

MARRIOTT INTERNATIONAL INC /MD/
Form 10-Q
October 31, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

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

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

Delaware
(State or other jurisdiction of
incorporation or organization)

52-2055918
(IRS Employer
Identification No.)

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

20817
(Zip Code)

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

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

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

Large accelerated filer Accelerated filer

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 299,538,446 shares of Class A Common Stock, par value \$0.01 per share, outstanding at October 18, 2013.

Table of Contents

MARRIOTT INTERNATIONAL, INC.
FORM 10-Q TABLE OF CONTENTS

	Page No.
Part I.	<u>Financial Information (Unaudited):</u>
Item 1.	<u>Financial Statements</u>
	<u>Condensed Consolidated Statements of Income - 92 Days and 276 Days Ended September 30, 2013 and 84 Days and 252 Days Ended September 7, 2012</u> <u>2</u>
	<u>Condensed Consolidated Statements of Comprehensive Income - 92 Days and 276 Days Ended September 30, 2013 and 84 Days and 252 Days Ended September 7, 2012</u> <u>3</u>
	<u>Condensed Consolidated Balance Sheets - as of September 30, 2013, and December 28, 2012</u> <u>4</u>
	<u>Condensed Consolidated Statements of Cash Flows - 276 Days Ended September 30, 2013 and 252 Days Ended September 7, 2012</u> <u>5</u>
	<u>Notes to Condensed Consolidated Financial Statements</u> <u>6</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> <u>22</u>
	<u>Forward-Looking Statements</u> <u>22</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u> <u>51</u>
Item 4.	<u>Controls and Procedures</u> <u>51</u>
Part II.	<u>Other Information:</u>
Item 1.	<u>Legal Proceedings</u> <u>52</u>
Item 1A.	<u>Risk Factors</u> <u>52</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> <u>58</u>
Item 5.	<u>Other Information</u> <u>58</u>
Item 6.	<u>Exhibits</u> <u>59</u>
	<u>Signatures</u> <u>60</u>

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

See Notes to Condensed Consolidated Financial Statements

Table of Contents

MARRIOTT INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$ in millions)

(Unaudited)

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

See Notes to Condensed Consolidated Financial Statements

Table of Contents

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

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

See Notes to Condensed Consolidated Financial Statements

Table of Contents

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

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

Table of Contents

MARRIOTT INTERNATIONAL, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

1. Basis of Presentation

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

These condensed consolidated Financial Statements have not been audited. We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. generally accepted accounting principles (“GAAP”). Although we believe our disclosures are adequate to make the information presented not misleading, you should read the financial statements in this report in conjunction with the consolidated financial statements and notes to those financial statements in our Annual Report on Form 10-K for the fiscal year ended December 28, 2012 (“2012 Form 10-K”). Certain terms not otherwise defined in this Form 10-Q have the meanings specified in our 2012 Form 10-K.

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

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

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

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

Table of Contents

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

In our opinion, our Financial Statements reflect all normal and recurring adjustments necessary to present fairly our financial position as of September 30, 2013, and December 28, 2012, the results of our operations for the 92 days and 276 days ended September 30, 2013, and 84 days and 252 days ended September 7, 2012, and cash flows for the 276 days ended September 30, 2013, and 252 days ended September 7, 2012. Interim results may not be indicative of fiscal year performance because of seasonal and short-term variations. We have eliminated all material intercompany transactions and balances between entities consolidated in these Financial Statements.

2. New Accounting Standards

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

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

Future Adoption of Accounting Standards

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

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

3. Income Taxes

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

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

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

Table of Contents

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

4. Share-Based Compensation

Under our Stock and Cash Incentive Plan (the "Stock Plan"), we award: (1) stock options (our "Stock Option Program") to purchase our Class A Common Stock (our "common stock"); (2) stock appreciation rights ("SARs") for our common stock (our "SAR Program"); (3) restricted stock units ("RSUs") of our common stock; and (4) deferred stock units. We grant awards at exercise prices or strike prices that equal the market price of our common stock on the date of grant. We recorded share-based compensation expense for award grants of \$22 million for the 2013 third quarter, \$19 million for the 2012 third quarter, \$69 million for the 2013 first three quarters, and \$57 million for the 2012 first three quarters. Deferred compensation costs related to unvested awards totaled \$137 million at September 30, 2013 and \$122 million at December 28, 2012.

RSUs

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

SARs and Stock Options

We granted 0.7 million SARs and 0.1 million stock options to officers, key employees, and directors during the 2013 first three quarters. These SARs and options generally expire ten years after the grant date and both vest and may be exercised in cumulative installments of one quarter at the end of each of the first four years following the grant date. The weighted average grant-date fair value of SARs granted in the 2013 first three quarters was \$13 and the weighted average exercise price was \$39. The weighted average grant-date fair value of stock options granted in the 2013 first three quarters was \$13 and the weighted average exercise price was \$39.

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

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

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

In making these assumptions, we base expected volatility on the historical movement of Marriott's stock price. We base risk-free rates on the corresponding U.S. Treasury spot rates for the expected duration at the date of grant,

Table of Contents

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

Other Information

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

5. Fair Value of Financial Instruments

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

(\$ in millions)	At September 30, 2013		At December 28, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cost method investments	\$19	\$24	\$21	\$23
Senior, mezzanine, and other loans	137	138	180	172
Marketable securities and other debt securities	106	106	56	56
Total long-term financial assets	\$262	\$268	\$257	\$251
Senior Notes	\$(2,184)	\$(2,290)	\$(1,833)	\$(2,008)
Commercial paper	(790)	(790)	(501)	(501)
Other long-term debt	(125)	(131)	(130)	(139)
Other long-term liabilities	(54)	(54)	(69)	(69)
Total long-term financial liabilities	\$(3,153)	\$(3,265)	\$(2,533)	\$(2,717)

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

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

We are required to carry our marketable securities at fair value. Our marketable securities include debt securities of the U.S. Government, its sponsored agencies and other U.S. corporations invested for our self-insurance programs, as well as shares of a publicly traded company, which we value using directly observable Level 1 inputs. The carrying value of these marketable securities at the end of our 2013 third quarter was \$38 million. In the 2013 second quarter, we acquired a \$65 million mandatorily redeemable preferred equity ownership interest in an entity that owns three hotels that we manage. We account for this investment as a debt security (with an amortized cost of \$68 million at the end of the 2013 third quarter, including accrued interest income), and we

Table of Contents

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

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

We estimate the fair value of our other long-term debt, including the current portion and excluding leases, using expected future payments discounted at risk-adjusted rates, both of which are Level 3 inputs. We determine the fair value of our senior notes using quoted market prices, which are directly observable Level 1 inputs. As noted in Footnote No. 9, "Long-term Debt," even though our commercial paper borrowings generally have short-term maturities of 30 days or less, we classify outstanding commercial paper borrowings as long-term based on our ability and intent to refinance them on a long-term basis. As we are a frequent issuer of commercial paper, we use pricing from recent transactions as Level 2 inputs in estimating fair value. At the end of the 2013 third quarter and year-end 2012, we determined that the carrying value of our commercial paper approximated its fair value due to the short maturity. Our other long-term liabilities largely consist of guarantees. As noted in Footnote No. 11, "Contingencies," we measure our liability for guarantees at fair value on a nonrecurring basis, that is when we issue or modify a guarantee, using Level 3 internally developed inputs. At the end of the 2013 third quarter and year-end 2012, we determined that the carrying values of our guarantee liabilities approximated their fair values based on Level 3 inputs. See the "Fair Value Measurements" caption of Footnote No. 1, "Summary of Significant Accounting Policies" of our 2012 Form 10-K for more information on the input levels we use in determining fair value.

6. Earnings Per Share

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

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

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

10

Table of Contents

Pursuant to the applicable accounting guidance for calculating earnings per share, we have not included the following stock options and SARs in our calculation of diluted earnings per share because the exercise prices were greater than the average market prices for the applicable periods:

- (a) for the 2013 third quarter, 0.4 million options and SARs;
- (b) for the 2012 third quarter, 1.0 million options and SARs;
- (c) for the 2013 first three quarters, 0.4 million options and SARs; and
- (d) for the 2012 first three quarters, 1.0 million options and SARs.

