges to our results of operations, which could have a material adverse effect on our financial condition and results of operations. Actions by our franchisees and licensees could adversely affect our image and reputation. We franchise and license many of our brand names and trademarks to third parties in connection with lodging, timeshare, residential services, and our credit card programs. Under the terms of their agreements with us, our franchisees and licensees interact directly with customers and other third parties under our brand and trade names. If these franchisees or licensees fail to maintain or act in accordance with applicable brand standards; experience operational problems, including any data breach involving customer information; or project a brand image inconsistent with ours, our image and reputation could suffer. Although our franchise and license agreements provide us with recourse and remedies in the event of a breach by the franchisee or licensee, including termination of the agreements under certain circumstances, pursuing any such recourse, remedy, or termination could be expensive and time consuming. In addition, we cannot assure you that a court would ultimately enforce our contractual termination rights in every instance.

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

**Development and Financing Risks**

While we are predominantly a manager and franchisor of hotel properties, our hotel owners depend on capital to buy, develop, and improve hotels, and our hotel owners may be unable to access capital when necessary. In order to fund new hotel investments, as well as refurbish and improve existing hotels, both we and current and potential hotel owners must periodically spend money. The availability of funds for new investments and improvement of



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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.

Our owned properties and other real estate investments subject us to numerous risks. Although we had relatively few owned and leased properties at the end of the 2017 second quarter, we acquired a significant number of those properties as part of the Starwood Combination, and such properties are subject to the risks that generally relate to investments in real property. Although we intend to sell most of our owned and leased properties over the next two years, equity real estate investments can be difficult to sell quickly, and we may not be able to do so at prices we find acceptable or at all. Moreover, the investment returns available from equity investments in real estate depend in large part on the amount of income earned and capital appreciation generated by the related properties, and the expenses incurred. A variety of other factors also affect income from properties and real estate values, including governmental regulations, insurance, zoning, tax and eminent domain laws, interest rate levels, and the availability of financing. For example, new or existing real estate zoning or tax laws can make it more expensive and/or time-consuming to develop real property or expand, modify, or renovate hotels. When interest rates increase, the cost of acquiring, developing, expanding, or renovating real property increases and real property values may decrease as the number of potential buyers decreases. Similarly, as financing becomes less available, it becomes more difficult both to acquire and to sell real property. Finally, under eminent domain laws, governments can take real property. Sometimes this taking is for less compensation than the owner believes the property is worth. Despite our asset-light strategy, our real estate properties could be impacted by any of these factors, resulting in a material adverse impact on our results of operations or financial condition. If our properties do not generate revenue sufficient to meet operating expenses,

including needed capital expenditures, our income will be adversely affected.

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

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

Risks associated with development and sale of residential properties associated with our lodging properties or brands may reduce our profits. In certain hotel and timeshare projects we participate, directly or through noncontrolling interests and/or licensing agreements, in the development and sale of residential properties associated with our brands, including residences and condominiums under our JW Marriott, The Ritz-Carlton, The Ritz-Carlton Reserve, W Hotels, The Luxury Collection, St. Regis, EDITION, Bulgari Hotels & Resorts, Marriott Hotels, Sheraton, Westin, and Autograph Collection Hotels 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.



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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.

**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 Loyalty 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<sup>®</sup>, Priceline.com<sup>®</sup>, Booking.com<sup>™</sup>, Travelocity.com<sup>®</sup> and Orbitz.com<sup>®</sup>, as well as lesser-known online travel service providers. These intermediaries initially focused on leisure travel, but now also provide offerings for corporate travel and group meetings. Although Marriott's and Starwood's respective Best Rate Guarantee programs have 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<sup>®</sup>, Bing<sup>®</sup>, Yahoo<sup>®</sup>, and Baidu<sup>®</sup> 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 and Starwood direct online channels, 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.



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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, “ransomware” or other malware, 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 or prevent authorized access to such systems have increased significantly in recent years. A significant theft, loss, loss of access to, or fraudulent use of customer, employee, or company data could adversely impact our reputation and could result in remedial and other expenses, fines, or litigation. Breaches in the security of our information systems or those of our owners, franchisees, licensees, or service providers or other disruptions in data services could lead to an interruption in the operation of our systems, resulting in operational inefficiencies and a loss of profits. In addition, although we carry cyber/privacy liability insurance that is designed to protect us against certain losses related to cyber risks, such insurance coverage may be insufficient to cover all losses or all types of claims that may arise in connection with cyber-attacks, security breaches, and other related breaches. Furthermore, in the future such insurance may not be available to us on commercially reasonable terms, or at all.

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

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

Any disruption in the functioning of our reservation systems, such as in connection with our integration of Starwood, could adversely affect our performance and results. We manage global reservation systems that communicate reservations to our branded hotels that individuals make directly with us online, through our mobile apps, or through our telephone call centers, or through intermediaries like travel agents, Internet travel websites, and other distribution channels. The cost, speed, accuracy and efficiency of our reservation systems 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 systems. In addition, the risk of disruption in the functioning of our global reservation systems could increase in connection with the systems integration that we anticipate undertaking as part of our integration of Starwood. Disruptions in or changes to our reservation systems 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, climate change, and the environment. Changes to these laws, regulations, or policies, including those associated with health care, tax or financial reforms, climate change and the environment, 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

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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.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## (a) Unregistered Sale of Securities

None.

## (b) Use of Proceeds

None.

## (c) Issuer Purchases of Equity Securities

(in millions, except per share amounts) Period	Total Number of Shares Purchased	Average Price per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup>	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup>
April 1, 2017 - April 30, 2017	2.9	\$ 92.42	2.9	21.8
May 1, 2017 - May 31, 2017	2.8	\$ 102.07	2.8	19.0
June 1, 2017 - June 30, 2017	1.6	\$ 103.80	1.6	17.4

On February 11, 2016, we announced that our Board of Directors increased the authorization to repurchase our common stock by 25 million shares as part of an ongoing share repurchase program. As of June 30, 2017, 17.4 million shares remained available for repurchase under Board approved authorizations. We may repurchase shares in the open market or in privately negotiated transactions.

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## Item 5. Other Information

At the Company's annual meeting of shareholders on May 5, 2017, Marriott's shareholders voted, as our Board of Directors recommended and on a non-binding advisory basis, that the Company conduct future advisory votes to approve the compensation of Marriott's named executive officers every year. In light of the recommendation and vote, the Company decided to include a shareholder vote on the compensation of Marriott's named executive officers in our proxy materials every year until the next required vote on the frequency of shareholder votes on the compensation of executives.

## 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)
3.1	Restated Certificate of Incorporation.	<u>Exhibit No. 3.(i) to our Form 8-K filed August 22, 2006 (File No. 001-13881).</u>
3.2	Amended and Restated Bylaws.	<u>Exhibit No. 3.(ii) to our Form 8-K filed February 14, 2017 (File No. 001-13881).</u>
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 submitted electronically 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, 2017 and June 30, 2016; (ii) the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2017 and June 30, 2016; (iii) the Condensed Consolidated Balance Sheets at June 30, 2017 and December 31, 2016; and (iv) the Condensed Consolidated Statements of Cash

Flows for the six months ended June 30, 2017 and June 30, 2016.

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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.

8<sup>th</sup> day of August, 2017

/s/ Bao Giang Val Bauduin

Bao Giang Val Bauduin

Controller and Chief Accounting Officer

(Duly Authorized Officer)