# 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, 2019**
**OR**

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

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

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

| | |
|---|---|
| **Delaware** | **52-2055918** |
| **(State or other jurisdiction of incorporation or organization)** | **(IRS Employer Identification No.)** |
| **10400 Fernwood Road Bethesda Maryland** | **20817** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(301) 380-3000**
**(Registrant's telephone number, including area code)**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of Each Class | Trading Symbol(s) | Name of Each Exchange on Which Registered |
|---|---|---|
| Class A Common Stock, $0.01 par value | MAR | Nasdaq Global Select Market |
| Class A Common Stock, $0.01 par value | MAR | Chicago Stock Exchange |

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller Reporting Company | ☐ |
| | | Emerging growth company | ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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: 326,937,219 shares of Class A Common Stock, par value $0.01 per share, outstanding at October 25, 2019.

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## PART I – FINANCIAL INFORMATION

**Item 1.** ***Financial Statements***

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2019 | September 30, 2018 | September 30, 2019 | September 30, 2018 |
| **REVENUES** | | | | |
| Base management fees | $ 291 | $ 279 | $ 882 | $ 852 |
| Franchise fees | 530 | 502 | 1,505 | 1,394 |
| Incentive management fees | 134 | 151 | 462 | 482 |
| Gross fee revenues | 955 | 932 | 2,849 | 2,728 |
| Contract investment amortization | (16) | (13) | (45) | (44) |
| Net fee revenues | 939 | 919 | 2,804 | 2,684 |
| Owned, leased, and other revenue | 393 | 397 | 1,186 | 1,226 |
| Cost reimbursement revenue | 3,952 | 3,735 | 11,611 | 11,559 |
| | 5,284 | 5,051 | 15,601 | 15,469 |
| **OPERATING COSTS AND EXPENSES** | | | | |
| Owned, leased, and other-direct | 326 | 315 | 982 | 985 |
| Depreciation, amortization, and other | 52 | 52 | 162 | 164 |
| General, administrative, and other | 220 | 221 | 671 | 685 |
| Merger-related costs and charges | 9 | 12 | 191 | 64 |
| Reimbursed expenses | 4,070 | 3,855 | 12,069 | 11,627 |
| | 4,677 | 4,455 | 14,075 | 13,525 |
| **OPERATING INCOME** | 607 | 596 | 1,526 | 1,944 |
| Gains and other income, net | 10 | 18 | 16 | 191 |
| Interest expense | (100) | (86) | (299) | (246) |
| Interest income | 8 | 5 | 20 | 16 |
| Equity in earnings | 2 | 61 | 10 | 95 |
| **INCOME BEFORE INCOME TAXES** | 527 | 594 | 1,273 | 2,000 |
| Provision for income taxes | (140) | (91) | (279) | (410) |
| **NET INCOME** | $ 387 | $ 503 | $ 994 | $ 1,590 |
| **EARNINGS PER SHARE** | | | | |
| Earnings per share - basic | $ 1.17 | $ 1.45 | $ 2.97 | $ 4.51 |
| Earnings per share - diluted | $ 1.16 | $ 1.43 | $ 2.95 | $ 4.45 |

See Notes to Condensed Consolidated Financial Statements.

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2019 | September 30, 2018 | September 30, 2019 | September 30, 2018 |
| Net income | $ 387 | $ 503 | $ 994 | $ 1,590 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments | (182) | (66) | (111) | (313) |
| Derivative instrument adjustments and other, net of tax | 8 | (1) | 6 | 7 |
| Reclassification of (income) loss, net of tax | (4) | 2 | (8) | 18 |
| Total other comprehensive income (loss), net of tax | (178) | (65) | (113) | (288) |
| Comprehensive income | $ 209 | $ 438 | $ 881 | $ 1,302 |

See Notes to Condensed Consolidated Financial Statements.

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

| | (Unaudited) September 30, 2019 | December 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and equivalents | $ 276 | $ 316 |
| Accounts and notes receivable, net | 2,394 | 2,133 |
| Prepaid expenses and other | 230 | 257 |
| | 2,900 | 2,706 |
| Property and equipment, net | 1,960 | 1,956 |
| Intangible assets | | |
| Brands | 5,908 | 5,790 |
| Contract acquisition costs and other | 2,642 | 2,590 |
| Goodwill | 8,990 | 9,039 |
| | 17,540 | 17,419 |
| Equity method investments | 580 | 732 |
| Notes receivable, net | 109 | 125 |
| Deferred tax assets | 169 | 171 |
| Operating lease assets | 955 | — |
| Other noncurrent assets | 599 | 587 |
| | $ 24,812 | $ 23,696 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities | | |
| Current portion of long-term debt | $ 227 | $ 833 |
| Accounts payable | 813 | 767 |
| Accrued payroll and benefits | 1,207 | 1,345 |
| Liability for guest loyalty program | 2,185 | 2,529 |
| Accrued expenses and other | 1,306 | 963 |
| | 5,738 | 6,437 |
| Long-term debt | 10,552 | 8,514 |
| Liability for guest loyalty program | 3,439 | 2,932 |
| Deferred tax liabilities | 291 | 485 |
| Deferred revenue | 799 | 731 |
| Operating lease liabilities | 868 | — |
| Other noncurrent liabilities | 2,287 | 2,372 |
| Shareholders' equity | | |
| Class A Common Stock | 5 | 5 |
| Additional paid-in-capital | 5,773 | 5,814 |
| Retained earnings | 9,522 | 8,982 |
| Treasury stock, at cost | (13,958) | (12,185) |
| Accumulated other comprehensive loss | (504) | (391) |
| | 838 | 2,225 |
| | $ 24,812 | $ 23,696 |

See Notes to Condensed Consolidated Financial Statements.

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

| | Nine Months Ended | |
|---|---|---|
| | September 30, 2019 | September 30, 2018 |
| **OPERATING ACTIVITIES** | | |
| Net income | $ 994 | $ 1,590 |
| Adjustments to reconcile to cash provided by operating activities: | | |
| Depreciation, amortization, and other | 207 | 208 |
| Share-based compensation | 138 | 140 |
| Income taxes | (98) | (157) |
| Liability for guest loyalty program | 163 | 415 |
| Contract acquisition costs | (140) | (110) |
| Merger-related charges | 137 | (37) |
| Working capital changes | (404) | (101) |
| Gain on asset dispositions | (15) | (191) |
| Other | 208 | 67 |
| Net cash provided by operating activities | 1,190 | 1,824 |
| **INVESTING ACTIVITIES** | | |
| Capital expenditures | (235) | (462) |
| Dispositions | 4 | 460 |
| Loan advances | (23) | (13) |
| Loan collections | 49 | 47 |
| Other | (38) | 49 |
| Net cash (used in) provided by investing activities | (243) | 81 |
| **FINANCING ACTIVITIES** | | |
| Commercial paper/Credit Facility, net | 1,177 | 1,045 |
| Issuance of long-term debt | 852 | 443 |
| Repayment of long-term debt | (621) | (391) |
| Issuance of Class A Common Stock | 7 | 4 |
| Dividends paid | (455) | (404) |
| Purchase of treasury stock | (1,828) | (2,513) |
| Share-based compensation withholding taxes | (132) | (105) |
| Other | (7) | — |
| Net cash used in financing activities | (1,007) | (1,921) |
| (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH | (60) | (16) |
| CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of period [1] | 360 | 429 |
| CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of period [1] | $ 300 | $ 413 |

[1] The 2019 amounts include beginning restricted cash of $44 million at December 31, 2018, and ending restricted cash of $24 million at September 30, 2019, which we present in the "Prepaid expenses and other" and "Other noncurrent assets" captions of our Balance Sheets.

See Notes to Condensed Consolidated Financial Statements.

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

## NOTE 1. BASIS OF PRESENTATION

The condensed consolidated financial statements present the results of operations, financial position, and cash flows of Marriott International, Inc. and subsidiaries (referred to in this report as "we," "us," "Marriott," or "the Company"). In order to make this report easier to read, we also refer throughout to (i) our Condensed Consolidated Financial Statements as our "Financial Statements," (ii) our Condensed Consolidated Statements of Income as our "Income Statements," (iii) our Condensed Consolidated Balance Sheets as our "Balance Sheets," (iv) our Condensed Consolidated Statements of Cash Flows as our "Statements of Cash Flows," (v) our properties, brands, or markets in the United States ("U.S.") and Canada as "North America" or "North American," and (vi) our properties, brands, or markets in our Caribbean and Latin America, Europe, and Middle East and Africa regions as "Other International," and together with those in our Asia Pacific segment, as "International." In addition, references throughout to numbered "Notes" refer to these Notes to Condensed Consolidated Financial Statements, unless otherwise stated.

These Financial Statements have not been audited. We have condensed or omitted certain information and disclosures normally included in financial statements presented in accordance with U.S. generally accepted accounting principles ("GAAP"). The financial statements in this report should be read in conjunction with the consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 ("2018 Form 10-K"). Certain terms not otherwise defined in this Form 10-Q have the meanings specified in our 2018 Form 10-K.

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

The accompanying Financial Statements reflect all normal and recurring adjustments necessary to present fairly our financial position as of September 30, 2019 and December 31, 2018, the results of our operations for the three and nine months ended September 30, 2019 and September 30, 2018, and cash flows for the nine months ended September 30, 2019 and September 30, 2018. As described in Part II, Item 8 of our 2018 Form 10-K, in the 2018 fourth quarter, we identified errors related to our Loyalty Program, which resulted in the understatement of cost reimbursement revenue, net of reimbursed expenses. We presented revised information for the 2018 first, second, and third quarters in our 2018 Form 10-K, and the accompanying Income Statement for the three and nine months ended September 30, 2018 reflects the revised information. 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.

The accompanying Financial Statements also reflect our adoption of ASU 2016-02. See the "New Accounting Standards Adopted" caption below for additional information.

*New Accounting Standards Adopted*

Accounting Standards Update ("ASU") No. 2016-02 - "Leases" (Topic 842). ASU 2016-02 introduces a lessee model that brings substantially all leases onto the balance sheet. Under the standard, a lessee recognizes on its balance sheet a lease liability and a right-of-use asset for most leases, including operating leases. The new standard also distinguishes leases as either finance leases or operating leases. This distinction affects how leases are measured and presented in the income statement and statement of cash flows. We adopted ASU 2016-02 in the 2019 first quarter using the modified retrospective transition method. Our accounting for finance leases remained substantially unchanged. Adoption of the standard resulted in the recording of $1,013 million of operating lease assets and $1,053 million of operating lease liabilities, as of January 1, 2019. We did not adjust our prior period Balance Sheets. Adoption of the standard did not impact our Income Statements or our Statements of Cash Flows.

When we adopted ASU 2016-02, we applied the package of practical expedients allowed by the standard, and therefore, we did not reassess:

- Whether any expired or existing contracts are or contain leases under the new definition;
- The lease classification for any expired or existing leases; or
- Whether previously capitalized costs continue to qualify as initial direct costs.

See Note 7 for disclosures required by ASU 2016-02.

**NOTE 2. ACQUISITIONS AND DISPOSITIONS**

*Acquisitions*

In the 2019 first quarter, we accelerated our option to acquire our partner's remaining interests in two joint ventures. As a result of the transaction, we recognized an indefinite-lived brand asset for AC Hotels by Marriott of $156 million and management and franchise contract assets, with a weighted-average term of 24 years, totaling $34 million.

In the 2019 fourth quarter, we purchased the W New York - Union Square, a North-American Full-Service property, for $206 million.

*Planned Acquisition*

In the 2019 fourth quarter, we announced that we reached an agreement with the board of Elegant Hotels Group plc ("Elegant") on the terms of a recommended all cash offer for Elegant, which owns and operates seven hotels and a beachfront restaurant on the island of Barbados. Under the terms of the offer, each Elegant shareholder would be entitled to receive 110 pence per Elegant share. The offer values the entire issued and to be issued ordinary share capital of Elegant at approximately £100.8 million ($130.1 million). The offer price implies an enterprise value for Elegant of approximately $199.0 million, including Elegant's total net debt as of March 31, 2019, converted at an exchange rate as of October 17, 2019. Following the acquisition, we intend to renovate the Elegant hotels and over time we expect to market them for sale subject to long-term management agreements under which we would continue to manage the hotels as all-inclusive resorts under one or more of our collection brands. Completion of the transaction is subject to satisfaction or waiver of the offer conditions set out in the offer announcement, including approval by Elegant shareholders.

*Disposition*

In the 2019 fourth quarter, we sold The St. Regis New York for $310 million. We will continue to operate the hotel under a long-term management agreement. As of September 30, 2019, we held $211 million of property, equipment, and current assets related to The St. Regis New York.

## NOTE 3. EARNINGS PER SHARE

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

| *(in millions, except per share amounts)* | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| *Computation of Basic Earnings Per Share* | | | | |
| Net income | $ 387 | $ 503 | $ 994 | $ 1,590 |
| Shares for basic earnings per share | 329.9 | 346.7 | 334.4 | 352.8 |
| Basic earnings per share | $ 1.17 | $ 1.45 | $ 2.97 | $ 4.51 |
| *Computation of Diluted Earnings Per Share* | | | | |
| Net income | $ 387 | $ 503 | $ 994 | $ 1,590 |
| Shares for basic earnings per share | 329.9 | 346.7 | 334.4 | 352.8 |
| Effect of dilutive securities | | | | |
| Share-based compensation | 2.6 | 3.9 | 2.8 | 4.3 |
| Shares for diluted earnings per share | 332.5 | 350.6 | 337.2 | 357.1 |
| Diluted earnings per share | $ 1.16 | $ 1.43 | $ 2.95 | $ 4.45 |

## NOTE 4. SHARE-BASED COMPENSATION

*RSUs and PSUs*

We granted 1.6 million restricted stock units (“RSUs”) during the 2019 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 0.1 million performance-based RSUs (“PSUs”) in the 2019 first three quarters to certain executive officers, which are earned, subject to continued employment and the satisfaction of certain performance conditions based on achievement of pre-established targets for gross room openings, Marriott Bonvoy™ loyalty member penetration, and adjusted operating income growth over, or at the end of, a three-year performance period. RSUs, including PSUs, granted in the 2019 first three quarters had a weighted average grant-date fair value of $117 per RSU.