7. Property and Equipment

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

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

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

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

8. Notes Receivable

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

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

Table of Contents

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

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

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

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

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

The following table summarizes the activity related to our “Senior, mezzanine, and other loans” notes receivable reserve for the 2013 first three quarters:

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

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

Table of Contents

9. Long-term Debt

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

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

(¹) Face amount and effective interest rate are as of September 30, 2013.

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

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

In the 2013 third quarter, we amended and restated our multicurrency revolving credit agreement (the "Credit Facility") to extend the facility's expiration from June 23, 2016 to July 18, 2018 and increase the facility size from \$1,750 million to \$2,000 million of aggregate effective borrowings. The material terms of the amended and restated Credit Facility are otherwise unchanged, and the facility continues to support general corporate needs, including working capital, capital expenditures, share repurchases, and letters of credit. The availability of the Credit Facility also supports our commercial paper program. Borrowings under the Credit Facility generally bear interest at LIBOR (the London Interbank Offered Rate) plus a spread, based on our public debt rating. We also pay quarterly fees on the Credit Facility at a rate based on our public debt rating. While any outstanding commercial paper borrowings and/or borrowings under our Credit Facility generally have short-term maturities, we classify the outstanding borrowings as long-term based on our ability and intent to refinance the outstanding borrowings on a long-term basis. See the "Cash Requirements and Our Credit Facilities" caption later in this report in the "Liquidity and Capital Resources" section for information on our available borrowing capacity at September 30, 2013.

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

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

Table of Contents

Notes under an indenture dated as of November 16, 1998 with The Bank of New York Mellon, as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank), as trustee.

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

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

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

10. Comprehensive Income and Capital Structure

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

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

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

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

Table of Contents

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

The following table details the changes in common shares outstanding and shareholders' deficit for the 2013 first three quarters:

(in millions, except per share amounts)

Common Shares Outstanding		Total	Class A Common Stock	Additional Paid-in- Capital	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Loss
310.9	Balance at year-end 2012	\$(1,285)	\$5	\$2,585	\$3,509	\$(7,340)	\$(44)
—	Net income	475	—	—	475	—	—
—	Other comprehensive loss	(5)	—	—	—	—	(5)
—	Cash dividends (\$0.4700 per share)	(144)	—	—	(144)	—	—
5.1	Employee stock plan issuance	179	—	85	(77)	171	—
(15.6)	Purchase of treasury stock	(629)	—	—	—	(629)	—
300.4	Balance at September 30, 2013	\$(1,409)	\$5	\$2,670	\$3,763	\$(7,798)	\$(49)

11. Contingencies

Guarantees

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

venture partners are building.

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

Table of Contents

amount of our future guarantee fundings and the carrying amount of our liability for guarantees for which we are the primary obligor at September 30, 2013 in the following table:

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

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

Our guarantees listed in the preceding table include \$13 million of debt service guarantees, \$5 million of operating profit guarantees, and \$1 million of other guarantees that will not be in effect until the underlying properties open and we begin to operate the properties or certain other events occur.

The preceding table does not include the following guarantees:

\$106 million of guarantees for Senior Living Services lease obligations of \$78 million (expiring in 2018) and lifecare bonds of \$28 million (estimated to expire in 2016), for which we are secondarily liable. Sunrise Senior Living, Inc. (“Sunrise”) is the primary obligor on both the leases and \$4 million of the lifecare bonds; HCP, Inc., as successor by merger to CNL Retirement Properties, Inc. (“CNL”), is the primary obligor on \$23 million of the lifecare bonds, and Five Star Senior Living is the primary obligor on the remaining \$1 million of lifecare bonds. Before we sold the Senior Living Services business in 2003, these were our guarantees of obligations of our then consolidated Senior Living Services subsidiaries. Sunrise and CNL have indemnified us for any fundings we may be called upon to make under these guarantees. Our liability for these guarantees had a carrying value of \$3 million at September 30, 2013. In 2011 Sunrise provided us \$3 million cash collateral to cover potential exposure under the existing lease and bond obligations for 2012 and 2013. In conjunction with our consent of the extension in 2011 of certain lease obligations for an additional five-year term until 2018, Sunrise provided us an additional \$1 million cash collateral and an \$85 million letter of credit issued by Key Bank to secure our exposure under the lease guarantees for the continuing leases during the extension term and certain other obligations of Sunrise. During the extension term, Sunrise agreed to make an annual payment to us from the cash flow of the continuing lease facilities, subject to a \$1 million annual minimum. In the 2013 first quarter, Sunrise merged with Health Care REIT, Inc., and Sunrise's management business was acquired by an entity formed by affiliates of Kohlberg Kravis Roberts & Co. LP, Beecken Petty O'Keefe & Co., Coastwood Senior Housing Partners LLC, and Health Care REIT. In conjunction with this acquisition, Sunrise funded an additional \$2 million cash collateral and certified that the \$85 million letter of credit remains in full force and effect.

Lease obligations, for which we became secondarily liable when we acquired the Renaissance Hotel Group N.V. in 1997, consisting of annual rent payments of approximately \$6 million and total remaining rent payments through the initial term of approximately \$36 million. Most of these obligations expire by the end of 2020. CTF Holdings Ltd. (“CTF”) had originally provided €35 million in cash collateral in the event that we are required to fund under such guarantees, approximately \$5 million (€4 million) of which remained at September 30, 2013. Our exposure for the remaining rent payments through the initial term will decline to the extent that CTF obtains releases from the landlords or these hotels exit the system. Since the time we assumed these guarantees, we have not funded any amounts, and we do not expect to fund any amounts under these guarantees in the future.

Certain guarantees and commitments relating to the timeshare business, which were outstanding at the time of the 2011 Timeshare spin-off and for which we became secondarily liable as part of the spin-off. These Marriott Vacations Worldwide Corporation (“MVW”) payment obligations, for which we currently have a total exposure of \$22 million, relate to a project completion guarantee, various letters of credit, and several

Table of Contents

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

A guarantee for a lease, originally entered into in 2000, for which we became secondarily liable in 2012 as a result of our sale of the ExecuStay corporate housing business to Oakwood. Oakwood has indemnified us for the obligations under this guarantee. Our total exposure at the end of the 2013 third quarter for this guarantee is \$11 million in future rent payments if the lease is terminated through 2013 and will be reduced to \$6 million if the lease is terminated from 2014 through the end of the lease in 2019. Our liability for this guarantee had a carrying value of \$1 million at September 30, 2013.

A guarantee for two adjoining leases, originally entered into in 2000 and 2006, for which we became secondarily liable in the 2013 third quarter as a result of our assignment of the leases to Accenture LLP. Accenture is the primary obligor and has indemnified us for the obligations under these leases and the guarantee. Our total exposure at the end of the 2013 third quarter is \$7 million related to future rent payments through the end of the leases in 2017.

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

Commitments and Letters of Credit

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

A commitment to invest up to \$10 million of equity for a noncontrolling interest in a partnership that plans to purchase North American full-service and limited-service properties, or purchase or develop hotel-anchored mixed-use real estate projects. We expect to fund \$9 million of this commitment as follows: \$7 million in 2014, and \$2 million in 2015. We do not expect to fund the remaining \$1 million of this commitment.

A commitment to invest up to \$23 million of equity for noncontrolling interests in partnerships that plan to purchase or develop limited-service properties in Asia. We expect to fund \$23 million of this commitment as follows: \$2 million in 2013, \$13 million in 2014, and \$8 million in 2015.

- A commitment, with no expiration date, to invest up to \$11 million in a joint venture for development of a new property. We expect to fund this commitment as follows: \$8 million in 2014 and \$3 million in 2015.

A commitment to invest \$20 million in the renovation of a leased hotel. We expect to fund this commitment by the end of 2015.