We recorded share-based compensation expense for RSUs and PSUs of $44 million in the 2019 third quarter, $47 million in the 2018 third quarter, $130 million for the 2019 first three quarters, and $140 million for the 2018 first three quarters. Deferred compensation costs for unvested awards for RSUs and PSUs totaled $219 million at September 30, 2019 and $167 million at December 31, 2018.

## NOTE 5. INCOME TAXES

Our effective tax rate increased to 26.4 percent for the 2019 third quarter from 15.4 percent for the 2018 third quarter, primarily due to the prior year tax benefits from dispositions and lower benefits resulting from finalizing prior years’ returns.

Our effective tax rate increased to 21.9 percent for the 2019 first three quarters from 20.5 percent for the 2018 first three quarters, primarily due to the 2018 release of tax reserves, the prior year benefits from dispositions, and the non-tax deductible accrual for the loss contingency related to the Proposed ICO Fine discussed in Note 6. The increase was partially offset by a shift in earnings to jurisdictions with lower tax rates, the prior year tax expense for uncertain tax positions, and the prior year state income tax expense for the future remittance of accumulated earnings of non-U.S. subsidiaries.

We paid cash for income taxes, net of refunds, of $376 million in the 2019 first three quarters and $567 million in the 2018 first three quarters.

## NOTE 6. COMMITMENTS AND CONTINGENCIES

*Guarantees*

We present the maximum potential amount of our future guarantee fundings and the carrying amount of our liability for our debt service, operating profit, and other guarantees (excluding contingent purchase obligations) for which we are the primary obligor at September 30, 2019 in the following table:

| *($ in millions)* **Guarantee Type** | **Maximum Potential Amount of Future Fundings** | **Recorded Liability for Guarantees** |
|---|---|---|
| Debt service | $ 53 | $ 6 |
| Operating profit | 192 | 105 |
| Other | 11 | 3 |
| | $ 256 | $ 114 |

Our guarantees listed in the preceding table include $47 million of guarantees that will not be in effect until the underlying properties open and we begin to operate the properties or certain other events occur.

*Contingent Purchase Obligation*

Sheraton Grand Chicago. We granted the owner a one-time right, exercisable in 2022, to require us to purchase the leasehold interest in the land and the hotel for $300 million in cash (the "put option"). If the owner exercises the put option, we have the option to purchase, at the same time the put transaction closes, the fee simple interest in the underlying land for an additional $200 million in cash. We accounted for the put option as a guarantee, and our recorded liability at September 30, 2019 was $57 million.

*Data Security Incident*

Description of Event

On November 30, 2018, we announced a data security incident involving unauthorized access to the Starwood reservations database (the "Data Security Incident"). Working with leading security experts, we determined that there was unauthorized access to the Starwood network since 2014 and that an unauthorized party had copied information from the Starwood reservations database and taken steps towards removing it. The Starwood reservations database is no longer used for business operations.

Expenses and Insurance Recoveries

We recorded $6 million of expenses and $9 million of accrued insurance recoveries related to the Data Security Incident during the 2019 third quarter, and $198 million of expenses, partially offset by $77 million of accrued insurance recoveries, related to the Data Security Incident during the 2019 first three quarters. Expenses year-to-date primarily included the accrual for the loss contingency related to the Proposed ICO Fine discussed below, along with customer care and legal costs. We recognize insurance recoveries when they are probable of receipt and present them in our Income Statements in the same caption as the related expense, up to the amount of total expense incurred in prior and current periods. We present expenses and insurance recoveries related to the Data Security Incident in either the "Reimbursed expenses" or "Merger-related costs and charges" captions of our Income Statements.

Litigation, Claims, and Government Investigations

Following our announcement of the Data Security Incident, approximately 100 lawsuits were filed by consumers and others against us in U.S. federal, U.S. state and Canadian courts related to the incident. All of the U.S. cases have been consolidated and transferred to the U.S. District Court for the District of Maryland, pursuant to orders of the U.S. Judicial Panel on Multidistrict Litigation (MDL). The plaintiffs in the U.S. and Canadian cases, who generally purport to represent various classes of consumers or other individuals, generally claim to have been harmed by alleged actions and/or omissions by the Company in connection with the Data Security Incident and assert a variety of common law and statutory claims seeking monetary damages, injunctive relief, costs and attorneys' fees, and other related relief. Among the U.S. cases consolidated in the MDL proceeding is a putative class action lawsuit that was filed against us and certain of our current officers and directors on December 1, 2018, alleging violations of the federal securities laws in connection with statements regarding our cybersecurity systems and controls, and seeking certification of a class of affected persons, unspecified monetary damages, costs and attorneys' fees, and other related relief. The MDL proceeding also includes two shareholder derivative complaints that were filed on February 26, 2019 and March 15, 2019, respectively, against the Company, certain of its officers and certain of the members of our Board of Directors, alleging, among other claims, breach of fiduciary duty, corporate waste, unjust enrichment, mismanagement and violations of the federal securities laws, and seeking unspecified monetary damages and restitution, changes to the Company's corporate governance and internal procedures, costs and attorneys' fees, and other related relief. We dispute the allegations in the lawsuits described above and intend to defend vigorously against such claims. We have filed motions to dismiss several of the cases covered by the MDL proceeding, but the cases generally remain at an early stage. There has been some consolidation of the Canadian cases, with seven cases now pending across five provinces, and we expect there could be further consolidation in the future. In addition, in April 2019, we received a letter purportedly on behalf of a shareholder of the Company (also one of the named plaintiffs in the putative securities class action described above) demanding that our Board of Directors take action against the Company's current and certain former officers and directors to recover damages for alleged breaches of fiduciary duties and related claims arising from the Data Security Incident. The Board of Directors has constituted a demand review committee to investigate the claims made in the demand letter, and the committee has retained independent counsel to assist with the investigation. The committee's investigation is ongoing.

In addition, numerous U.S. federal, U.S. state and foreign governmental authorities are investigating, or otherwise seeking information and/or documents related to, the Data Security Incident and related matters, including Attorneys General offices from all 50 states and the District of Columbia, the Federal Trade Commission, the Securities and Exchange Commission, certain committees of the U.S. Senate and House of Representatives, the Information Commissioner's Office in the United Kingdom ("ICO") as lead supervisory authority in the European Economic Area, and regulatory authorities in various other jurisdictions. On July 9, 2019, we announced that the ICO had communicated its intent to issue a fine in the amount of £99 million against the Company in relation to the Data Security Incident (the "Proposed ICO Fine"). In the 2019 second quarter, we recorded an accrual in the amount of the Proposed ICO Fine for this loss contingency. We present the accrual (which totaled $122 million at September 30, 2019) in the "Accrued expenses and other" caption of our Balance Sheets and the related expense in the "Merger-related costs and charges" caption of our Income Statements. In late August 2019, we submitted a written response to the ICO vigorously defending our position, which we had the right to do before the amount of the fine is finally determined and the fine can be issued by the ICO. To date, we have not received from the ICO a final notice of determination or fine. Following the Data Security Incident, the ICO also notified us that it had opened an investigation into the Company's online privacy policy and related practices and an investigation into the Company's handling of data subject access requests. These investigations are separate from the ICO's investigation related to the Data Security Incident and the Proposed ICO Fine does not relate to either of these separate investigations.

While we believe it is reasonably possible that we may incur additional losses associated with the above described proceedings and investigations, it is not possible to estimate the amount of loss or range of loss, if any, in excess of the amounts already incurred that might result from adverse judgments, settlements, fines, penalties, or other resolution of these proceedings and investigations based on the stage of these proceedings and investigations, the absence of specific allegations as to alleged damages, the uncertainty as to the certification of a class or classes and the size of any certified class, if applicable, and/or the lack of resolution of significant factual and legal issues.

**NOTE 7. LEASES**

We enter into operating and finance leases primarily for hotels, offices, and equipment. Most leases have initial terms of up to 20 years and contain one or more renewals at our option, generally for five- to 10-year periods. We have generally not included these renewal periods in the lease term as it is not reasonably certain that we will exercise the renewal option. In addition, our leases generally contain fixed and variable components. The variable components of leases of land or building facilities are primarily based on operating performance of the leased property. Our lease agreements may also include non-lease components, such as common area maintenance, which we combine with the lease component to account for both as a single lease component. We calculate the present value of future payments using a discount rate equal to our incremental borrowing rate.

The following table details the composition of lease expense for the 2019 third quarter and 2019 first three quarters:

| | September 30, 2019 | |
|---|---|---|
| *($ in millions)* | **Three Months Ended** | **Nine Months Ended** |
| Operating lease cost | $ 47 | $ 138 |
| Variable lease cost | 27 | 85 |

Additionally, in the 2019 second quarter, we recorded an expense of $34 million in the “Merger-related costs and charges” caption of our Income Statements due to the impairment of a legacy-Starwood office building accounted for as a finance lease.

The following table presents our future minimum lease payments as of September 30, 2019:

| *($ in millions)* | **Operating Leases** | **Finance Leases** |
|---|---|---|
| 2019, *remaining* | $ 44 | $ 3 |
| 2020 | 172 | 13 |
| 2021 | 156 | 13 |
| 2022 | 148 | 13 |
| 2023 | 113 | 13 |
| Thereafter | 666 | 165 |
| Total minimum lease payments | $ 1,299 | $ 220 |
| Less: Amount representing interest | (300) | (61) |
| Present value of minimum lease payments | $ 999 | $ 159 |
| | | |
| Current [(1)] | 131 | 6 |
| Noncurrent [(2)] | 868 | 153 |
| | $ 999 | $ 159 |

(1) Operating leases recorded in the “Accrued expenses and other” and finance leases recorded in the “Current portion of long-term debt” captions of our Balance Sheets.

(2) Operating leases recorded in the “Operating lease liabilities” and finance leases recorded in the “Long-term debt” captions of our Balance Sheets.

As of September 30, 2019, we had entered into an agreement that we expect to account for as an operating lease with a 20-year term for our new headquarters office, which is not reflected in our Balance Sheets or in the table above as the lease has not commenced.

The following table presents additional information about our lease obligations as of September 30, 2019:

| | Operating leases | Finance leases |
|---|---|---|
| **Weighted Average Remaining Lease Term (in years)** | 11 | 15 |
| **Weighted Average Discount Rate** | 4.9% | 4.4% |

The following table presents supplemental cash flow information for the 2019 first three quarters:

| *($ in millions)* | **Nine Months Ended September 30, 2019** |
|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash outflows for operating leases | $ 133 |
| Operating cash outflows for finance leases | 5 |
| Financing cash outflows for finance leases | 4 |

## NOTE 8. LONG-TERM DEBT

We provide detail on our long-term debt balances, net of discounts, premiums, and debt issuance costs, in the following table at the end of the 2019 third quarter and year-end 2018:

| | At Period End | |
|---|---|---|
| *($ in millions)* | September 30, 2019 | December 31, 2018 |
| Senior Notes: | | |
| Series K Notes, interest rate of 3.0%, face amount of $600, matured March 1, 2019 (effective interest rate of 4.4%) | $ — | $ 600 |
| Series L Notes, interest rate of 3.3%, face amount of $350, maturing September 15, 2022 (effective interest rate of 3.4%) | 349 | 349 |
| Series M Notes, interest rate of 3.4%, face amount of $350, maturing October 15, 2020 (effective interest rate of 3.6%) | 349 | 349 |
| Series N Notes, interest rate of 3.1%, face amount of $400, maturing October 15, 2021 (effective interest rate of 3.4%) | 398 | 397 |
| Series O Notes, interest rate of 2.9%, face amount of $450, maturing March 1, 2021 (effective interest rate of 3.1%) | 449 | 448 |
| Series P Notes, interest rate of 3.8%, face amount of $350, maturing October 1, 2025 (effective interest rate of 4.0%) | 346 | 345 |
| Series Q Notes, interest rate of 2.3%, face amount of $750, maturing January 15, 2022 (effective interest rate of 2.5%) | 746 | 745 |
| Series R Notes, interest rate of 3.1%, face amount of $750, maturing June 15, 2026 (effective interest rate of 3.3%) | 744 | 743 |
| Series T Notes, interest rate of 7.2%, face amount of $181, maturing December 1, 2019 (effective interest rate of 2.3%) | 182 | 188 |
| Series U Notes, interest rate of 3.1%, face amount of $291, maturing February 15, 2023 (effective interest rate of 3.1%) | 291 | 291 |
| Series V Notes, interest rate of 3.8%, face amount of $318, maturing March 15, 2025 (effective interest rate of 2.8%) | 333 | 335 |
| Series W Notes, interest rate of 4.5%, face amount of $278, maturing October 1, 2034 (effective interest rate of 4.1%) | 291 | 292 |
| Series X Notes, interest rate of 4.0%, face amount of $450, maturing April 15, 2028 (effective interest rate of 4.2%) | 444 | 443 |
| Series Y Notes, floating rate, face amount of $550, maturing December 1, 2020 (effective interest rate of 2.7% at September 30, 2019) | 548 | 547 |
| Series Z Notes, interest rate of 4.2%, face amount of $350, maturing December 1, 2023 (effective interest rate of 4.4%) | 347 | 347 |
| Series AA Notes, interest rate of 4.7%, face amount of $300, maturing December 1, 2028 (effective interest rate of 4.8%) | 297 | 297 |
| Series BB Notes, floating rate, face amount of $300, maturing March 8, 2021 (effective interest rate of 2.8% at September 30, 2019) | 299 | — |
| Series CC Notes, interest rate of 3.6%, face amount of $550, maturing April 15, 2024 (effective interest rate of 3.9%) | 569 | — |
| Commercial paper | 3,422 | 2,245 |
| Credit Facility | — | — |
| Finance lease obligations | 159 | 163 |
| Other | 216 | 223 |
| | $ 10,779 | $ 9,347 |
| Less: Current portion of long-term debt | (227) | (833) |
| | $ 10,552 | $ 8,514 |

We paid cash for interest, net of amounts capitalized, of $247 million in the 2019 first three quarters and $204 million in the 2018 first three quarters.

In the 2019 fourth quarter, we issued $550 million aggregate principal amount of 2.125 percent Series DD Notes due October 3, 2022 (the "Series DD Notes"). We will pay interest on the Series DD Notes in April and October of each year, commencing in April 2020. In connection with the offering, we entered into interest rate swap agreements, which have the economic effect of converting the Series DD Notes into floating rate debt with a variable interest rate of one-month LIBOR plus 0.754 percent. We received net proceeds of approximately $545 million from the offering of the Series DD Notes, 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 outstanding commercial paper or other borrowings.