We have a right and under certain circumstances an obligation to acquire our joint venture partner's remaining 45 percent interest in two joint ventures over the next 8 years at a price based on the performance of the ventures. We made a \$12 million (€9 million) deposit in conjunction with this contingent obligation in 2011 and \$8 million (€6 million) in deposits in 2012. In the 2013 first quarter we acquired an additional five percent noncontrolling interest in each venture, applying \$5 million (€4 million) of those deposits. The remaining deposits are refundable to the extent we do not acquire our joint venture partner's remaining interests.

We have a right and under certain circumstances an obligation during the next year to acquire, for approximately \$45 million (€33 million), the landlord's interest in the real estate property and attached assets of a hotel that we lease. We have recorded the lease as a capital lease.

Table of Contents

Various commitments for the purchase of information technology hardware, software, as well as accounting, finance, and maintenance services in the normal course of business totaling \$116 million. We expect to fund these commitments as follows: \$33 million in 2013, \$53 million in 2014, \$17 million in 2015, and \$13 million in 2016. The majority of these commitments will be recovered through cost reimbursement charges to properties in our system.

Several commitments aggregating \$34 million with no expiration date and which we do not expect to fund.

A commitment to invest up to \$10 million under certain circumstances for additional mandatorily redeemable preferred equity ownership interest in an entity that owns three hotels. We may fund this commitment, which expires in 2015 subject to annual extensions through 2018; however, we have not yet determined the amount or timing of any potential funding.

\$5 million loan commitment that we extended to an owner of a lodging property in the 2013 third quarter which will expire in the 2013 fourth quarter. We funded \$1 million in the 2013 third quarter, expect to fund \$3 million in the 2013 fourth quarter, and do not expect to fund the remaining \$1 million.

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

Legal Proceedings

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

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

Table of Contents

12. Business Segments

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

North American Full-Service Lodging, which includes the Marriott Hotels, Marriott Conference Centers, JW Marriott, Renaissance Hotels, Renaissance ClubSport, Gaylord Hotels and Autograph Collection properties located in the United States and Canada;

North American Limited-Service Lodging, which includes the Courtyard, Fairfield Inn & Suites, SpringHill Suites, Residence Inn, and TownePlace Suites properties located in the United States and Canada, and, before its sale in the 2012 second quarter, our Marriott ExecuStay corporate housing business;

International Lodging, which includes the Marriott Hotels, JW Marriott, Renaissance Hotels, Autograph Collection, Courtyard, AC Hotels by Marriott, Fairfield Inn & Suites, Residence Inn, and Marriott Executive Apartments properties located outside the United States and Canada; and

Luxury Lodging, which includes The Ritz-Carlton, Bulgari Hotels & Resorts, and EDITION properties worldwide (together with residential properties associated with some of The Ritz-Carlton hotels).

We evaluate the performance of our segments based largely on the results of the segment without allocating corporate expenses, income taxes, or indirect general, administrative, and other expenses. We allocate gains and losses, equity in earnings or losses from our joint ventures, and divisional general, administrative, and other expenses to each of our segments. "Other unallocated corporate" represents that portion of our revenues, general, administrative, and other expenses, equity in earnings or losses, and other gains or losses that we do not allocate to our segments. "Other unallocated corporate" includes license fees we receive from our credit card programs and license fees from MVW. We aggregate the brands presented within our segments considering their similar economic characteristics, types of customers, distribution channels, the regulatory business environments and operations within each segment and our organizational and management reporting structure.

Revenues

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

Table of Contents

Net Income (Loss)

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

Equity in Losses of Equity Method Investees

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

Assets

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

13. Acquisitions and Dispositions

2013 Completed Acquisitions

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

2013 Planned Dispositions

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

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

14. Variable Interest Entities

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

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

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

Table of Contents

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

Forward-Looking Statements

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

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

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

BUSINESS AND OVERVIEW

Change in Reporting Cycle

As further detailed in Footnote No. 1, "Basis of Presentation," beginning with our 2013 fiscal year, we changed our financial reporting cycle to a calendar year-end reporting cycle and an end-of-month quarterly reporting cycle.

Accordingly, our 2013 fiscal year began on December 29, 2012 (the day after the end of the 2012 fiscal year) and will end on December 31, 2013. The table below shows the reporting periods as we refer to them in this report, their date ranges, and the number of days in each.

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

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

Lodging Business

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

We earn base management fees and in some cases incentive management fees from the properties that we manage, and we earn franchise fees on the properties that others operate under franchise agreements with us. Base

Table of Contents

fees typically consist of a percentage of property-level revenue while incentive fees typically consist of a percentage of net house profit adjusted for a specified owner return. Net house profit is calculated as gross operating profit (house profit) less noncontrollable expenses such as insurance, real estate taxes, capital spending reserves, and the like.

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

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

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

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

We, along with owners and franchisees, continue to invest in our brands by means of new, refreshed, and reinvented properties, new room and public space designs, and enhanced amenities and technology offerings. We address, through various means, hotels in the system that do not meet standards. We continue to enhance the appeal of our proprietary, information-rich, and easy-to-use website, Marriott.com, and of our associated mobile smartphone applications and mobile website that connect to Marriott.com, through functionality and service improvements, and we expect to continue capturing an increasing proportion of property-level reservations via this cost-efficient channel. Our profitability, as well as that of owners and franchisees, has benefited from our approach to property-level and above-property productivity. Properties in our system continue to maintain very tight cost controls. We also control above-property costs, some of which we allocate to hotels, by remaining focused on systems, processing, and support areas.

Lodging Performance Measures

We believe Revenue per Available Room ("RevPAR"), which we calculate by dividing room sales for comparable properties by room nights available to guests for the period, is a meaningful indicator of our performance because it measures the period-over-period change in room revenues for comparable properties. RevPAR may not be comparable to similarly titled measures, such as revenues. References to RevPAR statistics, including occupancy and average daily rate, throughout this report reflect the three and nine calendar months ended September 30, 2013 or September 30, 2012, as applicable. For the properties located in countries that use currencies other than the U.S. dollar, the comparisons to the prior year period are on a constant U.S. dollar basis. We calculate constant dollar statistics by applying exchange rates for the current period to the prior comparable period.

Table of Contents

Lodging Results

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

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

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

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

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

Table of Contents

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

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

Lodging System Growth and Pipeline

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

CONSOLIDATED RESULTS

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

Revenues

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

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

Table of Contents

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

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

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

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

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

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

Table of Contents

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

Operating Income

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

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

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

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

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

Table of Contents

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

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

Gains and Other Income

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

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

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

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

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

28

Table of Contents

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

Interest Expense

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

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

Interest Income and Income Tax

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

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

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

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

Equity in Losses

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

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

Table of Contents

Net Income

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

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

Earnings Before Interest Expense, Taxes, Depreciation and Amortization (“EBITDA”) and Adjusted EBITDA EBITDA, a financial measure that is not prescribed or authorized by United States generally accepted accounting principles (“GAAP”), reflects earnings excluding the impact of interest expense, provision for income taxes, depreciation and amortization. We believe that EBITDA is a meaningful indicator of operating performance because we use it to measure our ability to service debt, fund capital expenditures, and expand our business. We also use EBITDA, as do analysts, lenders, investors and others, to evaluate companies because it excludes certain items that can vary widely across different industries or among companies within the same industry. For example, interest expense can be dependent on a company’s capital structure, debt levels, and credit ratings. Accordingly, the impact of interest expense on earnings can vary significantly among companies. The tax positions of companies can also vary because of their differing abilities to take advantage of tax benefits and because of the tax policies of the jurisdictions in which they operate. As a result, effective tax rates and provision for income taxes can vary considerably among companies. EBITDA also excludes depreciation and amortization because companies utilize productive assets of different ages and use different methods of both acquiring and depreciating productive assets. These differences can result in considerable variability in the relative costs of productive assets and the depreciation and amortization expense among companies.

We also believe that Adjusted EBITDA, another non-GAAP financial measure, is a meaningful indicator of operating performance. Our Adjusted EBITDA reflects an adjustment for the \$41 million pre-tax gain on the 2012 third quarter sale of an equity interest in a North American Limited-Service joint venture discussed earlier in the "Gains and Other Income" caption. We believe that Adjusted EBITDA that excludes this item is a meaningful measure of our operating performance because it permits period-over-period comparisons of our ongoing core operations before this item and facilitates our comparison of results from our ongoing operations before this item with results from other lodging companies.