In the 2019 second quarter, we amended and restated our multicurrency revolving credit agreement (the "Credit Facility") to extend the maturity date of the Credit Facility and increase the aggregate amount of available borrowings to up to $4.5 billion. The available borrowings support our commercial paper program and general corporate needs. Borrowings under the Credit Facility generally bear interest at LIBOR (the London Interbank Offered Rate) plus a spread, based on our public debt rating. We also pay quarterly fees on the Credit Facility at a rate based on our public debt rating. While any outstanding commercial paper borrowings and/or borrowings under our Credit Facility generally have short-term maturities, we classify the outstanding borrowings as long-term based on our ability and intent to refinance the outstanding borrowings on a long-term basis. The Credit Facility expires on June 28, 2024. See the "Cash Requirements and Our Credit Facility" caption later in this report in the "Liquidity and Capital Resources" section of Item 2 below for further information on our Credit Facility and available borrowing capacity at September 30, 2019.

In the 2019 first quarter, we issued $300 million aggregate principal amount of LIBOR plus 0.650 percent Series BB Notes due March 8, 2021 (the "Series BB Notes") and $550 million aggregate principal amount of 3.600 percent Series CC Notes due April 15, 2024 (the "Series CC Notes"). We pay interest on the Series BB Notes in March, June, September, and December of each year, commencing in June 2019, and we pay interest on the Series CC Notes in April and October of each year, commencing in October 2019. In connection with the offering, we entered into interest rate swap agreements, which have the economic effect of converting the Series CC Notes into floating rate debt with a variable interest rate of one-month LIBOR plus 1.1205 percent. We received net proceeds of approximately $841 million from the offering of the Series BB Notes and Series CC Notes, after deducting the underwriting discount and estimated expenses, which were made available for general corporate purposes, which may include working capital, capital expenditures, acquisitions, stock repurchases, or repayment of outstanding commercial paper or other borrowings.

## NOTE 9. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

| | September 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| *($ in millions)* | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Senior, mezzanine, and other loans | $ 109 | $ 107 | $ 125 | $ 116 |
| **Total noncurrent financial assets** | $ 109 | $ 107 | $ 125 | $ 116 |
| | | | | |
| Senior Notes | $ (6,800) | $ (7,023) | $ (5,928) | $ (5,794) |
| Commercial paper | (3,422) | (3,422) | (2,245) | (2,245) |
| Other long-term debt | (177) | (185) | (184) | (182) |
| Other noncurrent liabilities | (156) | (156) | (153) | (153) |
| **Total noncurrent financial liabilities** | $ (10,555) | $ (10,786) | $ (8,510) | $ (8,374) |

See the "Fair Value Measurements" caption of Note 2. Summary of Significant Accounting Policies of our 2018 Form 10-K for more information on the input levels we use in determining fair value.

## NOTE 10. ACCUMULATED OTHER COMPREHENSIVE LOSS AND SHAREHOLDERS' EQUITY

The following tables detail the accumulated other comprehensive loss activity for the 2019 first three quarters and 2018 first three quarters:

| ($ in millions) | Foreign Currency Translation Adjustments | Derivative Instrument and Other Adjustments | Accumulated Other Comprehensive Loss |
|---|---|---|---|
| Balance at year-end 2018 | $ (403) | $ 12 | $ (391) |
| Other comprehensive (loss) income before reclassifications [1] | (111) | 6 | (105) |
| Reclassification of income | — | (8) | (8) |
| Net other comprehensive loss | (111) | (2) | (113) |
| Balance at September 30, 2019 | $ (514) | $ 10 | $ (504) |

| ($ in millions) | Foreign Currency Translation Adjustments | Derivative Instrument and Other Adjustments | Accumulated Other Comprehensive Loss |
|---|---|---|---|
| Balance at year-end 2017 | $ (23) | $ 6 | $ (17) |
| Other comprehensive (loss) income before reclassifications [1] | (313) | 7 | (306) |
| Reclassification of losses | 10 | 8 | 18 |
| Net other comprehensive (loss) income | (303) | 15 | (288) |
| Adoption of ASU 2016-01 | — | (4) | (4) |
| Balance at September 30, 2018 | $ (326) | $ 17 | $ (309) |

(1) Other comprehensive loss before reclassifications for foreign currency translation adjustments includes intra-entity foreign currency transactions that are of a long-term investment nature, which resulted in gains of $20 million for the 2019 first three quarters and $27 million for the 2018 first three quarters.

The following tables detail the changes in common shares outstanding and shareholders' equity for the 2019 first three quarters and 2018 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 |
|---|---|---|---|---|---|---|---|
| 339.1 | Balance at year-end 2018 | $ 2,225 | $ 5 | $ 5,814 | $ 8,982 | $ (12,185) | $ (391) |
| — | Adoption of ASU 2016-02 | 1 | — | — | 1 | — | — |
| — | Net income | 375 | — | — | 375 | — | — |
| — | Other comprehensive income | 31 | — | — | — | — | 31 |
| — | Dividends ($0.41 per share) | (139) | — | — | (139) | — | — |
| 1.7 | Share-based compensation plans | (62) | — | (108) | — | 46 | — |
| (6.7) | Purchase of treasury stock | (828) | — | — | — | (828) | — |
| 334.1 | Balance at March 31, 2019 | 1,603 | 5 | 5,706 | 9,219 | (12,967) | (360) |
| — | Net income | 232 | — | — | 232 | — | — |
| — | Other comprehensive income | 34 | — | — | — | — | 34 |
| — | Dividends ($0.48 per share) | (159) | — | — | (159) | — | — |
| 0.2 | Share-based compensation plans | 30 | — | 23 | — | 7 | — |
| (3.7) | Purchase of treasury stock | (500) | — | — | — | (500) | — |
| 330.6 | Balance at June 30, 2019 | 1,240 | 5 | 5,729 | 9,292 | (13,460) | (326) |
| — | Net income | 387 | — | — | 387 | — | — |
| — | Other comprehensive income | (178) | — | — | — | — | (178) |
| — | Dividends ($0.48 per share) | (157) | — | — | (157) | — | — |
| 0.1 | Share-based compensation plans | 46 | — | 44 | — | 2 | — |
| (3.8) | Purchase of treasury stock | (500) | — | — | — | (500) | — |
| 326.9 | Balance at September 30, 2019 | $ 838 | $ 5 | $ 5,773 | $ 9,522 | $ (13,958) | $ (504) |

*(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 |
|---|---|---|---|---|---|---|---|
| 359.1 | Balance at year-end 2017 (as previously reported) | $ 3,731 | $ 5 | $ 5,770 | $ 7,391 | $ (9,418) | $ (17) |
| — | Adoption of ASU 2014-09 | (149) | — | — | (149) | — | — |
| 359.1 | Balance at year-end 2017 (as adjusted) | 3,582 | 5 | 5,770 | 7,242 | (9,418) | (17) |
| — | Adoption of ASU 2016-01 | — | — | — | 4 | — | (4) |
| — | Adoption of ASU 2016-16 | 372 | — | — | 372 | — | — |
| — | Net income | 420 | — | — | 420 | — | — |
| — | Other comprehensive income | 162 | — | — | — | — | 162 |
| — | Dividends ($0.33 per share) | (118) | — | — | (118) | — | — |
| 1.3 | Share-based compensation plans | (48) | — | (85) | — | 37 | — |
| (5.6) | Purchase of treasury stock | (782) | — | — | — | (782) | — |
| 354.8 | Balance at March 31, 2018 | 3,588 | 5 | 5,685 | 7,920 | (10,163) | 141 |
| — | Net income | 667 | — | — | 667 | — | — |
| — | Other comprehensive loss | (385) | — | — | — | — | (385) |
| — | Dividends ($0.41 per share) | (145) | — | — | (145) | — | — |
| 0.1 | Share-based compensation plans | 45 | — | 43 | — | 2 | — |
| (6.2) | Purchase of treasury stock | (850) | — | — | — | (850) | — |
| 348.7 | Balance at June 30, 2018 | 2,920 | 5 | 5,728 | 8,442 | (11,011) | (244) |
| — | Net income | 503 | — | — | 503 | — | — |
| — | Other comprehensive loss | (65) | — | — | — | — | (65) |
| — | Dividends ($0.41 per share) | (141) | — | — | (141) | — | — |
| — | Share-based compensation plans | 47 | — | 45 | — | 2 | — |
| (6.7) | Purchase of treasury stock | (841) | — | — | — | (841) | — |
| 342.0 | Balance at September 30, 2018 | $ 2,423 | $ 5 | $ 5,773 | $ 8,804 | $ (11,850) | $ (309) |

## NOTE 11. CONTRACTS WITH CUSTOMERS

Our current and noncurrent Loyalty Program liability increased by $163 million, to $5,624 million at September 30, 2019, from $5,461 million at December 31, 2018, primarily reflecting an increase in points earned, partially offset by deferred revenue of $1,737 million that we recognized in the 2019 first three quarters. At each reporting period, we evaluate the estimates used in the recognition of Loyalty Program revenues, including estimates of the breakage of points that members will never redeem and the amount of funding we expect to receive over the life of the agreements with various third parties. In the 2019 first three quarters, the updated estimates resulted in a net increase in deferred revenue, and a corresponding net reduction of revenue of approximately $120 million ($90 million net of tax).

## NOTE 12. BUSINESS SEGMENTS

We are a diversified global lodging company with operations in the following reportable business segments:

- *North American Full-Service*, which includes our Luxury and Premium properties located in the U.S. and Canada;
- *North American Limited-Service*, which includes our Select properties located in the U.S. and Canada; and
- *Asia Pacific*, which includes all properties in our Asia Pacific region.

The following operating segments do not meet the applicable accounting criteria for separate disclosure as reportable business segments: Caribbean and Latin America, Europe, and Middle East and Africa. We present these operating segments together as "Other International" in the tables below.

We evaluate the performance of our operating segments using "segment profits" which is based largely on the results of the segment without allocating corporate expenses, income taxes, indirect general, administrative, and other expenses, or merger-related costs and charges. We assign gains and losses, equity in earnings or losses from our joint ventures, and direct general, administrative, and other expenses to each of our segments. "Unallocated corporate" represents a portion of our revenues, including license fees we receive from our credit card programs, fees from vacation ownership licensing agreements, revenues and expenses for our Loyalty Program, general, administrative, and other expenses, merger-related costs and charges, equity in earnings or losses, and other gains or losses that we do not allocate to our segments.

Our President and Chief Executive Officer, who is our chief operating decision maker, monitors assets for the consolidated company but does not use assets by operating segment when assessing performance or making operating segment resource allocations.

### Segment Revenues

The following tables present our revenues disaggregated by segment and major revenue stream for the 2019 third quarter, 2018 third quarter, 2019 first three quarters, and 2018 first three quarters:

| | Three Months Ended September 30, 2019 | | | | |
|---|---|---|---|---|---|
| *($ in millions)* | North American Full-Service | North American Limited-Service | Asia Pacific | Other International | Total |
| Gross fee revenues | $ 305 | $ 265 | $ 114 | $ 139 | $ 823 |
| Contract investment amortization | (9) | (4) | (1) | (2) | (16) |
| Net fee revenues | 296 | 261 | 113 | 137 | 807 |
| Owned, leased, and other revenue | 138 | 33 | 39 | 170 | 380 |
| Cost reimbursement revenue | 2,850 | 590 | 133 | 288 | 3,861 |
| Total segment revenue | $ 3,284 | $ 884 | $ 285 | $ 595 | $ 5,048 |
| Unallocated corporate | | | | | 236 |
| Total revenue | | | | | $ 5,284 |

| | Three Months Ended September 30, 2018 | | | | |
|---|---|---|---|---|---|
| *($ in millions)* | North American Full-Service | North American Limited-Service | Asia Pacific | Other International | Total |
| Gross fee revenues | $ 305 | $ 246 | $ 119 | $ 135 | $ 805 |
| Contract investment amortization | (7) | (3) | — | (3) | (13) |
| Net fee revenues | 298 | 243 | 119 | 132 | 792 |
| Owned, leased, and other revenue | 137 | 34 | 46 | 165 | 382 |
| Cost reimbursement revenue | 2,688 | 574 | 110 | 264 | 3,636 |
| Total segment revenue | $ 3,123 | $ 851 | $ 275 | $ 561 | $ 4,810 |
| Unallocated corporate | | | | | 241 |
| Total revenue | | | | | $ 5,051 |

| ($ in millions) | Nine Months Ended September 30, 2019 North American Full-Service | North American Limited-Service | Asia Pacific | Other International | Total |
|---|---|---|---|---|---|
| Gross fee revenues | $ 970 | $ 741 | $ 344 | $ 410 | $ 2,465 |
| Contract investment amortization | (25) | (10) | (2) | (8) | (45) |
| Net fee revenues | 945 | 731 | 342 | 402 | 2,420 |
| Owned, leased, and other revenue | 432 | 102 | 130 | 482 | 1,146 |
| Cost reimbursement revenue | 8,615 | 1,721 | 393 | 853 | 11,582 |
| Total segment revenue | $ 9,992 | $ 2,554 | $ 865 | $ 1,737 | $ 15,148 |
| Unallocated corporate | | | | | 453 |
| Total revenue | | | | | $ 15,601 |

| ($ in millions) | Nine Months Ended September 30, 2018 North American Full-Service | North American Limited-Service | Asia Pacific | Other International | Total |
|---|---|---|---|---|---|
| Gross fee revenues | $ 949 | $ 692 | $ 346 | $ 385 | $ 2,372 |
| Contract investment amortization | (25) | (9) | (1) | (9) | (44) |
| Net fee revenues | 924 | 683 | 345 | 376 | 2,328 |
| Owned, leased, and other revenue | 432 | 104 | 141 | 501 | 1,178 |
| Cost reimbursement revenue | 8,422 | 1,664 | 332 | 818 | 11,236 |
| Total segment revenue | $ 9,778 | $ 2,451 | $ 818 | $ 1,695 | $ 14,742 |
| Unallocated corporate | | | | | 727 |
| Total revenue | | | | | $ 15,469 |

## Segment Profits

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| ($ in millions) | September 30, 2019 | September 30, 2018 | September 30, 2019 | September 30, 2018 |
| North American Full-Service | $ 255 | $ 248 | $ 882 | $ 919 |
| North American Limited-Service | 238 | 206 | 693 | 640 |
| Asia Pacific | 81 | 106 | 276 | 358 |
| Other International | 122 | 176 | 335 | 495 |
| Unallocated corporate | (77) | (61) | (634) | (182) |
| Interest expense, net of interest income | (92) | (81) | (279) | (230) |
| Income taxes | (140) | (91) | (279) | (410) |
| Net Income | $ 387 | $ 503 | $ 994 | $ 1,590 |

## 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.

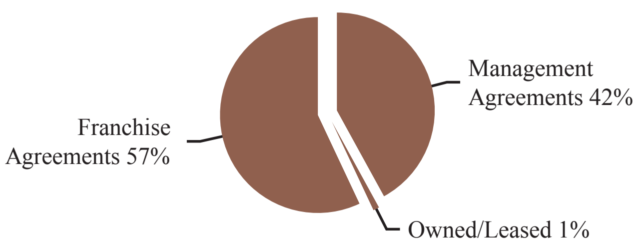
Any number of risks and uncertainties could cause actual results to differ materially from those we express in our forward-looking statements, including the risks and uncertainties we describe below and other factors we describe from time to time in our periodic filings with the U.S. Securities and Exchange 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 due to new information, future developments, or otherwise.