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

Table of Contents

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

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

BUSINESS SEGMENTS

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

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

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

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

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

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

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

31

Table of Contents

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

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

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

Summary of Properties by Brand

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

Table of Contents

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

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

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

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

MVW quarter ended September 6, 2013.

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

Table of Contents

Total Lodging and Timeshare Products by Segment

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

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

- (1) North American includes properties located in the United States and Canada. International includes properties located outside the United States and Canada.
- (2) Represents projects where we manage the related owners' association. We include residential products once they possess a certificate of occupancy.
Timeshare properties licensed by MVW under the Marriott Vacation Club, The Ritz-Carlton Destination Club, The Ritz-Carlton Residences, and Grand Residences by Marriott brand names. Includes products that are in active sales
- (3) as well as those that are sold out. MVW's property and room counts are reported on a period-end basis for the MVW quarter ended September 6, 2013.

Table of Contents

The following tables show occupancy, average daily rate, and RevPAR for comparable properties, for each of the brands in our North American Full-Service and North American Limited-Service segments, for our International segment by region, and our Luxury segment. Systemwide statistics include data from our franchised properties, in addition to our owned, leased, and managed properties.

Table of Contents

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

Edgar Filing: MARRIOTT INTERNATIONAL INC /MD/ - Form 10-Q

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

* There are no company-operated properties.

nm means not meaningful as the brand is predominantly franchised.

(1) Statistics include only properties located in the United States.

Table of Contents

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

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

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

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

Table of Contents

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

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

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

Table of Contents

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

Edgar Filing: MARRIOTT INTERNATIONAL INC /MD/ - Form 10-Q

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

* There are no company-operated properties.

nm means not meaningful as the brand is predominantly franchised.

(1) Statistics include only properties located in the United States.

Table of Contents

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

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

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

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

Table of Contents

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

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

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

	92 Days	84 Days		276 Days	252 Days		
(\$ in millions)	Ended	Ended	Change	Ended	Ended	Change	
	September 30,	September 7,	2013/2012	September 30,	September 7,	2013/2012	
	2013	2012		2013	2012		
Segment revenues	\$695	\$612	14	% \$1,970	\$1,735	14	%
Segment results	\$131	\$157	(17	)% \$372	\$347	7	%

Since the 2012 third quarter, across our North American Limited-Service Lodging segment we added 96 properties (11,294 rooms) and 16 properties (1,880 rooms) left the system. The majority of the properties that left the system were Courtyard and Fairfield Inn & Suites properties. In the 2012 second quarter, we completed the sale of our ExecuStay corporate housing business. The revenues, results of operations, assets, and liabilities of our ExecuStay business were not material to the Company's financial position, results of operations or cash flows for any of the periods presented.

Third Quarter. For the three months ended September 30, 2013, compared to the three months ended September 30, 2012, RevPAR for comparable systemwide North American Limited-Service properties increased by 4.9 percent to \$88.91, occupancy for these properties increased by 1.0 percentage points to 76.1 percent, and average daily rates increased by 3.5 percent to \$116.80.

The \$26 million decrease in segment results, compared to the 2012 third quarter, primarily reflected \$40 million of lower gains and other income and \$4 million of higher general, administrative, and other expenses, partially offset by \$16 million of higher base management and franchise fees and \$2 million of higher incentive management fees. Lower gains and other income reflected an unfavorable variance from a \$41 million gain on the sale of our equity interest in a joint venture in the 2012 third quarter. See the "Gains and Other Income" caption earlier in this report for additional information on the sale of this equity interest. Higher general, administrative, and other expenses reflected net miscellaneous cost increases (which included expenses for the additional eight days of activity). Higher base management and franchise fees were driven by higher RevPAR due to increased demand, some of which is attributable to the favorable effect of property renovations, and higher relicensing fees, as well as the additional eight days of activity, partially offset by an unfavorable variance from the 2012 third quarter recognition of \$7 million of deferred base management fees in conjunction with the sale of our equity interest in a joint venture. The increase in incentive management fees primarily reflected higher property-level revenue which resulted in higher property-level income and margins and also reflected fees for the additional eight days of activity.

Cost reimbursements revenue and expenses for our North American Limited-Service Lodging segment properties totaled \$521 million in the 2013 third quarter, compared to \$459 million in the 2012 third quarter.

First Three Quarters. For the nine months ended September 30, 2013, compared to the nine months ended September 30, 2012, RevPAR for comparable systemwide North American Limited-Service properties increased by 4.6 percent to \$84.55, occupancy for these properties increased by 0.6 percentage points to 73.3 percent, and average daily rates increased by 3.7 percent to \$115.41.

The \$25 million increase in segment results, compared to the 2012 first three quarters, primarily reflected \$66 million of higher base management and franchise fees, \$5 million of higher incentive management fees, and \$2 million of higher owned, leased, and other revenue net of direct expenses, partially offset by \$42 million of lower gains and other income and \$7 million of higher general, administrative, and other expenses. Higher base management and franchise fees were driven by higher RevPAR due to increased demand, some of which is attributable to the favorable effect of property renovations, and higher relicensing fees, as well as the additional 24 days of activity, partially offset by an unfavorable variance from the 2012 third quarter recognition of \$7 million of

Table of Contents

deferred base management fees in conjunction with the sale of our equity interest in a joint venture. The increase in incentive management fees primarily reflected higher property-level revenue which resulted in higher property-level income and margins, and also reflected fees for the additional 24 days of activity. Lower gains and other income primarily reflected an unfavorable variance from a \$41 million gain on the sale of our equity interest in a joint venture in the 2012 third quarter, as indicated in the preceding "Third Quarter" discussion. Higher general, administrative, and other expenses reflected net miscellaneous cost increases (which included expenses for the additional 24 days of activity).

Cost reimbursements revenue and expenses for our North American Limited-Service Lodging segment properties totaled \$1,472 million in the 2013 first three quarters, compared to \$1,284 million in the 2012 first three quarters.

International Lodging includes Marriott Hotels, JW Marriott, Renaissance Hotels, Autograph Collection, Courtyard, AC Hotels by Marriott, Fairfield Inn & Suites, Residence Inn, and Marriott Executive Apartments located outside the United States and Canada.

	92 Days	84 Days		276 Days	252 Days		
(\$ in millions)	Ended	Ended	Change	Ended	Ended	Change	
	September 30,	September 7,	2013/2012	September 30,	September 7,	2013/2012	
	2013	2012		2013	2012		
Segment revenues	\$385	\$321	20	% \$1,131	\$898	26	%
Segment results	\$39	\$36	8	% \$111	\$117	(5)%

Since the 2012 third quarter, across our International Lodging segment we added 33 properties (7,317 rooms) and 6 properties (1,389 rooms) left the system.

Third Quarter. For the three months ended September 30, 2013, compared to the three months ended September 30, 2012, RevPAR for comparable systemwide international properties increased by 2.7 percent to \$114.32, occupancy for these properties increased by 1.6 percentage points to 73.3 percent, and average daily rates increased by 0.5 percent to \$155.98. See "Business and Overview" for a discussion of results in the various International Lodging segment regions.

The \$3 million increase in segment results, compared to the 2012 third quarter, predominantly reflected \$7 million of higher base management and franchise fees and \$3 million of higher incentive management fees, partially offset by \$4 million of higher general, administrative, and other expenses and \$3 million of lower owned, leased, and other revenue net of direct expenses. The increase in base management and franchise fees largely reflected the additional eight days of activity, new unit growth, and higher RevPAR due to increased demand. The \$3 million increase in incentive management fees was primarily driven by fees for the extra eight days of activity, as well as new unit growth. The \$4 million increase in general, administrative, and other expenses reflected \$5 million of increased expenses for functions moved from corporate headquarters to the continent offices and initiatives to enhance and grow our brands globally and \$2 million of net other miscellaneous cost increases (which included expenses for the additional eight days of activity), partially offset by a favorable variance from a \$3 million guarantee accrual for one property in the 2012 third quarter. The \$3 million decrease in owned, leased, and other revenue net of direct expenses largely reflected \$3 million in weaker results at one leased property in London due to tough comparisons from the Olympics in the prior year (which included the additional eight days of activity).