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

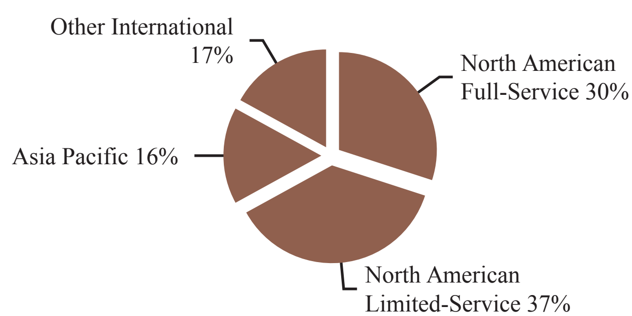
### BUSINESS AND OVERVIEW

We are a worldwide operator, franchisor, and licensor of hotel, residential, and timeshare properties in 134 countries and territories under 30 brands at the end of the 2019 third quarter. Under our asset-light business model, we typically manage or franchise hotels, rather than own them. We discuss our operations in the following reportable business segments: North American Full-Service, North American Limited-Service, and Asia Pacific. Our Europe, Middle East and Africa, and Caribbean and Latin America operating segments do not individually meet the criteria for separate disclosure as reportable segments.

**Rooms by Ownership Type at September 30, 2019**




**Rooms by Segment at September 30, 2019**




We earn base management fees and in many cases incentive management fees from the properties that we manage, and we earn franchise fees on the properties that others operate under franchise agreements with us. In most markets, base management and franchise fees typically consist of a percentage of property-level revenue, or certain property-level revenue in the case of franchise fees, while incentive management fees typically consist of a percentage of net house profit after a specified owner return. In our Middle East and Africa and Asia Pacific regions, incentive management fees typically consist of a percentage of gross operating profit without adjustment for a specified owner return. Net house profit is calculated as gross operating profit (also referred to as "house profit," which we discuss under the "Performance Measures" section below) less non-controllable expenses such as property insurance, real estate taxes, and capital spending reserves.

Our emphasis on long-term management contracts and franchising tends to provide more stable earnings in periods of economic softness, while adding new hotels to our system generates growth, typically with little or no investment by the Company. This strategy has driven substantial growth while minimizing financial leverage and risk in a cyclical industry. In addition, we believe minimizing our capital investments and adopting a strategy of recycling our investments 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"). We provide our guests new and memorable experiences through our portfolio of brands, innovative technology, personalized guest recognition, and access to travel experiences through our Marriott Bonvoy Tours & Activities program. Our brands remain strong due to our skilled management teams, dedicated associates, superior guest service with an emphasis on guest and associate satisfaction, significant distribution, Loyalty Program, multichannel reservation systems, and desirable property amenities. We strive to effectively leverage our size and broad distribution. We believe that Marriott Bonvoy (our "Loyalty Program") generates substantial repeat business that might otherwise go to competing hotels, and we strategically market to its large and growing member base to generate revenue.

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, technology offerings, and guest experiences. We address, through various means, hotels in our system that do not meet our standards. We continue to enhance the appeal of our proprietary, information-rich, and easy-to-use websites, and of our associated mobile smartphone applications, through functionality and service improvements.

Our profitability, as well as that of owners and franchisees, has benefited from our approach to property-level and above-property productivity. Managed properties in our system continue to maintain 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.

*Data Security Incident*

On November 30, 2018, we announced a data security incident involving unauthorized access to the Starwood reservations database (the "Data Security Incident"). The Starwood reservations database is no longer used for business operations.

To date, we have not seen a meaningful impact on demand as a result of the Data Security Incident.

On July 9, 2019, we announced that the ICO had communicated its intent to issue a fine in the amount of £99 million against the Company in relation to the Data Security Incident (the "Proposed ICO Fine"). See Note 6 for additional information.

We are currently unable to estimate the range of total possible financial impact to the Company from the Data Security Incident in excess of the expenses already incurred. However, we do not believe this incident will impact our long-term financial health. Although our insurance program includes coverage designed to limit our exposure to losses such as those related to the Data Security Incident, that insurance may not be sufficient or available to cover all of our expenses or other losses (including the final amount of the Proposed ICO Fine and any other fines) related to the Data Security Incident. As we expected, the cost of such insurance increased for our current policy period, and the cost of such insurance could continue to increase in future years. We expect to incur significant expenses associated with the Data Security Incident in future periods, primarily related to legal proceedings and regulatory investigations (including possible fines and penalties), increased expenses and capital investments for IT and information security and data privacy, and increased expenses for compliance activities and to meet increased legal and regulatory requirements. See Note 6 for information related to expenses incurred in the 2019 third quarter and 2019 first three quarters, insurance recoveries, and legal proceedings and governmental investigations related to the Data Security Incident.

*Acquisition of Starwood Hotels & Resorts Worldwide*

On September 23, 2016 (the "Merger Date"), we completed the acquisition of Starwood Hotels & Resorts Worldwide, LLC, formerly known as Starwood Hotels & Resorts Worldwide, Inc. ("Starwood"), through a series of transactions (the "Starwood Combination"), after which Starwood became an indirect wholly-owned subsidiary of the Company.

*Performance Measures*

We believe Revenue per Available Room ("RevPAR"), which we calculate by dividing room sales for comparable properties by room nights available for the period, is a meaningful indicator of our performance because it measures the period-over-period change in room revenues for comparable properties. RevPAR may not be comparable to similarly titled measures, such as revenues, and should not be viewed as necessarily correlating with our fee revenue. We also believe occupancy and average daily rate ("ADR"), which are components of calculating RevPAR, are meaningful indicators of our performance. Occupancy, which we calculate by dividing occupied rooms by total rooms available, measures the utilization of a property's available capacity. ADR, which we calculate by dividing property room revenue by total rooms sold, measures average room price and is useful in assessing pricing levels. Comparisons to the prior year period are on a constant U.S. dollar basis. We calculate constant dollar statistics by applying exchange rates for the current period to the prior comparable period.

We define our comparable properties as our properties that were open and operating under one of our brands since the beginning of the last full calendar year (since January 1, 2018 for the current period) and have not, in either the current or previous year: (i) undergone significant room or public space renovations or expansions, (ii) been converted between company-operated and franchised, or (iii) sustained substantial property damage or business interruption.

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

*Business Trends*

Our 2019 first three quarters results reflected a year-over-year increase in the number of properties in our system, strong demand for our brands in many markets around the world, and generally favorable economic conditions. For the three months ended September 30, 2019, comparable worldwide systemwide RevPAR increased 1.5 percent to $122.03, ADR increased 0.7 percent on a constant dollar basis to $160.02, and occupancy increased 0.6 percentage points to 76.3 percent, compared to the same period a year ago. For the nine months ended September 30, 2019, comparable worldwide systemwide RevPAR increased 1.3 percent to $118.97, ADR increased 1.1 percent on a constant dollar basis to $161.15, and occupancy increased 0.2 percentage points to 73.8 percent, compared to the same period a year ago.

In North America, RevPAR increased modestly in the 2019 first three quarters, driven by higher ADR and group business at our full-service properties and stronger demand from Marriott Bonvoy members, partially constrained by new lodging supply in certain markets and the partial shutdown of the U.S. federal government in January 2019. In our Asia Pacific segment in the 2019 first three quarters, RevPAR growth was driven by India, Indonesia, Japan, and major urban markets in Greater China, but was partially constrained by lower demand due to events in Hong Kong. Our Europe region experienced higher demand in the 2019 first three quarters, led by strong demand from U.S. travelers for hotels in the U.K. and Spain, partially constrained by comparison to strong prior year demand in Russia from the World Cup. In our Middle East and Africa region, RevPAR declined in the 2019 first three quarters due to ongoing geopolitical and economic instability and supply growth in the Middle East, partially offset by RevPAR growth in Africa. RevPAR grew across our Caribbean and Latin America region, driven by higher ADR, but was partially constrained by lower demand in Mexico, particularly in resort markets.

For our company-operated properties, we continue to focus on enhancing property-level house profit margins and making productivity improvements despite modest RevPAR growth and higher labor costs. In the 2019 first three quarters, compared to the 2018 first three quarters, North American company-operated house profit margins at comparable properties decreased by 30 basis points, primarily due to wage increases, partially offset by modest RevPAR growth and procurement, loyalty, and commission cost savings. International company-operated house profit margins at comparable properties increased by 10 basis points, primarily due to RevPAR improvements in our Asia Pacific segment and Europe region, partially offset by the impact of year-to-date RevPAR declines in our Middle East and Africa region.

*System Growth and Pipeline*

During the 2019 first three quarters, we added 343 properties (52,743 rooms) while 41 properties (6,478 rooms) exited our system, increasing our total properties to 7,205 (1,361,912 rooms). Approximately 42 percent of added rooms are located outside North America, and 18 percent of the room additions are conversions from competitor brands.

Since the end of the 2018 third quarter, we added 489 properties (76,685 rooms), while 63 properties (11,666 rooms) exited our system.

At the end of the 2019 third quarter, we had nearly 495,000 rooms in our development pipeline, which includes hotel rooms under construction, hotel rooms under signed contracts, and more than 31,000 hotel rooms approved for development but not yet under signed contracts. Approximately 214,000 rooms in our development pipeline were under construction at the end of the 2019 third quarter. Over half of the rooms in our development pipeline are outside North America.

## Properties and Rooms

At September 30, 2019, we operated, franchised, and licensed the following properties and rooms:

| | Managed | | Franchised/Licensed | | Owned/Leased | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Properties | Rooms | Properties | Rooms | Properties | Rooms | Properties | Rooms |
| North American Full-Service | 413 | 183,546 | 731 | 208,201 | 9 | 5,275 | 1,153 | 397,022 |
| North American Limited-Service | 400 | 62,951 | 3,668 | 427,139 | 20 | 3,006 | 4,088 | 493,096 |
| Asia Pacific | 638 | 185,936 | 115 | 30,312 | 2 | 410 | 755 | 216,658 |
| Other International | 597 | 130,535 | 491 | 93,894 | 32 | 8,410 | 1,120 | 232,839 |
| Timeshare | — | — | 89 | 22,297 | — | — | 89 | 22,297 |
| **Total** | 2,048 | 562,968 | 5,094 | 781,843 | 63 | 17,101 | 7,205 | 1,361,912 |

## Lodging Statistics

The following tables present RevPAR, occupancy, and ADR statistics for comparable properties. Systemwide statistics include data from our franchised properties, in addition to our company-operated properties.

**Comparable Company-Operated Properties**

| | Three Months Ended September 30, 2019 and Change vs. Three Months Ended September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | RevPAR | | Occupancy | | Average Daily Rate | |
| | 2019 | vs. 2018 | 2019 | vs. 2018 | 2019 | vs. 2018 |
| North American Full-Service [(1)] | $ 173.08 | 1.5 % | 79.1% | 0.7 % pts. | $ 218.86 | 0.6 % |
| North American Limited-Service [(2)] | $ 112.96 | (0.5)% | 77.0% | (0.4)% pts. | $ 146.77 | 0.1 % |
| North American - All [(3)] | $ 153.80 | 1.0 % | 78.4% | 0.3 % pts. | $ 196.17 | 0.6 % |
| Asia Pacific | $ 100.50 | 1.4 % | 74.4% | 2.0 % pts. | $ 135.13 | (1.3)% |
| Caribbean & Latin America | $ 110.70 | 4.9 % | 63.5% | 1.3 % pts. | $ 174.43 | 2.7 % |
| Europe | $ 178.25 | 2.2 % | 80.7% | 1.4 % pts. | $ 220.87 | 0.5 % |
| Middle East & Africa | $ 92.73 | 1.5 % | 66.4% | 2.3 % pts. | $ 139.65 | (2.1)% |
| International - All [(4)] | $ 117.74 | 1.9 % | 73.6% | 1.9 % pts. | $ 159.91 | (0.6)% |
| Worldwide [(5)] | $ 135.55 | 1.4 % | 76.0% | 1.1 % pts. | $ 178.39 | — % |

**Comparable Systemwide Properties**

| | Three Months Ended September 30, 2019 and Change vs. Three Months Ended September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | RevPAR | | Occupancy | | Average Daily Rate | |
| | 2019 | vs. 2018 | 2019 | vs. 2018 | 2019 | vs. 2018 |
| North American Full-Service [(1)] | $ 149.14 | 2.4 % | 77.0% | 0.7% pts. | $ 193.77 | 1.5 % |
| North American Limited-Service [(2)] | $ 106.57 | 0.3 % | 77.8% | —% pts. | $ 137.02 | 0.3 % |
| North American - All [(3)] | $ 124.55 | 1.3 % | 77.4% | 0.3% pts. | $ 160.85 | 1.0 % |
| Asia Pacific | $ 103.41 | 1.6 % | 74.2% | 2.0% pts. | $ 139.35 | (1.2)% |
| Caribbean & Latin America | $ 88.15 | 3.1 % | 61.2% | 0.4% pts. | $ 143.94 | 2.4 % |
| Europe | $ 156.31 | 2.1 % | 79.7% | 0.9% pts. | $ 196.06 | 1.0 % |
| Middle East & Africa | $ 88.50 | 1.6 % | 66.3% | 2.1% pts. | $ 133.55 | (1.6)% |
| International - All [(4)] | $ 115.68 | 1.9 % | 73.3% | 1.5% pts. | $ 157.83 | (0.2)% |
| Worldwide [(5)] | $ 122.03 | 1.5 % | 76.3% | 0.6% pts. | $ 160.02 | 0.7 % |

(1) Includes JW Marriott, The Ritz-Carlton, W Hotels, The Luxury Collection, St. Regis, EDITION, Marriott Hotels, Sheraton, Westin, Renaissance, Autograph Collection, Delta Hotels, Gaylord Hotels, and Le Méridien. Systemwide also includes Tribute Portfolio.

(2) Includes Courtyard, Residence Inn, Fairfield by Marriott, SpringHill Suites, TownePlace Suites, Four Points, Aloft, Element, and AC Hotels by Marriott. Systemwide also includes Moxy.

(3) Includes North American Full-Service and North American Limited-Service.

(4) Includes Asia Pacific, Caribbean & Latin America, Europe, and Middle East & Africa.

(5) Includes North American - All and International - All.

**Comparable Company-Operated Properties**

| | Nine Months Ended September 30, 2019 and Change vs. Nine Months Ended September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | RevPAR | | Occupancy | | Average Daily Rate | |
| | 2019 | vs. 2018 | 2019 | vs. 2018 | 2019 | vs. 2018 |
| North American Full-Service [(1)] | $ 175.64 | 1.1 % | 77.6% | — % pts. | $ 226.21 | 1.1 % |
| North American Limited-Service [(2)] | $ 111.73 | (0.8)% | 75.1% | (1.2)% pts. | $ 148.68 | 0.7 % |
| North American - All [(3)] | $ 155.14 | 0.6 % | 76.8% | (0.4)% pts. | $ 201.90 | 1.1 % |
| Asia Pacific | $ 100.98 | 3.0 % | 71.9% | 2.1 % pts. | $ 140.54 | — % |
| Caribbean & Latin America | $ 132.96 | 3.0 % | 65.3% | 1.0 % pts. | $ 203.54 | 1.4 % |
| Europe | $ 152.89 | 2.9 % | 74.9% | 0.9 % pts. | $ 204.05 | 1.6 % |
| Middle East & Africa | $ 102.23 | (1.1)% | 67.0% | 2.3 % pts. | $ 152.64 | (4.5)% |
| International - All [(4)] | $ 115.44 | 2.3 % | 71.2% | 1.8 % pts. | $ 162.10 | (0.3)% |
| Worldwide [(5)] | $ 135.08 | 1.4 % | 74.0% | 0.7 % pts. | $ 182.54 | 0.4 % |

**Comparable Systemwide Properties**

| | Nine Months Ended September 30, 2019 and Change vs. Nine Months Ended September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | RevPAR | | Occupancy | | Average Daily Rate | |
| | 2019 | vs. 2018 | 2019 | vs. 2018 | 2019 | vs. 2018 |
| North American Full-Service [(1)] | $ 149.04 | 1.8 % | 75.1% | — % pts. | $ 198.37 | 1.8 % |
| North American Limited-Service [(2)] | $ 102.06 | 0.1 % | 75.0% | (0.5)% pts. | $ 136.03 | 0.8 % |
| North American - All [(3)] | $ 121.90 | 1.0 % | 75.1% | (0.3)% pts. | $ 162.38 | 1.4 % |
| Asia Pacific | $ 102.83 | 3.0 % | 71.8% | 2.1 % pts. | $ 143.23 | — % |
| Caribbean & Latin America | $ 103.69 | 2.5 % | 63.1% | — % pts. | $ 164.26 | 2.6 % |
| Europe | $ 133.89 | 2.8 % | 73.8% | 0.7 % pts. | $ 181.41 | 1.8 % |
| Middle East & Africa | $ 97.25 | (0.9)% | 66.5% | 2.1 % pts. | $ 146.26 | (3.9)% |
| International - All [(4)] | $ 111.54 | 2.4 % | 70.7% | 1.4 % pts. | $ 157.86 | 0.3 % |
| Worldwide [(5)] | $ 118.97 | 1.3 % | 73.8% | 0.2 % pts. | $ 161.15 | 1.1 % |

(1) Includes JW Marriott, The Ritz-Carlton, W Hotels, The Luxury Collection, St. Regis, EDITION, Marriott Hotels, Sheraton, Westin, Renaissance, Autograph Collection, Delta Hotels, Gaylord Hotels, and Le Méridien. Systemwide also includes Tribute Portfolio.

(2) Includes Courtyard, Residence Inn, Fairfield by Marriott, SpringHill Suites, TownePlace Suites, Four Points, Aloft, Element, and AC Hotels by Marriott. Systemwide also includes Moxy.

(3) Includes North American Full-Service and North American Limited-Service.

(4) Includes Asia Pacific, Caribbean & Latin America, Europe, and Middle East & Africa.

(5) Includes North American - All and International - All.

## CONSOLIDATED RESULTS

The following discussion presents an analysis of our consolidated results of operations for the 2019 third quarter compared to the 2018 third quarter and for the 2019 first three quarters compared to the 2018 first three quarters.

### Fee Revenues

| | Three Months Ended | | | | Nine Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| *($ in millions)* | September 30, 2019 | September 30, 2018 | Change 2019 vs. 2018 | | September 30, 2019 | September 30, 2018 | Change 2019 vs. 2018 | |
| Base management fees | $ 291 | $ 279 | $ 12 | 4 % | $ 882 | $ 852 | $ 30 | 4 % |
| Franchise fees | 530 | 502 | 28 | 6 % | 1,505 | 1,394 | 111 | 8 % |
| Incentive management fees | 134 | 151 | (17) | (11)% | 462 | 482 | (20) | (4)% |
| Gross fee revenues | 955 | 932 | 23 | 2 % | 2,849 | 2,728 | 121 | 4 % |
| Contract investment amortization | (16) | (13) | 3 | 23 % | (45) | (44) | 1 | 2 % |
| Net fee revenues | $ 939 | $ 919 | $ 20 | 2 % | $ 2,804 | $ 2,684 | $ 120 | 4 % |

*Third Quarter*

The $12 million increase in base management fees primarily reflected $8 million from unit growth and $4 million from RevPAR growth.

The $28 million increase in franchise fees primarily reflected $24 million from unit growth, $6 million from AC Hotels by Marriott properties previously presented in the “Equity in earnings” caption of our Income Statements, and $5 million from RevPAR growth, partially offset by $15 million of lower residential branding fees.

The $17 million decrease in incentive management fees primarily reflected lower net house profits at North American Full-Service and North American Limited-Service managed hotels.

*First Three Quarters*

The $30 million increase in base management fees primarily reflected $24 million from unit growth, $10 million from RevPAR growth, and $6 million from AC Hotels by Marriott properties previously presented in the “Equity in earnings” caption of our Income Statements, partially offset by lower fees of $9 million from properties that were terminated and $7 million from properties that converted from managed to franchised.

The $111 million increase in franchise fees primarily reflected $66 million from unit growth, $21 million of higher co-brand credit card fees, $17 million from AC Hotels by Marriott properties previously presented in the “Equity in earnings” caption of our Income Statements, $11 million from properties that converted from managed to franchised, and $11 million from RevPAR growth, partially offset by $17 million lower residential branding fees and lower fees of $8 million from properties that were terminated.

The $20 million decrease in incentive management fees primarily reflected lower net house profits at North American Full-Service and North American Limited-Service managed hotels and $9 million from net unfavorable foreign exchange rates, partially offset by $8 million from International unit growth.

### Owned, Leased, and Other

| | Three Months Ended | | | | Nine Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| *($ in millions)* | September 30, 2019 | September 30, 2018 | Change 2019 vs. 2018 | | September 30, 2019 | September 30, 2018 | Change 2019 vs. 2018 | |
| Owned, leased, and other revenue | $ 393 | $ 397 | $ (4) | (1)% | $ 1,186 | $ 1,226 | $ (40) | (3)% |
| Owned, leased, and other - direct expenses | 326 | 315 | 11 | 3 % | 982 | 985 | (3) | — % |
| | $ 67 | $ 82 | $ (15) | (18)% | $ 204 | $ 241 | $ (37) | (15)% |

*Third Quarter*

Owned, leased, and other revenue, net of direct expenses decreased by $15 million, primarily due to $12 million of lower termination fees.

*First Three Quarters*

Owned, leased, and other revenue, net of direct expenses decreased by $37 million, primarily due to $26 million of lower termination fees and $7 million of higher other programs expenses.

### Cost Reimbursements

| | Three Months Ended | | | | Nine Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| *($ in millions)* | September 30, 2019 | September 30, 2018 | Change 2019 vs. 2018 | | September 30, 2019 | September 30, 2018 | Change 2019 vs. 2018 | |
| Cost reimbursement revenue | $ 3,952 | $ 3,735 | $ 217 | 6 % | $ 11,611 | $ 11,559 | $ 52 | —% |
| Reimbursed expenses | 4,070 | 3,855 | 215 | 6 % | 12,069 | 11,627 | 442 | 4% |
| | $ (118) | $ (120) | $ 2 | (2)% | $ (458) | $ (68) | $ (390) | 574% |

Cost reimbursement revenue, net of reimbursed expenses, varies due to timing differences between the costs we incur for centralized programs and services and the related reimbursements we receive from hotel owners and franchisees. Over the long term, our centralized programs and services are not designed to impact our economics, either positively or negatively.

*First Three Quarters*

The $390 million decrease in cost reimbursement revenue, net of reimbursed expenses, primarily reflects lower Loyalty Program revenues net of expenses, which include the change in estimates discussed in Note 11 and higher point redemption activity.

### Other Operating Expenses

| | Three Months Ended | | | | Nine Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| *($ in millions)* | September 30, 2019 | September 30, 2018 | Change 2019 vs. 2018 | | September 30, 2019 | September 30, 2018 | Change 2019 vs. 2018 | |
| Depreciation, amortization, and other | $ 52 | $ 52 | $ — | — % | $ 162 | $ 164 | $ (2) | (1)% |
| General, administrative, and other | 220 | 221 | (1) | — % | 671 | 685 | (14) | (2)% |
| Merger-related costs and charges | 9 | 12 | (3) | (25)% | 191 | 64 | 127 | 198 % |

*Third Quarter*

General, administrative, and other expenses decreased by $1 million, primarily due to $10 million lower company-funded supplemental retirement savings plan contributions, partially offset by $7 million higher litigation expenses.

*First Three Quarters*

General, administrative, and other expenses decreased by $14 million, primarily due to $47 million lower company-funded supplemental retirement savings plan contributions and $6 million of lower reserve for guarantee funding, partially offset by $14 million of higher administrative costs, $12 million higher litigation expenses, and $8 million of higher bad debt reserves.

Merger-related costs and charges increased by $127 million, primarily due to the $122 million accrual for the loss contingency related to the Proposed ICO Fine discussed in Note 6 and a $34 million impairment charge of a legacy-Starwood office building accounted for as a finance lease, partially offset by $39 million of lower integration costs.

### Non-Operating Income (Expense)

| ($ in millions) | Three Months Ended | | | | | Nine Months Ended | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | September 30, 2019 | September 30, 2018 | Change 2019 vs. 2018 | | | September 30, 2019 | September 30, 2018 | Change 2019 vs. 2018 | | |
| Gains and other income, net | $ 10 | $ 18 | $ (8) | (44)% | | $ 16 | $ 191 | $ (175) | (92)% | |
| Interest expense | (100) | (86) | 14 | 16 % | | (299) | (246) | 53 | 22 % | |
| Interest income | 8 | 5 | 3 | 60 % | | 20 | 16 | 4 | 25 % | |
| Equity in earnings | 2 | 61 | (59) | (97)% | | 10 | 95 | (85) | (89)% | |

*Third Quarter*

Gains and other income, net decreased by $8 million, primarily due to the 2018 third quarter adjustment to the gain on the sale of two Asia Pacific properties ($12 million), partially offset by the receipt of a payment for our share of the proceeds from the sale of a managed property ($9 million).

Interest expense increased by $14 million, primarily due to higher interest on Senior Note issuances, net of maturities ($14 million).

Equity in earnings decreased by $59 million, primarily due to the 2018 gain on an equity method investee's sale of a property ($55 million).

*First Three Quarters*

Gains and other income, net decreased by $175 million, primarily due to the 2018 gains on our property sales ($132 million) and the 2018 gains on the sales of our interest in four equity method investments ($46 million), partially offset by the receipt of a payment for our share of the proceeds from the sale of a managed property ($9 million).

Interest expense increased by $53 million, primarily due to higher interest on Senior Note issuances, net of maturities ($43 million) and higher commercial paper interest rates and average borrowings ($14 million).

Equity in earnings decreased by $85 million, primarily due to the 2018 gains on the sales of two properties held by equity method investees ($65 million) and lower earnings as a result of both the AC Hotels by Marriott transaction, which we discussed in Note 2, and dispositions of other investments ($16 million).

### Income Taxes

| ($ in millions) | Three Months Ended | | | | Nine Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | September 30, 2019 | September 30, 2018 | Change 2019 vs. 2018 | | September 30, 2019 | September 30, 2018 | Change 2019 vs. 2018 | |
| Provision for income taxes | $ (140) | $ (91) | $ 49 | 54% | $ (279) | $ (410) | $ (131) | (32)% |

*Third Quarter*

Provision for income taxes increased by $49 million, primarily due to the prior year tax benefits from dispositions ($22 million), lower benefits resulting from finalizing prior years' returns ($13 million), and a shift in earnings to jurisdictions with higher tax rates ($6 million).

*First Three Quarters*

Provision for income taxes decreased by $131 million, primarily due to lower operating income ($82 million), the prior year tax expense for uncertain tax positions ($30 million), a shift in earnings to jurisdictions with lower tax rates ($29 million), the prior year state income tax expense for the future remittance of accumulated earnings of non-U.S. subsidiaries ($27 million), and the prior year tax expense from dispositions ($18 million). The decrease was partially offset by the prior year release of tax reserves ($34 million), an increase in the current period's provisional estimate of tax for GILTI under the 2017 Tax Act ($11 million), and lower benefits resulting from finalizing prior years' returns ($10 million).