Cost reimbursements revenue and expenses for our International Lodging segment properties totaled \$241 million in the 2013 third quarter, compared to \$186 million in the 2012 third quarter.

First Three Quarters. For the nine months ended September 30, 2013, compared to the nine months ended September 30, 2012, RevPAR for comparable systemwide international properties increased by 2.5 percent to \$113.29, occupancy for these properties increased by 1.6 percentage points to 70.9 percent, and average daily rates increased by 0.3 percent to \$159.73. See "Business and Overview" for a discussion of results in the various International Lodging segment regions.

Table of Contents

The \$6 million decrease in segment results, compared to the 2012 first three quarters, predominantly reflected \$18 million of higher general, administrative, and other expenses, \$7 million of lower owned, leased, and other revenue net of direct expenses, and \$4 million of decreased joint venture equity earnings, partially offset by \$17 million of higher base management and franchise fees and \$5 million of higher incentive management fees. The \$18 million increase in general, administrative, and other expenses primarily reflected \$12 million of increased expenses for functions moved from corporate headquarters to the continent offices and initiatives to enhance and grow our brands globally, a \$5 million performance cure payment for one property, and \$6 million of other net miscellaneous cost increases (which included expenses for the additional 24 days of activity), partially offset by a favorable variance from \$5 million of guarantee accruals in the 2012 first three quarters. The \$7 million decrease in owned, leased, and other revenue net of direct expenses largely reflected \$6 million in weaker results at one leased property in London (which included the additional 24 days of activity) and \$6 million in costs related to three International segment leases we terminated, partially offset by \$6 million of higher termination fees principally associated with one property. Lower joint venture equity earnings were primarily driven by decreased earnings at one joint venture. The increase in base management and franchise fees largely reflected the additional 24 days of activity, new unit growth and higher RevPAR due to increased demand. The \$5 million increase in incentive management fees was primarily driven by the extra 24 days of activity and new unit growth, partially offset by lower property-level revenue at certain properties which resulted in lower property-level income and margins.

Cost reimbursements revenue and expenses for our International Lodging segment properties totaled \$688 million in the 2013 first three quarters, compared to \$474 million in the 2012 first three quarters.

Luxury Lodging includes The Ritz-Carlton, Bulgari Hotels & Resorts, and EDITION worldwide.

(\$ in millions)	92 Days	84 Days	Change	276 Days	252 Days	Change		
	Ended	Ended		Ended	Ended			
	September 30,	September 7,	2013/2012	September 30,	September 7,	2013/2012		
	2013	2012		2013	2012			
Segment revenues	\$416	\$394	6	% \$1,330	\$1,221	9	%	
Segment results	\$22	\$20	10	% \$78	\$66	18	%	

Since the 2012 third quarter, across our Luxury Lodging segment we added three properties (1,005 rooms) and two properties (737 rooms) left the system. Since the 2012 third quarter, we also added two residential products (140 units) and no residential products left the system.

Third Quarter. For the three months ended September 30, 2013, compared to the three months ended September 30, 2012, RevPAR for comparable systemwide luxury properties increased by 8.1 percent to \$212.70, occupancy increased by 0.5 percentage points to 65.9 percent, and average daily rates increased by 7.2 percent to \$322.77.

The \$2 million increase in segment results, compared to the 2012 third quarter, largely reflected \$4 million of higher owned, leased, and other revenue net of direct expenses, a \$3 million increase in incentive management fees, and \$2 million of higher base management fees, partially offset by a \$7 million increase in general, administrative, and other expenses. Higher base management fees primarily stemmed from the additional eight days of activity. The \$3 million increase in incentive management fees was primarily driven by higher property-level revenue which resulted in higher property-level income and margins, and also reflected fees for the extra eight days of activity. Higher owned, leased, and other revenue net of direct expenses largely reflected \$7 million of termination fees for two properties, partially offset by \$2 million of lower branding fees and \$2 million of pre-opening expenses for two EDITION hotels. The \$7 million increase in general, administrative, and other expenses reflected an unfavorable variance from a \$3 million guarantee accrual reversal in the 2012 third quarter, a \$2 million impairment of deferred contract acquisition costs for a property with cash flow shortfalls, and \$2 million of other net miscellaneous cost increases (which included the additional eight days of activity).

Cost reimbursements revenue and expenses for our Luxury Lodging segment properties totaled \$337 million in the 2013 third quarter, compared to \$326 million in the 2012 third quarter.

Table of Contents

First Three Quarters. For the nine months ended September 30, 2013, compared to the nine months ended September 30, 2012, RevPAR for comparable systemwide luxury properties increased by 8.0 percent to \$234.34, occupancy increased by 1.7 percentage points to 68.7 percent, and average daily rates increased by 5.3 percent to \$340.88. The \$12 million increase in segment results, compared to the 2012 first three quarters, reflected \$12 million of higher base management fees, \$8 million of decreased joint venture equity losses, a \$6 million increase in incentive management fees, and \$4 million of higher owned, leased, and other revenue net of direct expenses, partially offset by an \$18 million increase in general, administrative, and other expenses. Higher base management fees stemmed from the additional 24 days of activity, a favorable variance from \$3 million of fee reversals in the 2012 first three quarters for two properties with contract revisions, increased RevPAR due to increased demand, and new unit growth. The \$8 million decrease in joint venture equity losses reflected a favorable variance from \$8 million in losses in the 2012 first three quarters at a Luxury segment joint venture for the impairment of certain underlying residential properties. The \$6 million increase in incentive management fees was primarily driven by higher property-level revenue which resulted in higher property-level income and margins, and also reflected fees for the extra 24 days of activity. The \$4 million increase in owned, leased, and other revenue net of direct expenses primarily reflected \$7 million of termination fees for two properties, partially offset by \$3 million of pre-opening expenses for two EDITION hotels. The \$18 million increase in general, administrative, and other expenses reflected an unfavorable variance from \$5 million in guarantee accrual reversals in the 2012 first three quarters and the following 2013 items: (1) \$3 million impairment of deferred contract acquisition costs for a property that left our system; (2) a \$2 million impairment of deferred contract acquisition costs for a property with cash flow shortfalls; and (3) \$8 million of other net miscellaneous cost increases (which included expenses for the additional 24 days of activity). Cost reimbursements revenue and expenses for our Luxury Lodging segment properties totaled \$1,076 million in the 2013 third quarter, compared to \$994 million in the 2012 third quarter.

SHARE-BASED COMPENSATION

Under our Stock and Cash Incentive Plan, we award: (1) stock options to purchase our common stock (“Stock Option Program”); (2) stock appreciation rights (“SARs”) for our common stock (“Stock Appreciation Right Program”); (3) restricted stock units (“RSUs”) of our common stock; and (4) deferred stock units. We grant awards at exercise prices or strike prices that equal the market price of our common stock on the date of grant.

During the 2013 first three quarters, we granted 2.5 million RSUs, 0.2 million service and performance RSUs, 0.7 million SARs, and 0.1 million stock options. See Footnote No. 4, “Share-Based Compensation,” to our Financial Statements for more information.

NEW ACCOUNTING STANDARDS

See Footnote No. 2, “New Accounting Standards,” to our Financial Statements for information related to our adoption of new accounting standards in the 2013 first three quarters and for information on our anticipated adoption of recently issued accounting standards.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Cash Requirements and Our Credit Facilities

During the third quarter, we amended and restated our multicurrency revolving credit agreement (the "Credit Facility") to extend the facility's expiration to July 18, 2018 and increase the facility size to \$2,000 million of aggregate effective borrowings. The material terms of the amended and restated Credit Facility are otherwise unchanged. For more information on our Credit Facility, see Footnote No. 9, "Long-term Debt," and also see the Current Report on Form 8-K that we filed with the SEC on July 19, 2013.

The Credit Facility contains certain covenants, including a single financial covenant that limits our maximum leverage (consisting of the ratio of Adjusted Total Debt to Consolidated EBITDA, each as defined in the Credit Facility) to not more than 4 to 1. Our outstanding public debt does not contain a corresponding financial covenant or a requirement that we maintain certain financial ratios. We currently satisfy the covenants in our Credit Facility and public debt instruments, including the leverage covenant under the Credit Facility, and do not expect the covenants to restrict our ability to meet our anticipated borrowing and guarantee levels or increase those levels should we decide to do so in the future.

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

We issue commercial paper in the United States. We do not have purchase commitments from buyers for our commercial paper; therefore, our ability to issue commercial paper is subject to market demand. We classify any outstanding commercial paper and Credit Facility borrowings as long-term debt 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 fluctuations in the demand for commercial paper to affect our liquidity, given our borrowing capacity under the Credit Facility.

At September 30, 2013, our available borrowing capacity amounted to \$1,353 million and reflected borrowing capacity of \$1,209 million under our Credit Facility and our cash balance of \$144 million. We calculated that borrowing capacity by taking \$2,000 million of effective aggregate bank commitments under our Credit Facility and subtracting \$790 million of outstanding commercial paper and \$1 million of outstanding letters of credit under our Credit Facility.

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

Cash and cash equivalents totaled \$144 million at September 30, 2013, an increase of \$56 million from year-end 2012, reflecting cash inflows associated with the following: operating cash inflows (\$805 million), net proceeds of approximately \$345 million from the issuance of Series M Notes (see the "Contractual Obligations" caption later in this section for more information), increased borrowings related to the issuance of commercial paper (\$268 million), common stock issuances (\$141 million), and loan collections and sales, net of loan advances (\$57 million). The following cash outflows partially offset these cash inflows: purchase of treasury stock (\$644 million), long-term debt repayments (\$405 million) primarily related to the maturity of Series J Senior Notes, capital

Table of Contents

expenditures (\$226 million), dividend payments (\$144 million), net other investing cash outflows (\$88 million), contract acquisition costs (\$36 million), equity and cost method investments (\$16 million), and other financing activities (\$1 million). Net other investing cash outflows included the purchase of a \$65 million mandatorily redeemable preferred equity ownership interest in an entity that owns three hotels that we manage. We account for this investment as a debt security. See Footnote No. 5, "Fair Value of Financial Instruments" for more information. Our ratio of current assets to current liabilities was roughly 0.7 to 1.0 at the end of the 2013 third quarter. We minimize working capital through cash management, strict credit-granting policies, and aggressive collection efforts. We also have significant borrowing capacity under our Credit Facility should we need additional working capital. We made capital expenditures of \$226 million in the 2013 first three quarters and \$316 million in the 2012 first three quarters that included expenditures related to the development and construction of new hotels and acquisitions of hotel properties, as well as improvements to existing properties and systems initiatives. Capital expenditures for the 2013 first three quarters decreased by \$90 million compared to the year-ago period, primarily due to the 2012 first quarter acquisition of land and a building we plan to develop into a hotel. We expect investment spending for the 2013 full year will total approximately \$600 million to \$700 million, including approximately \$100 million for maintenance capital spending. Investment spending also includes other capital expenditures (including property acquisitions such as the acquisition of a managed property described below), loan advances, contract acquisition costs, and equity and other investments. See our Condensed Consolidated Statements of Cash Flows for information on investment spending for the 2013 first three quarters.

In the 2013 third quarter, we paid a cash deposit of \$5 million toward the acquisition of a managed property we plan to renovate. After the 2013 third quarter, we acquired that property for an additional \$110 million in cash. Over time, we have sold lodging properties, both completed and under development, subject to long-term management agreements. The ability of third-party purchasers to raise the debt and equity capital necessary to acquire such properties depends in part on the perceived risks inherent in the lodging industry and other constraints inherent in the capital markets as a whole. We monitor the status of the capital markets and regularly evaluate the potential impact of changes in capital market conditions on our business operations. We expect to continue making selective and opportunistic investments to add units to our lodging business, which may include loans and noncontrolling equity investments.

Fluctuations in the values of hotel real estate generally have little impact on our overall business results because:

(1) we own less than one percent of hotels that we operate or franchise; (2) management and franchise fees are generally based upon hotel revenues and profits rather than current hotel property values; and (3) our management agreements generally do not terminate upon hotel sale or foreclosure.

From time to time we make loans to owners of hotels that we operate or franchise. Loan collections and sales, net of loan advances, amounted to \$57 million in the 2013 first three quarters and \$124 million in the 2012 first three quarters. In the 2013 first three quarters, our notes receivable balance for senior, mezzanine, and other loans decreased by \$53 million, primarily reflecting collections on two MVW notes receivable issued to us in 2011 in conjunction with the Timeshare spin-off.

Spin-off Cash Tax Benefits

As noted in Footnote No. 3, "Income Taxes," all tax matters that could affect the Company's cash tax benefits related to the 2011 spin-off of our timeshare operations and timeshare development business were resolved in the 2013 first quarter, and we expect that the spin-off will result in our realization through 2015 of approximately \$480 million of cash tax benefits relating to the value of the timeshare business. We realized \$228 million of those benefits through year-end 2012, \$95 million of those benefits in the 2013 first three quarters, and expect to realize approximately \$35 million of further cash tax benefits in the 2013 fourth quarter.

Table of Contents

Contractual Obligations

As of the end of the 2013 third quarter, there have been no significant changes to our “Contractual Obligations” table in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” of our 2012 Form 10-K, other than those resulting from changes in the amount of outstanding debt, including the Series M note issuance, issuances of commercial paper, and the maturity of Series J Notes discussed below.

At the end of the 2013 third quarter, debt increased by \$221 million to \$3,156 million, compared to \$2,935 million at year-end 2012, and reflected our 2013 third quarter issuance of \$348 million (book value) of Series M Senior Notes (described more fully below) and a \$289 million increase in commercial paper borrowings, partially offset by the \$400 million (book value) retirement, at maturity, of our Series J Senior Notes, \$15 million in decreased borrowings under our Credit Facility, and decreases of \$1 million in other debt (which includes capital leases). At the end of the 2013 third quarter, future debt payments plus interest (not including capital leases) totaled \$3,626 million and are due as follows: \$31 million in 2013; \$113 million in 2014; \$422 million in 2015; \$373 million in 2016; \$358 million in 2017; and \$2,329 million thereafter.

During our 2013 first quarter, we made a \$411 million cash payment of principal and interest to retire, at maturity, all of our outstanding Series J Senior Notes. During our 2013 third quarter, we issued \$350 million aggregate principal amount of 3.375 percent Series M Notes due 2020. We received net proceeds of approximately \$345 million from the offering, after deducting the underwriting discount and estimated expenses. We expect to use these proceeds for general corporate purposes, which may include working capital, capital expenditures, acquisitions, stock repurchases, or repayment of commercial paper borrowings as they become due.

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 2013 third quarter, our long-term debt had an average interest rate of 3.5 percent and an average maturity of approximately 5.4 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 2013 third quarter.

Guarantee Commitments

There have been no significant changes to our “Guarantee Commitments” table in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” of our 2012 Form 10-K, other than those resulting from: (1) changes in the amount of guarantees where we are the primary obligor; and (2) changes in the amount of guarantees where we are secondarily liable.

At the end of the 2013 third quarter, guarantees where we are the primary obligor decreased by \$27 million to \$197 million, compared to \$224 million at year-end 2012, and reflected a \$19 million decrease in operating profit guarantees, a \$12 million decrease in debt service guarantees, partially offset by a \$4 million increase in other guarantees. At the end of the 2013 third quarter, future guarantee commitment expirations are as follows: \$8 million in 2013; \$37 million in 2014; \$19 million in 2015; \$1 million in 2016; \$46 million in 2017; and \$86 million thereafter.