**BUSINESS SEGMENTS**

The following discussion presents an analysis of the operating results of our reportable business segments: North American Full-Service, North American Limited-Service, and Asia Pacific, for the 2019 third quarter compared to the 2018 third quarter and for the 2019 first three quarters compared to the 2018 first three quarters. See Note 12 for other information about each segment, including revenues and a reconciliation of segment profits to net income.

**North American Full-Service**

Since the end of the 2018 third quarter, across our North American Full-Service segment, we added 43 properties (9,391 rooms), and 11 properties (3,258 rooms) left our system.

| | Three Months Ended | | | | Nine Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| *($ in millions)* | September 30, 2019 | September 30, 2018 | Change 2019 vs. 2018 | | September 30, 2019 | September 30, 2018 | Change 2019 vs. 2018 | |
| Segment revenues | $ 3,284 | $ 3,123 | $ 161 | 5% | $ 9,992 | $ 9,778 | $ 214 | 2 % |
| Segment profits | $ 255 | $ 248 | $ 7 | 3% | $ 882 | $ 919 | $ (37) | (4)% |

*Third Quarter*

North American Full-Service segment profits increased by $7 million, primarily due to the following:

- $8 million of higher base management and franchise fees, primarily reflecting $6 million from RevPAR growth and $5 million from unit growth, partially offset by $6 million of lower residential branding fees;
- $4 million of lower general, administrative, and other expenses, primarily due to lower reserves for guarantee funding; and
- $8 million of lower incentive management fees, primarily due to lower net house profits at managed hotels.

*First Three Quarters*

North American Full-Service segment profits decreased by $37 million, primarily due to the following:

- $25 million of lower gains and other income, net, primarily reflecting the $22 million gain on the sale of two properties in 2018;
- $21 million of lower cost reimbursement revenue, net of reimbursed expenses;
- $13 million of lower equity in earnings, primarily due to the $10 million gain on an equity method investee's sale of a property in 2018;
- $10 million of lower incentive management fees, primarily due to lower net house profits at managed hotels;
- $5 million of lower owned, leased, and other revenue, net of direct expenses, primarily due to lower termination fees;
- $31 million of higher base management and franchise fees, primarily reflecting $24 million from unit growth and $15 million from RevPAR growth, partially offset by $8 million of lower residential branding fees; and
- $7 million of lower general, administrative, and other expenses, primarily due to lower reserves for guarantee funding.

### North American Limited-Service

Since the end of the 2018 third quarter, across our North American Limited-Service segment, we added 290 properties (35,457 rooms), and 27 properties (3,003 rooms) left our system.

| *($ in millions)* | Three Months Ended | | | | Nine Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | September 30, 2019 | September 30, 2018 | Change 2019 vs. 2018 | | September 30, 2019 | September 30, 2018 | Change 2019 vs. 2018 | |
| Segment revenues | $ 884 | $ 851 | $ 33 | 4% | $ 2,554 | $ 2,451 | $ 103 | 4% |
| Segment profits | $ 238 | $ 206 | $ 32 | 16% | $ 693 | $ 640 | $ 53 | 8% |

*Third Quarter*

North American Limited-Service segment profits increased by $32 million, primarily due to the following:

- $25 million of higher base management and franchise fees, primarily reflecting $16 million from unit growth and $5 million from AC Hotels by Marriott properties previously presented in the "Equity in earnings" caption of our Income Statements;
- $11 million of higher cost reimbursement revenue, net of reimbursed expenses;
- $9 million of higher gains and other income, net, primarily due to the receipt of a payment for our share of the proceeds from the sale of a managed property; and
- $6 million of lower incentive management fees, primarily driven by lower fees from a few portfolios of managed hotels.

*First Three Quarters*

North American Limited-Service segment profits increased by $53 million, primarily due to the following:

- $58 million of higher base management and franchise fees, primarily reflecting $42 million from unit growth and $13 million from AC Hotels by Marriott properties previously presented in the "Equity in earnings" caption of our Income Statements;
- $9 million of higher gains and other income, net, primarily due to the receipt of a payment for our share of the proceeds from the sale of a managed property; and
- $9 million of lower incentive management fees, primarily driven by lower fees from a few portfolios of managed hotels.

### Asia Pacific

Since the end of the 2018 third quarter, across our Asia Pacific segment, we added 72 properties (16,840 rooms), and 10 properties (3,123 rooms) left our system.

| *($ in millions)* | Three Months Ended | | | | Nine Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | September 30, 2019 | September 30, 2018 | Change 2019 vs. 2018 | | September 30, 2019 | September 30, 2018 | Change 2019 vs. 2018 | |
| Segment revenues | $ 285 | $ 275 | $ 10 | 4 % | $ 865 | $ 818 | $ 47 | 6 % |
| Segment profits | $ 81 | $ 106 | $ (25) | (24)% | $ 276 | $ 358 | $ (82) | (23)% |

*Third Quarter*

Asia Pacific segment profits decreased by $25 million, primarily due to the following:

- $16 million of lower gains and other income, net, primarily due to the 2018 third quarter adjustment to the gain on the sale of two properties;

- $12 million of lower owned, leased, and other revenue, net of direct expenses, primarily reflecting lower termination fees;
- $6 million of lower base management and franchise fees, primarily reflecting lower residential branding fees; and
- $11 million of higher cost reimbursement revenue, net of reimbursed expenses.

*First Three Quarters*

Asia Pacific segment profits decreased by $82 million, primarily due to the following:

- $69 million of lower gains and other income, net, primarily due to the $57 million gain on 2018 property sales and the $13 million gain on the sale of our interest in two equity method investments in 2018; and
- $8 million of lower owned, leased, and other revenue, net of direct expenses, primarily reflecting lower termination fees.

## SHARE-BASED COMPENSATION

See Note 4 for more information.

## NEW ACCOUNTING STANDARDS

See Note 1 for information on our adoption of new accounting standards.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Requirements and Our Credit Facility

In the 2019 second quarter, we amended and restated our multicurrency revolving credit agreement (the “Credit Facility”) to extend the maturity date of the Credit Facility and increase the aggregate amount of available borrowings to up to $4.5 billion. The available borrowings support our commercial paper program and general corporate needs. Borrowings under the Credit Facility generally bear interest at LIBOR (the London Interbank Offered Rate) plus a spread, based on our public debt rating. We also pay quarterly fees on the Credit Facility at a rate based on our public debt rating. While any outstanding commercial paper borrowings and/or borrowings under our Credit Facility generally have short-term maturities, we classify the outstanding borrowings as long-term based on our ability and intent to refinance the outstanding borrowings on a long-term basis. The Credit Facility expires on June 28, 2024.

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 EBITDA, each as defined in the Credit Facility) to not more than 4 to 1. The Credit Facility defines EBITDA as net income less cost reimbursement revenue, plus reimbursed expenses, plus the sum of interest expense, income taxes, depreciation, amortization, non-recurring non-cash charges, and extraordinary, non-recurring or unusual cash charges, expenses or losses up to a certain amount.

Our outstanding public debt does not contain a corresponding financial covenant or a requirement that we maintain certain financial ratios. We currently satisfy the covenants in our Credit Facility and public debt instruments, including the leverage covenant under the Credit Facility, and do not expect the covenants will restrict our ability to meet our anticipated borrowing and guarantee levels or increase those levels should we decide to do so in the future.

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

We issue commercial paper in the U.S. 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 reserve unused capacity under our Credit Facility to repay outstanding commercial paper borrowings if the commercial paper market is not available to us for any reason when outstanding borrowings mature. We do not expect that fluctuations in the demand for commercial paper will affect our liquidity, given our borrowing capacity under the Credit Facility.

At September 30, 2019, our available borrowing capacity amounted to $1,344 million and reflected borrowing capacity of $1,068 million under our Credit Facility and our cash balance of $276 million. We calculated that borrowing capacity by taking $4,500 million of effective aggregate bank commitments under our Credit Facility and subtracting $3,432 million of outstanding commercial paper (there being no outstanding letters of credit under our Credit Facility).

We monitor the status of the capital markets and regularly evaluate the effect that changes in capital market conditions may have on our ability to execute our announced growth plans and fund our liquidity needs. 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 carry a higher cost than commercial paper. Since we continue to have ample flexibility under the Credit Facility's covenants, we expect that undrawn bank commitments under the Credit Facility will remain available to us even if business conditions were to deteriorate markedly.

Our financial objectives include diversifying our financing sources, optimizing the mix and maturity of our long-term debt, and reducing our working capital. At the end of the 2019 third quarter, our long-term debt had a weighted average interest rate of 3.1 percent and a weighted average maturity of approximately 4.7 years. Including the effect of interest rate swaps, the ratio of fixed-rate long-term debt to total long-term debt was 0.5 to 1.0 at the end of the 2019 third quarter.

Cash, cash equivalents, and restricted cash totaled $300 million at September 30, 2019, a decrease of $60 million from year-end 2018, primarily reflecting purchase of treasury stock ($1,828 million), dividend payments ($455 million), capital expenditures ($235 million), and financing outflows for employee share-based compensation withholding taxes ($132 million). The following cash inflows partially offset these cash outflows: higher commercial paper borrowings ($1,177 million), net cash provided by operating activities ($1,190 million), and long-term debt issuances, net of repayments ($231 million).

Our ratio of current assets to current liabilities was 0.5 to 1.0 at the end of the 2019 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 $235 million in the 2019 first three quarters and $462 million in the 2018 first three quarters, a decrease of $227 million**,** primarily reflecting the 2018 acquisition of the Sheraton Phoenix Downtown. We expect spending on capital expenditures and other investments will total approximately $1,000 million to $1,100 million for the 2019 full year, including the acquisition of the W New York - Union Square and the proposed acquisition of Elegant, contract acquisition costs, equity and other investments, loan advances, and various capital expenditures (including approximately $225 million for maintenance capital spending).

Over time, we have sold hotels, both completed and under development, subject to long-term management agreements. The ability of third-party purchasers to raise the debt and equity capital necessary to acquire such properties depends in part on the perceived risks in the lodging industry and other constraints inherent in the capital markets. We monitor the status of the capital markets and regularly evaluate the potential impact of changes in capital market conditions on our business operations. In the Starwood Combination, we acquired various hotels and joint venture interests in various hotels, many of which we have sold or are seeking to sell. We have made, and expect to continue making, selective and opportunistic investments to add units to our lodging business, which may include property acquisitions and renovations (such as our 2018 acquisition of the Sheraton Phoenix Downtown, our 2019 acquisition of the W New York - Union Square, and our recently announced offer for Elegant), new construction, loans, guarantees, and noncontrolling equity investments. Over time, we seek to minimize capital invested in our business through asset sales subject to long-term management or franchise agreements.

**Share Repurchases**

We purchased 3.8 million shares of our common stock during the 2019 third quarter at an average price of $133.41 per share. As of September 30, 2019, 21.5 million shares remained available for repurchase under Board approved authorizations. For additional information, see "Issuer Purchases of Equity Securities" in Part II, Item 2.

**Dividends**

Our Board of Directors declared the following quarterly cash dividends in 2019: (1) $0.41 per share declared on February 15, 2019 and paid on March 29, 2019 to shareholders of record on March 1, 2019; (2) $0.48 per share declared on May 10, 2019 and paid on June 28, 2019 to shareholders of record on May 24, 2019; and (3) $0.48 per share declared on August 8, 2019 and paid on September 30, 2019 to shareholders of record on August 22, 2019.

**Contractual Obligations and Off-Balance Sheet Arrangements**

As of the end of the 2019 third quarter, there have been no significant changes to our "Contractual Obligations" table, "Other Commitments" table, or "Letters of Credit" paragraph in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of our 2018 Form 10-K, other than the change in debt described below.

Total debt increased $1,432 million to $10,779 million at September 30, 2019 from $9,347 million at December 31, 2018, reflecting the issuance of our Series BB and CC Notes and higher commercial paper borrowings, partially offset by the maturity of our Series K Notes. See Note 8 for more information on our total debt at September 30, 2019.

At September 30, 2019, future Transition Tax payments under the 2017 Tax Act totaled $447 million.

## 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 2018 Form 10-K. Since the date of our 2018 Form 10-K, we have made no material changes to our critical accounting policies or the methodologies or assumptions that we apply under them.

## Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

Our exposure to market risk has not materially changed since December 31, 2018.

## Item 4. *Controls and Procedures*

*Disclosure Controls and Procedures*

As of the end of the period covered by this quarterly report, we evaluated, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")). Management necessarily applied its judgment in assessing the costs and benefits of those controls and procedures, which by their nature, can provide only reasonable assurance about management's control objectives. You should note that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Based upon this evaluation, our Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were not effective because of the previously reported material weakness in internal control over financial reporting, which we describe in Part II, Item 9A of our 2018 Form 10-K.

*Remediation of Material Weakness*

We are committed to maintaining a strong internal control environment and implementing measures designed to help ensure that control deficiencies contributing to the material weakness are remediated as soon as possible. We continue to implement our remediation plan for the previously reported material weakness in internal control over financial reporting, described in Part II, Item 9A of our 2018 Form 10-K, which includes steps to increase dedicated personnel, improve reporting processes, and enhance related supporting technology. We will consider the material weakness remediated after the applicable controls operate for a sufficient period of time, and management has concluded, through testing, that the controls are operating effectively. Because of the time needed to implement these steps and test the applicable controls in operation, we do not anticipate that the material weakness will be fully remediated as of December 31, 2019.

*Changes in Internal Control Over Financial Reporting*

Other than the changes related to our remediation efforts described above, we made no changes in internal control over financial reporting during the 2019 third quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. *Legal Proceedings*

See the information under the "Litigation, Claims, and Government Investigations" caption in Note 6, which we incorporate here by reference.

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

### Item 1A. *Risk Factors*

#### Risks and Uncertainties

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

*Our industry is highly competitive, which may impact our ability to compete successfully for guests with other hotel properties and home sharing or rental services.* We operate in markets that contain many competitors. Each of our hotel brands and our home rental offering competes with major hotel chains, regional hotel chains, independent hotels, and home sharing and rental services across national and international venues. Our ability to remain competitive and 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 Program, direct booking channels, and consumer-facing technology platforms and services, from those offered by others. If we cannot compete successfully in these areas, our operating margins could contract, our market share could decrease, and our earnings could decline. Further, new lodging supply in individual markets could have a negative impact on the hotel industry and hamper our ability to increase room rates or occupancy in those markets.