As of the end of the 2013 third quarter, guarantees where we are secondarily liable decreased by \$57 million to \$182 million, compared to \$239 million at year-end 2012, and primarily reflected a \$40 million decrease for an operating profit guarantee, which terminated upon restructuring of the underlying debt. At the end of the 2013 third quarter, future guarantee commitment expirations are as follows: \$9 million in 2013; \$40 million in 2014; \$30 million in 2015; \$33 million in 2016; \$23 million in 2017; and \$47 million thereafter. See the “Guarantees” caption in Footnote No. 11, “Contingencies” for additional information on our guarantees.

Share Repurchases

We purchased 15.6 million shares of our common stock during the 2013 first three quarters, at an average price of \$40.31 per share. See Part II, Item 2 of this Form 10-Q for more information on our share repurchases. As of September 30, 2013, 18.7 million shares remained available for repurchase under authorizations from our Board of Directors.

Table of Contents

Dividends

On February 15, 2013, our Board of Directors declared a quarterly cash dividend of \$0.13 per share, which we paid on March 29, 2013 to shareholders of record on March 1, 2013. On May 10, 2013, our Board of Directors declared a quarterly cash dividend of \$0.17 per share, which we paid on June 28, 2013 to shareholders of record on May 24, 2013. On August 8, 2013, our Board of Directors declared a quarterly cash dividend of \$0.17 per share, which we paid on September 27, 2013 to shareholders of record on August 22, 2013.

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 2012 Form 10-K. Since the date of our 2012 Form 10-K, there have been no material changes to our critical accounting policies or the methodologies or assumptions we apply under them.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk has not materially changed since December 28, 2012.

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 such 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 2013 third quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. However, in the first quarter of 2013, we began the phased implementation of an enterprise-wide financial systems project to upgrade our general ledger and reporting tools. In conjunction with that effort, we converted to a calendar year-end reporting cycle and an end-of-month quarterly reporting cycle. We are performing the implementation in the ordinary course of business to increase efficiency and align our processes on a global basis, and we expect to continue the implementation over the next several quarters.

Table of Contents

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Please see the information under "Legal Proceedings" in Footnote No. 11, "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 the aggregate, will not materially harm our financial position, cash flows, or overall trends in results of operations, legal proceedings are inherently uncertain, and unfavorable rulings could, individually or in aggregate, have a material adverse effect on our business, financial condition, or operating results.

Item 1A. Risk Factors

We are subject to various risks that could have a negative effect on us or on our financial condition. You should understand that these risks could cause results to differ materially from those expressed 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 for customers. We generally operate in markets that contain numerous competitors. Each of our hotel brands competes with major hotel chains 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.

Economic uncertainty could continue to impact our financial results and growth. Weak economic conditions in Europe and other parts of the world, the strength or continuation of recovery in countries that have experienced improved economic conditions, potential disruptions in the U.S. economy as a result of governmental action or inaction on the federal deficit, budget, and related issues, including the recent U.S. federal government shutdown, 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 our business may suffer as automatic U.S. federal spending cuts that began in March 2013 and the recent U.S. federal government shutdown in October 2013 reduce the amount of travel by U.S. government employees and contractors and result in potential limitations on other aspects of travel. 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.

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 the Company fails or elects 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 regarding our management agreements and may do so in the future. In the event of any such termination, we may need to

Table of Contents

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, our activities are affected by changes in global and regional economies. In recent years, our business has been hurt by decreases in travel resulting from weak economic conditions and the heightened travel security measures that have resulted from the threat of further terrorism. Our future performance could be similarly affected by the economic environment in each of the regions in which we operate, the resulting unknown pace of business travel, and the occurrence of any future incidents in those regions.

The growing significance of our operations outside of the United States also makes us increasingly susceptible to the risks of doing business internationally, which could lower our revenues, increase our costs, reduce our profits, or disrupt our business. We currently operate or franchise hotels and resorts in 72 countries, and our operations outside the United States represented approximately 17 percent of our revenues in the 2013 third quarter. We expect that the international share of our total revenues will continue to increase in future years. As a result, we are increasingly exposed to the challenges and risks of doing business outside the United States, which could reduce our revenues or profits, increase our costs, result in significant liabilities or sanctions, or otherwise disrupt our business. These challenges include: (1) compliance with complex and changing laws, regulations and policies of governments 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 anti-corruption laws, competition laws, currency regulations, and laws affecting dealings with certain nations; (3) limitations on our ability to repatriate non-U.S. earnings in a tax effective manner; (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.

Our new programs and new branded products may not be successful. We cannot assure you that our recently launched EDITION, Autograph Collection, and AC Hotels by Marriott brands, our recent acquisition of the Gaylord brand, our recently announced Moxy Hotels brand, or any 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 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 and man-made disasters in recent years, such as Hurricane Sandy in the Northeastern United States, the earthquake and tsunami in Japan, and the spread of contagious diseases 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 the level of business and leisure travel and reduce the demand for lodging. Actual or threatened war, terrorist activity, political unrest, or civil strife, such as recent events in Syria, Egypt, Libya, and Bahrain, 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 the owners of the 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

53

Table of Contents

be subject to interpretation and will from time to time give rise to disagreements, which may include disagreements over the need for or payment for new product or service initiatives. 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 are not always able to do so. Failure to resolve such disagreements has resulted in litigation, and could do so in the future. If any such litigation results in a significant adverse judgment, settlement, or court order, we could suffer significant losses, our profits could be reduced, or our future ability to operate our business could be constrained.

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

Actions by our franchisees and licensees could adversely affect our image and reputation. We franchise and license many of our brand names and trademarks to third parties in connection with lodging, timeshare, and residential services. 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, 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 with coverage features and insured limits that we believe are customary. Market forces beyond our control may nonetheless limit the scope of the insurance coverage we can obtain or our 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 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 carry may not be sufficient to pay the full market value or replacement cost of our lost investment or that of hotel owners or in some cases could result in certain losses being totally uninsured. As a result, we could lose some or all of the capital 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 the Company and current and potential hotel owners must periodically spend money. The availability of funds for new investments and improvement of existing hotels by our current and potential hotel owners depends in large measure on capital markets and liquidity factors, over which we can exert little control. The difficulty of obtaining financing on attractive terms can, at times, 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

Table of Contents

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, and previously developed timeshare interval and fractional ownership properties, both directly and through partnerships, joint ventures, and other business structures with third parties. As demonstrated by the 2009 and 2011 impairment charges for our former Timeshare business, 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 further decreases in demand for residential properties, increases in mortgage rates and/or decreases in mortgage availability, market absorption or oversupply, with the result that we may not be able to sell such properties for a profit or at the prices or selling pace we anticipate, potentially requiring additional changes in our pricing strategy that could result in further charges; (3) construction delays, cost overruns, lender financial defaults, or so called "Acts of God" such as earthquakes, hurricanes, floods, or fires may increase overall project costs or result in project cancellations; and (4) we may be unable to recover development costs we incur for any projects that we do not pursue to completion.

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

Risks associated with development and sale of residential properties associated with our lodging properties or brands may reduce our profits. In certain hotel and timeshare projects we participate, either directly or through noncontrolling interests and/or licensing agreements, in the development and sale of residential properties associated with our brands, including residences and condominiums under our The Ritz-Carlton, EDITION, JW Marriott, Autograph Collection, and Marriott brand names and trademarks. Such projects pose further risks beyond those generally associated with our lodging businesses, which may reduce our profits or compromise our brand equity, including the following: (1) the continued weakness in residential real estate and demand generally may continue to 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. At the end of the 2013 third quarter we reported over 850 hotels in our development pipeline, which we define as hotels under signed contracts, including hotels pending conversion to one of our brands. Separately, we also report the number of hotels approved for development

Table of Contents

but not under signed contracts. The eventual opening of the hotels in our development pipeline 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 approved for development, will result in new hotels that enter our system, or that those hotels will open when we anticipate.