*Economic downturns could impact our financial results and growth.* Weak economic conditions in one or more parts of the world, changes in oil prices and currency values, disruptions in national, regional, or global economies generally and the travel business in particular that might result from changing governmental policies in areas such as trade, travel, immigration, healthcare, and related issues, political instability in some areas, and the uncertainty over how long any of these conditions could continue, could have a negative impact on the lodging industry. Because of such uncertainty, we continue to experience weakened demand for our hotel rooms in some markets. Our future financial results and growth could be further harmed or constrained if economic or these other conditions worsen. U.S. government travel and travel associated with U.S. government operations are also a significant part of our business, and this aspect of our business has suffered and could in the future suffer due to U.S. federal spending cuts, or government hiring restrictions and any further limitations that may result from presidential or congressional action or inaction, including for example, a U.S. federal government shutdown, such as the partial shutdown that occurred in December 2018 and January 2019.

#### Risks Relating to Our Integration of Starwood

*The continued diversion of resources and management's attention to the integration of Starwood could still adversely affect our day-to-day business.* While the integration of Starwood is complete, integration-related matters still place a significant burden on our management and internal resources and may continue to do so for some time, which could have adverse effects on our business or financial results.

*Some of the anticipated benefits of combining Starwood and Marriott may still not be realized.* We decided to acquire Starwood with the expectation that the Starwood Combination would result in various benefits. Although we have already achieved substantial benefits, others remain subject to several uncertainties, including whether we can achieve certain revenue synergies.

Integration has involved and could continue to involve unexpected costs. We encountered challenges in harmonizing our different reservations and other systems, our Loyalty Program, and other business practices, and we may encounter additional or increased challenges related to integration. Because of these or other factors, we cannot assure you when or that we will be able to fully realize additional benefits from the Starwood Combination in the form of enhancing revenues or achieving other operating efficiencies, cost savings, or benefits, or that challenges encountered with our harmonization efforts will not have adverse effects on our business or reputation.

*Program changes associated with our integration efforts could have a negative effect on guest preference or behavior.* Our integration efforts involved significant changes to certain of our guest programs and services, including our Loyalty Program, co-brand credit card arrangements, and consumer-facing technology platforms and services. While we believe such changes enhance these programs and services for our guests and will drive guest preference and satisfaction, these changes remain subject to various uncertainties, including whether the changes could be negatively perceived by certain guests and consumers, could affect guest preference or could alter reservation, spending or other guest or consumer behavior, all of which could adversely affect our market share, reputation, business, financial condition, or results of operations.

**Risks Relating to Our Business**

Operational Risks

*Premature termination of our management or franchise agreements could hurt our financial performance.* Our hotel management and franchise agreements may be subject to premature termination in certain circumstances, such as the bankruptcy of a hotel owner or franchisee, or a failure under some agreements to meet specified financial or performance criteria that are subject to the risks described in this section, which we fail or elect not to cure. Some courts have also applied agency law principles and related fiduciary standards to managers of third-party hotel properties, including us (or have interpreted hotel management agreements to be "personal services contracts"). Property owners may assert the right to terminate management agreements even where the agreements provide otherwise, and some courts have upheld such assertions about our management agreements and may do so in the future. If terminations occur for these or other reasons, we may need to enforce our right to damages for breach of contract and related claims, which may cause us to incur significant legal fees and expenses. Any damages we ultimately collect could be less than the projected future value of the fees and other amounts we would have otherwise collected under the management or franchise 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, national, and regional conditions.* Because we conduct our business on a global platform, changes in global and regional economies and governmental policies impact our activities. In recent years, decreases in travel resulting from weak economic conditions, heightened travel security measures, and concerns over violence or terrorism have hurt our business. Our future performance could be similarly affected by the economic, political and security environment in each of our operating regions, the resulting unknown pace of both business and leisure travel, and any future incidents or changes in those regions.

*The growing significance of our operations outside of the U.S. makes us increasingly susceptible to the risks of doing business internationally, which could lower our revenues, increase our costs, reduce our profits, disrupt our business, or damage our reputation.* More than a third of the rooms in our system are located outside of the U.S. and its territories. We expect that our international operations, and resulting revenues, will continue to grow. This increasingly exposes us to the challenges and risks of doing business outside the U.S., many of which are outside of our control, and which could reduce our revenues or profits, increase our costs, result in significant liabilities or sanctions, disrupt our business, or damage our reputation. These challenges include: (1) compliance with complex and changing laws, regulations and government policies that may impact our operations, such as foreign ownership restrictions, import and export controls, and trade restrictions; (2) compliance with U.S. and foreign laws that affect the activities of companies abroad, such as competition laws, cybersecurity and privacy laws, currency regulations, and other laws affecting dealings with certain nations; (3) the difficulties involved in managing an organization doing business in many different countries; (4) uncertainties as to the enforceability of contract and intellectual property rights under local laws; (5) rapid changes in government policy, political or civil unrest, acts of terrorism, or the threat of international boycotts or U.S. anti-boycott legislation; and (6) currency exchange rate fluctuations, which may impact the results and cash flows of our international operations.

*Any failure by our international operations to comply with anti-corruption laws or trade sanctions could increase our costs, reduce our profits, limit our growth, harm our reputation, or subject us to broader liability.* We are subject to restrictions imposed by the U.S. Foreign Corrupt Practices Act and anti-corruption laws and regulations of other countries applicable to our operations, such as the UK Bribery Act. Anti-corruption laws and regulations generally prohibit companies and their intermediaries from making certain payments to government officials or other persons in order to influence official acts or decisions or to obtain or retain business. These laws also require us to maintain adequate internal controls and accurate books and records. We have properties in many parts of the world where corruption is common, and our compliance with anti-corruption laws may potentially conflict with local customs and practices. The compliance programs, internal controls and policies we maintain and enforce to promote compliance with applicable anti-bribery and anti-corruption laws may not prevent our associates, contractors or agents from acting in ways prohibited by these laws and regulations. We are also subject to trade sanctions administered by the U.S. Office of Foreign Assets Control and the U.S. Department of Commerce, and authorities in other countries where we do business. Our compliance programs and internal controls also may not prevent conduct that is prohibited under these rules. The U.S. or other countries may impose additional sanctions at any time against any country in which or with whom we do business. Depending on the nature of the sanctions imposed, our operations in the relevant country could be restricted or otherwise adversely affected. Any violations of anti-corruption laws and regulations or trade sanctions could result in significant civil and criminal penalties, reduce our profits, disrupt or have a material adverse effect on our business, damage our reputation, or result in lawsuits or regulatory actions being brought against the Company or its officers or directors. In addition, the operation of these laws or an imposition of further restrictions in these areas could increase our cost of operations, reduce our profits or cause us to forgo development opportunities, or cease operations in certain countries, that would otherwise support growth.

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

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

*Our new programs and new branded products may not be successful.* We cannot assure you that new or newly acquired brands, such as those we acquired as a result of the Starwood Combination, or any other new programs or products we have recently launched or may launch in the future, will be accepted by hotel owners, potential franchisees, or the traveling public or other guests. 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 those brands, programs, or products will be successful.

*Risks relating to natural or man-made disasters, contagious disease, violence, and war could reduce the demand for lodging, which may adversely affect our revenues.* So called “Acts of God,” such as hurricanes, earthquakes, tsunamis, floods, volcanic activity, wildfires, and other natural disasters, as well as man-made disasters and the potential 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 guests, have in the past caused and could in the future cause a decline in business or leisure travel and reduce demand for lodging to an extent and for durations that we are not able to predict. Actual or threatened war, terrorist activity, political unrest, civil or geopolitical strife, and other acts of violence could have a similar effect. Any one or more of these events may reduce the overall demand for lodging, limit the prices that we can obtain, or increase our operating costs, all of which could adversely affect our profits. If a terrorist event or other incident of violence were to involve one or more of our branded properties, demand for our properties in particular could suffer, which could further hurt our revenues and profits.

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

*Our business depends on the quality and reputation of our company and our brands, and any deterioration could adversely impact our market share, reputation, business, financial condition, or results of operations.* Certain events, including those that may be beyond our control, could affect the reputation of one or more of our properties or more generally impact the reputation of our brands. Many other factors also can influence our reputation and the value of our brands, including service, food quality and safety, safety of guests and associates, availability and management of scarce natural resources, supply chain management, diversity, human rights, and support for local communities. Reputational value is also based on perceptions, and broad access to social media makes it easy for anyone to provide public feedback that can influence perceptions of us, our brands and our hotels, and it may be difficult to control or effectively manage negative publicity, regardless of whether it is accurate. While reputations may take decades to build, negative incidents can quickly erode trust and confidence, particularly if they result in adverse mainstream and social media publicity, governmental investigations or penalties, or litigation. Negative incidents could lead to tangible adverse effects on our business, including lost sales, boycotts, reduced enrollment and/or participation in our Loyalty Program, disruption of access to our websites and reservation systems, loss of development opportunities, or associate retention and recruiting difficulties. Any decline in the reputation or perceived quality of our brands or corporate image could affect our market share, reputation, business, financial condition, or results of operations. The Data Security Incident could have a negative impact on our reputation, our corporate image and our relationship with our guests.

*If our brands, goodwill or other intangible assets become impaired, we may be required to record significant non-cash charges to earnings.* As of September 30, 2019, we had $17.5 billion of goodwill and other intangible assets. We review goodwill and indefinite-lived intangible assets for impairment annually or whenever events or circumstances indicate impairment may have occurred. Estimated fair values of our brands or reporting units could change if, for example, there are changes in the business climate, unanticipated changes in the competitive environment, adverse legal or regulatory actions or developments, changes in guests’ perception and the reputation of our brands, or changes in interest rates, operating cash flows, or market capitalization. Because of the significance of our goodwill and other intangible assets, any future impairment of these assets could require material non-cash charges to our results of operations, which could have a material adverse effect on our financial condition and results of operations.

*Actions by our franchisees and licensees or others could adversely affect our image and reputation.* We franchise and license many of our brand names and trademarks to third parties for lodging, timeshare, residential, and our credit card programs. Under the terms of their agreements with us, our franchisees and licensees interact directly with guests and other third parties under our brand and trade names. Our home rental offering also involves direct engagement between third-party property management companies and our guests. If these franchisees, licensees, or other companies fail to maintain or act in accordance with applicable brand standards; experience operational problems, including any data breach involving guest information or an incident involving guest or associate health or safety; or project a brand image inconsistent with ours, our image and reputation could suffer. Although our agreements with these parties provide us with recourse and remedies in the event of a breach by the franchisee, licensee, or other company, including termination of the agreements under certain circumstances, it could be expensive or time consuming for us to pursue such remedies. We also cannot assure you that in every instance a court would ultimately enforce our contractual termination rights or that we could collect any awarded damages from the defaulting franchisee, licensee, or other company.

*Collective bargaining activity and strikes could disrupt our operations, increase our labor costs, and interfere with the ability of our management to focus on executing our business strategies*. A significant number of associates at our managed, leased, and owned hotels are covered by collective bargaining agreements. If relationships with our organized associates or the unions that represent them become adverse, the properties we operate could experience labor disruptions such as strikes, lockouts, boycotts, and public demonstrations, as we saw in the fourth quarter of 2018. Although we completed contract negotiations for 43 unionized hotels in 2018 following multi-week strikes by our associates at many of those hotels and completed contract negotiations for an additional 12 unionized hotels in the 2019 first three quarters, a number of additional collective bargaining agreements are expected to be negotiated in the 2019 fourth quarter and in 2020. Labor disputes and disruptions have in the past, and could in the future, result in adverse publicity and adversely affect operations and revenues at affected hotels. In addition, labor disputes and disruptions could harm our relationship with our associates, result in increased regulatory inquiries and enforcement by governmental authorities, harm our relationships with our guests and customers, divert management attention, and reduce customer demand for our services, all of which could have an adverse effect on our reputation, business, financial condition, or results of operations.

Labor regulation and the negotiation of new or existing collective bargaining agreements could lead to higher wage and benefit costs, changes in work rules that raise operating expenses, legal costs, and limitations on our ability or the ability of our third-party property owners to take cost saving measures during economic downturns. We do not have the ability to control the negotiations of collective bargaining agreements covering unionized labor employed by our third-party property owners and franchisees. Increased unionization of our workforce, new labor legislation or changes in regulations could disrupt our operations, reduce our profitability or interfere with the ability of our management to focus on executing our business strategies.

*If we cannot attract and retain talented associates, or if we lose the services of senior executives, 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. A shortage of skilled labor could also result in higher wages that would increase our labor costs, which could reduce our profits. In addition, the efforts and abilities of our senior executives are important elements of maintaining our competitive position and driving future growth, and if we lose the services of one or more of our senior executives, we could experience challenges executing our business strategies or other adverse effects on our business.

*Damage to, or losses involving, properties that we own, manage, or franchise may not be covered by insurance, or the cost of such insurance could increase.* Marriott requires comprehensive property and liability insurance policies for our managed, leased, and owned properties with coverage features and insured limits that we believe are customary. We require managed hotel owners to procure such coverage or we procure such coverage on their behalf. We also require our franchisees to maintain similar levels of insurance. Market forces beyond our control may nonetheless limit the scope of the insurance coverage we, our hotel owners, or our franchisees can obtain, or our or their ability to obtain coverage at reasonable rates. Certain types of losses, generally of a catastrophic nature, such as earthquakes, hurricanes and floods, terrorist acts, or liabilities that result from breaches in the security of information systems, may result in high deductibles, low limits, or may be uninsurable or the cost of obtaining insurance may be unacceptably high. As a result, we, our hotel owners, and our franchisees may not be successful in obtaining insurance without increases in cost or decreases in coverage levels, or may not be successful in obtaining insurance at all. For example, in 2018 and 2019 substantial increases in property insurance costs occurred due to the severe and widespread damage caused by the 2017 Atlantic hurricane season and other natural disasters coupled with continued large global losses in the property market in 2018. Also, due to the Data Security Incident and the state of the cyber insurance market generally, the costs for our cyber security insurance increased for our policy period beginning in the 2019 third quarter, and the cost of such insurance could continue to increase in future years. Further, in the event of a substantial loss, the insurance coverage we, our hotel owners, or our franchisees carry may not be sufficient to pay the full market value or replacement cost of any lost investment or in some cases could result in certain losses being totally uninsured. As a result, we could lose some or all of any capital that we have invested in a property, as well as the anticipated future revenue from the property, and we could remain obligated for guarantees, debt, or other financial obligations for the property.