Technology, Information Protection, and Privacy Risks

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

An increase in the use of third-party Internet services to book online hotel reservations could adversely impact our business. Some of our hotel rooms are booked through Internet travel intermediaries such as Expedia.com[®], Travelocity.com[®], and Orbitz.com[®], as well as lesser-known online travel service providers. These intermediaries initially focused on leisure travel, but now also provide offerings for corporate travel and group meetings. Although Marriott's Look No Further[®] Best Rate Guarantee has helped prevent customer preference shift to the intermediaries and greatly reduced the ability of intermediaries to undercut the published rates at our hotels, intermediaries continue to use a variety of aggressive online marketing methods to attract customers, including the purchase, by certain companies, of trademarked online keywords such as "Marriott" from Internet search engines such as Google[®], Bing[®], Yahoo[®], and Baidu[®] to steer customers toward their websites (a practice that has been challenged by various trademark owners in federal court). Although Marriott has successfully limited these practices through contracts with key online intermediaries, the number of intermediaries and related companies that drive traffic to intermediaries' websites is too large to permit us to eliminate this risk entirely. In addition, recent class action litigation against several online travel intermediaries and lodging companies, including Marriott, challenges the legality under antitrust law of contract provisions that support programs such as Marriott's Look No Further[®] Best Rate Guarantee, and we cannot assure you that the courts will ultimately uphold such provisions. Our business and profitability could be harmed if online intermediaries succeed in significantly shifting loyalties from our lodging brands to their travel services, diverting bookings away from Marriott.com, or through their fees increasing the overall cost of Internet bookings for our hotels.

Failure to maintain the integrity of internal or customer data could result in faulty business decisions, operational inefficiencies, damage to our reputation and/or subject us to costs, fines, or lawsuits. Our businesses require collection and retention of large volumes of internal and customer data, including credit card numbers and other personally identifiable information of our customers in various information systems that we maintain and in those maintained by third parties with whom we contract to provide services, including in areas such as human resources outsourcing, website hosting, and various forms of electronic communications. We and third parties who provide services to us also maintain personally identifiable information about our employees. The integrity and protection of that customer, employee, and company data is critical to us. If that data is inaccurate or incomplete, we could make faulty decisions. Our customers and employees also have a high expectation that we and our 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 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. Efforts to hack or breach security measures, failures of systems or software to operate as designed or intended, viruses, operator error, or inadvertent releases of data all threaten our and our service provider's information systems and records. Our reliance on computer, Internet-based and mobile systems and communications and the frequency and sophistication of efforts by hackers to gain unauthorized access to such systems have increased significantly in recent

years. A significant theft, loss, or fraudulent use of customer, employee, or company data could adversely impact our reputation and could result in remedial and other expenses,

56

Table of Contents

finances, or litigation. A breach in the security of our information systems or those of our service providers could lead to an interruption in the operation of our systems, resulting in operational inefficiencies and a loss of profits. Changes in privacy law could adversely affect our ability to market our products effectively. 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.

Other Risks

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

The 2011 spin-off of our former Timeshare business could result in significant tax liability to us and our shareholders. As discussed in more detail in Footnote No. 16, "Spin-off" to our Financial Statements in our 2012 Form 10-K, in 2011 we completed the spin-off of our timeshare operations and timeshare development business. Although we received a private letter ruling from the Internal Revenue Service ("IRS") and an opinion from our tax counsel confirming that the distribution of MVW common stock will not result in recognition, for U.S. federal income tax purposes, of income, gain or loss to us or our shareholders (except to the extent of cash received in lieu of fractional shares of MVW common stock), the private letter ruling and opinion that we received are subject to the continuing validity of any assumptions and representations reflected therein. In addition, an opinion from our tax counsel is not binding on the IRS or a court. Moreover, certain future events that may or may not be within our control, including certain extraordinary purchases of our stock or MVW's stock, could cause the distribution not to qualify as tax-free. Accordingly, the IRS could determine that the distribution of the MVW common stock was a taxable transaction and a court could agree with the IRS. If the distribution of the MVW common stock was determined to be taxable for U.S. federal income tax purposes, we and our shareholders who received shares of MVW common stock in the spin-off could incur significant tax liabilities. Under the tax sharing and indemnification agreement that we entered into with MVW, we are entitled to indemnification from MVW for certain taxes and related losses resulting from the failure of the distribution of MVW common stock to qualify as tax-free as a result of (1) any breach by MVW or its subsidiaries of the covenants on the preservation of the tax-free status of the distribution, (2) certain acquisitions of equity securities or assets of MVW or its subsidiaries, and (3) any breach by MVW or its subsidiaries of certain representations in the documents submitted to the IRS and the separation documents relating to the spin-off. If,

however, the distribution failed to qualify as a tax-free transaction

57

Table of Contents

for reasons other than those specified in the indemnification provisions of the tax sharing and indemnification agreement, liability for any resulting taxes for the distribution would be apportioned between us and MVW based on our relative fair market values.

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.

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 stockholder 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 stockholder 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 stockholder approval, implement other anti-takeover defenses, such as a stockholder's 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)

	Total Number of Shares Purchased	Average Price per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
July 1, 2013 - July 31, 2013	0.5	\$40.53	0.5	21.4
August 1, 2013 - August 31, 2013	2.0	\$40.36	2.0	19.4
September 1, 2013 - September 30, 2013	0.7	\$40.62	0.7	18.7

⁽¹⁾ On February 15, 2013, we announced that our Board of Directors increased, by 25 million shares, the authorization to repurchase our common stock. As of September 30, 2013, 18.7 million shares remained available for repurchase under Board approved authorizations. We repurchase shares in the open market and in privately negotiated transactions.

Item 5. Other Information

On October 18, 2013, we voluntarily ceased the listing of our Class A Common Stock, par value \$0.01 per share, on the New York Stock Exchange, and on the next business day, October 21, 2013, our common stock commenced trading on The NASDAQ Global Select Market ("NASDAQ"). The Company's stock symbol remains "MAR."

Table of Contents

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.	Exhibit No. 3.(i) to our Form 8-K filed August 22, 2006 (File No. 001-13881).
3.2	Amended and Restated Bylaws.	Exhibit No. 3.(i) to our Form 8-K filed November 12, 2008 (File No. 001-13881).
4.1	Form of 3.375% Series M Notes Due 2020	Exhibit No. 4.1 to our Form 8-K filed September 27, 2013 (File No. 001-13881).
10	U.S. \$2,000,000,000 Third Amended and Restated Credit Agreement dated as of July 18, 2013 with Bank of America, N.A. as administrative agent and certain banks.	Exhibit No. 10 to our Form 8-K filed July 19, 2013 (File No. 001-13881).
12	Statement of Computation of Ratio of Earnings to Fixed Charges.	Filed with this report.
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).	Filed with this report.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).	Filed with this report.
32	Section 1350 Certifications.	Furnished with this report.
101.INS	XBRL Instance Document.	Submitted electronically with this report.
101.SCH	XBRL Taxonomy Extension Schema Document.	Submitted electronically with this report.
101.CAL	XBRL Taxonomy Calculation Linkbase Document.	Submitted electronically with this report.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Submitted electronically with this report.
101.LAB	XBRL Taxonomy Label Linkbase Document.	Submitted electronically with this report.
101.PRE	XBRL Taxonomy Presentation Linkbase Document.	Submitted electronically with this report.

We have attached the following documents formatted in XBRL (Extensible Business Reporting Language) as Exhibit 101 to this report: (i) the Condensed Consolidated Statements of Income for the 92 days ended September 30, 2013, and 84 days ended September 7, 2012, as well as the 276 days ended September 30, 2013, and 252 days ended September 7, 2012; (ii) the Condensed Consolidated Statements of Comprehensive Income for the 92 days ended September 30, 2013, and 84 days ended September 7, 2012, as well as the 276 days ended September 30, 2013, and

252 days ended September 7, 2012; (iii) the Condensed Consolidated Balance Sheets at September 30, 2013, and December 28, 2012; and (iv) the Condensed Consolidated Statements of Cash Flows for the 276 days ended September 30, 2013, and 252 days ended September 7, 2012.

Table of Contents

SIGNATURES

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.
31st day of October, 2013

/s/ Arne M. Sorenson
Arne M. Sorenson
President and Chief Executive Officer

/s/ Carl T. Berquist
Carl T. Berquist
Executive Vice President and
Chief Financial Officer