Development and Financing Risks

*While we are predominantly a manager and franchisor of hotel properties, our hotel owners depend on capital to buy, develop, and improve hotels, and our hotel owners may be unable to access capital when necessary.* Both we and current and potential hotel owners must periodically spend money to fund new hotel investments, as well as to refurbish and improve existing hotels. 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 exert little control. Obtaining financing on attractive terms may be constrained by the capital markets for hotel and real estate investments. In addition, owners of existing hotels that we franchise or manage may have difficulty meeting required debt service payments or refinancing loans at maturity.

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

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

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

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

*Development and other investing activities that involve our co-investment with third parties may result in disputes and may decrease our ability to manage risk.* We have from time to time invested, and may continue to invest, in partnerships, joint ventures, and other business structures involving our co-investment with third parties. These investments generally include some form of shared control over the development of the asset or 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, could have or develop business interests, policies, or objectives that are inconsistent with ours, could take action without our approval (or, conversely, prevent us from taking action without our partner's approval), or could make requests contrary to our policies or objectives. Should a venture partner become bankrupt we could become liable for our partner's share of the venture's liabilities. Actions by a co-venturer might subject the assets owned by the venture or partnership to additional risk, such as increased project costs, project delays, or operational difficulties following project completion. Disagreements with our venture partners may result in litigation. These risks may be more likely to occur in difficult business environments. We cannot assure you that our investments through partnerships or joint ventures will be successful in light of these risks.

*Risks associated with development and sale of residential properties associated with our lodging properties or brands may reduce our profits.* We participate, through licensing agreements or directly or through noncontrolling interests, in the development and sale of residential properties associated with our brands, including residences and condominiums under many of our luxury and premium brand names and trademarks. Such projects pose further risks beyond those generally associated with our lodging business, which may reduce our profits or compromise our brand equity, including risks that (1) weakness in residential real estate and demand generally may reduce our profits and could make it more difficult to convince future development partners of the value added by our brands; (2) increases in interest rates, reductions in mortgage availability or the tax benefits of mortgage financing or residential ownership generally, 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 or claims related to purchaser deposits, and the costs of resolving such claims may be significant.

*Some hotel openings in our development pipeline and approved projects may be delayed or not result in new hotels, which could adversely affect our growth prospects.* We report a significant number of hotels in our development pipeline, including hotels under construction and under signed contracts, as well as hotels approved for development but not yet under contract. The eventual opening of such pipeline hotels and, in particular, the approved hotels 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, increased construction costs or changes in lodging supply dynamics in individual markets. Competition for skilled construction labor and disruption in the supply chain for materials has in the past and could in the future cause construction timelines for pipeline hotels to lengthen. Accordingly, we cannot assure you that all of our development pipeline will result in new hotels entering our system, or that those hotels will open when we anticipate.

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

*If owners of hotels that we manage or franchise cannot repay or refinance mortgage loans secured by their properties, our revenues and profits could decrease and our business could be harmed.* The owners of many of our managed or franchised properties have pledged their hotels as collateral for mortgage loans that they entered into when those properties were purchased or refinanced. If those owners cannot repay or refinance maturing indebtedness on favorable terms or at all, the lenders could declare a default, accelerate the related debt, and repossess the property. Such sales or repossessions could, in some cases, result in the termination of our management or franchise agreements and eliminate our anticipated income and cash flows, which could negatively affect our results of operations.

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, property management, human resources and payroll systems, our Loyalty Program, and technologies we make available to our guests and for our associates. These technologies and systems must be refined, updated, and/or replaced with more advanced systems on a regular basis, and our business could suffer if we cannot do that as quickly or effectively as our competitors or within budgeted costs and time frames. We also may not achieve the benefits that we anticipate from any new technology or system, and a failure to do so could result in higher than anticipated costs or could impair our operating results.

*An increase in the use of third-party Internet services to book online hotel reservations could adversely impact our business.* Some of our hotel rooms are booked through Internet travel intermediaries such as Expedia.com®, Priceline.com®, Booking.com™, Travelocity.com®, and Orbitz.com®, as well as lesser-known online travel service providers. These intermediaries initially focused on leisure travel, but now also provide offerings for corporate travel and group meetings. Although our Best Rate Guarantee and Member Rate programs have helped limit guest preference shift to 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 guests, 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 guests toward their websites (a practice that has been challenged by various trademark owners in federal court). Although we have successfully limited these practices through contracts with key online intermediaries, the number of intermediaries and related companies that drive traffic to intermediaries' websites is too large to permit us to eliminate this risk entirely. Our business and profitability could be harmed if online intermediaries succeed in significantly shifting loyalties from our lodging brands to their travel services, diverting bookings away from our direct online channels, or through their fees, increase the overall cost of Internet bookings for our hotels. In addition, if we are not able to negotiate new agreements on satisfactory terms when our existing contracts with intermediaries (which generally have 2- to 3-year terms) come up for renewal, our business and prospects could be negatively impacted in a number of ways. For example, if newly negotiated agreements are on terms less favorable to our hotels than the expiring agreements, or if we are not able to negotiate new agreements and our hotels no longer appear on intermediary websites, our bookings could decline, our profits (and the operating profits of hotels in our system) could decline, and customers and owners may be less attracted to our brands. We may not be able to recapture or offset any such loss of business through actions we take to enhance our direct marketing and reservation channels or to rely on other channels or other intermediary websites.

*We are exposed to risks and costs associated with protecting the integrity and security of company, associate, and guest data.* In the operation of our business, we collect, store, use, and transmit large volumes of data regarding associates, guests, customers, owners, licensees, franchisees, and our own business operations, including credit card numbers, reservation and loyalty data, and other personal information, in various information systems that we maintain and in systems maintained by third parties, including our owners, franchisees, licensees, and service providers. The integrity and protection of this data is critical to our business. If this data is inaccurate or incomplete, we could make faulty decisions.

Our guests and associates also have a high expectation that we, as well as our owners, franchisees, licensees, and service providers, will adequately protect and appropriately use their personal information. The information, security, and privacy requirements imposed by laws and governmental regulation, our contractual obligations, and the requirements of the payment card industry are also increasingly demanding in the U.S., the European Union, Asia, and other jurisdictions where we operate. Our systems and the systems maintained or used by our owners, franchisees, licensees, and service providers may not be able to satisfy these changing legal and regulatory requirements and associate and guest expectations, or may require significant additional investments or time to do so. We may incur significant additional costs to meet these requirements, obligations, and expectations, and in the event of alleged or actual noncompliance we may experience increased operating costs, increased exposure to fines and litigation, and increased risk of damage to our reputation and brand.

*The Data Security Incident could have numerous adverse effects on our business.* As a result of the Data Security Incident, we are a party to numerous lawsuits, primarily putative class actions, brought by consumers and others in the U.S. and Canada, one securities class action lawsuit in the U.S., and two shareholder derivative lawsuits in the U.S. We may be named as a party in additional lawsuits and other claims may be asserted by or on behalf of guests, customers, hotel owners, shareholders or others seeking monetary damages or other relief. A number of federal, state and foreign governmental authorities have also made inquiries, opened investigations, or requested information and/or documents related to the Data Security Incident, including under various data protection and privacy regulations, such as the European Union's General Data Protection Regulation. Responding to and resolving these lawsuits, claims and investigations could result in material remedial and other expenses which may not be covered by insurance, including fines. For example, in July 2019 the Information Commissioner's Office in the United Kingdom ("ICO") communicated its intent to issue a fine in the amount of £99 million against the Company in relation to the Data Security Incident. In late August 2019, we submitted a written response to the ICO vigorously defending our position, which we had the right to do before the amount of the fine is finally determined and the fine can be issued by the ICO. To date, we have not received from the ICO a final notice of determination or fine, and we are unable to predict the amount of any fine the ICO may ultimately determine to issue. Governmental authorities investigating the Data Security Incident also may seek to impose undertakings, injunctive relief, consent decrees, or other civil or criminal penalties, which could, among other things, materially increase our data security costs or otherwise require us to alter how we operate our business. Card issuers or payment card networks may seek to attribute losses or other expenses to the Data Security Incident, and we cannot currently determine to what extent those losses and expenses may be our legal responsibility. Significant management time and Company resources have been, and may continue to be, devoted to the Data Security Incident. The Data Security Incident and publicity related to it could have a range of other adverse effects on our business or prospects, including causing or contributing to loss of consumer confidence, reduced consumer demand, reduced enrollment and/or participation in our Loyalty Program, loss of development opportunities, and associate retention and recruiting difficulties. These expenses and other adverse effects could have a material effect on our market share, reputation, business, financial condition, or results of operations. Although our insurance program includes coverage designed to limit our exposure to losses such as those related to the Data Security Incident, that insurance may not be sufficient or available to cover all of our expenses or other losses (including the final amount of the Proposed ICO Fine and any other fines) related to the Data Security Incident. Further, as a result of market forces beyond our control and experiences such as the Data Security Incident, relevant insurance coverage may not be available in the future on commercially reasonable terms or at all.

*Our remediation efforts related to the Data Security Incident have been and may continue to be costly and may not be effective.* Following the Data Security Incident, we implemented additional technical measures on our network designed to contain and remove the threats identified during our investigation, secure the Starwood reservations database, and monitor for any further unauthorized activity. We also accelerated ongoing security enhancements to our network. We have incurred costs in connection with these remediation and enhancement efforts to date, and we expect to incur additional significant costs as we take further steps designed to prevent unauthorized access to our network. The technical measures we have taken are based on our investigation of the causes of the Data Security Incident, but additional measures may be needed to prevent a similar incident in the future and such measures may not be sufficient to prevent other types of incidents. We cannot assure you that all potential causes of the incident have been identified and remediated and will not occur again.

*Additional cybersecurity incidents could have adverse effects on our business.* We have implemented security measures to safeguard our systems and data, and we intend to continue implementing additional measures in the future, but, as we have seen in the past, our measures may not be sufficient to maintain the confidentiality, security, or availability of the data we collect, store, and use to operate our business. Measures taken by our service providers or our owners, franchisees, licensees, and their service providers also may not be sufficient. Efforts to hack or circumvent security measures, efforts to gain unauthorized access to data, failures of systems or software to operate as designed or intended, viruses, “ransomware” or other malware, “phishing” or other types of business email compromises, operator error, or inadvertent releases of data have impacted, and may in the future impact, our information systems and records or those of our owners, franchisees, licensees, or service providers. Our reliance on computer, Internet-based, and mobile systems and communications, and the frequency and sophistication of efforts by third parties to gain unauthorized access or prevent authorized access to such systems, have greatly increased in recent years. We have experienced cyber-attacks, attempts to disrupt access to our systems and data, and attempts to affect the integrity of our data, and the frequency and sophistication of such efforts could continue to increase. Any significant theft of, unauthorized access to, loss of, loss of access to, or fraudulent use of guest, associate, owner, franchisee, licensee, or company data could adversely impact our reputation and could result in legal, regulatory and other consequences, including remedial and other expenses, fines, or litigation. Depending on the nature and scope of the event, compromises in the security of our information systems or those of our owners, franchisees, licensees, or service providers or other disruptions in data services could lead to an interruption in the operation of our systems, resulting in operational inefficiencies and a loss of profits, and could result in negative publicity and other adverse effects on our business, including lost sales, loss of consumer confidence, boycotts, reduced enrollment and/or participation in our Loyalty Program, litigation, loss of development opportunities, or associate satisfaction, retention and recruiting difficulties, all of which could materially affect our market share, reputation, business, financial condition, or results of operations. Because we have experienced cybersecurity incidents in the past, if we experience additional incidents or fail to detect and appropriately respond to additional incidents, the severity of the adverse effects on our business could be magnified. The techniques used to obtain unauthorized access, disable or degrade service, or sabotage information systems change frequently, can be difficult to detect for long periods of time, and can involve difficult or prolonged assessment or remediation periods even once detected, which could also magnify the severity of these adverse effects. Although we carry cyber/privacy liability insurance that is designed to protect us against certain losses related to cyber risks, that insurance coverage may not be sufficient to cover all expenses or other losses (including fines) or all types of claims that may arise in connection with cyber-attacks, security compromises, and other related incidents. Furthermore, in the future such insurance may not be available on commercially reasonable terms, or at all.

*Changes in privacy and data security laws could increase our operating costs, increase our exposure to fines and litigation, and adversely affect our ability to market our products effectively.* We are subject to numerous, complex, and frequently changing laws, regulations, and contractual obligations designed to protect personal information, including in the U.S., the European Union, Asia, and other jurisdictions. Non-U.S. data privacy and data security laws, various U.S. federal and state laws (such as the California Consumer Privacy Act), payment card industry security standards, and other information privacy and security standards are all applicable to us. Significant legislative or regulatory changes could be adopted in the future, including in reaction to the Data Security Incident or data breaches experienced by other companies. Compliance with changes in applicable data privacy laws and regulations (such as the California Consumer Privacy Act) and contractual obligations, including responding to investigations into our compliance, may restrict our business operations, increase our operating costs, increase our exposure to fines and litigation in the event of alleged non-compliance, and adversely affect our reputation. Following the Data Security Incident, the ICO notified us that it had opened an investigation into our online privacy policy and related practices and an investigation into the Company's handling of data subject access requests. These investigations are separate from the ICO's investigation specifically related to the Data Security Incident. As a result of these investigations, we could be exposed to significant fines and remediation costs in addition to any imposed as a result of the Data Security Incident, and adverse publicity related to the investigations could adversely affect our reputation.

Additionally, we rely on a variety of direct marketing techniques, including email marketing, online advertising, and postal mailings. Any further restrictions in laws such as the CANSPAM Act, and various U.S. state laws (such as the California Consumer Privacy Act), or new federal laws on marketing and solicitation or international privacy, e-privacy, and anti-spam 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 guests and customers from travel service providers or other companies with whom we have substantial relationships, and we market to some individuals on these lists directly or by including our marketing message in the other companies' marketing materials. If access to these lists were to be prohibited or otherwise restricted, our ability to develop new guests and customers and introduce them to our products could be impaired.

*Any disruption in the functioning of our reservation systems could adversely affect our performance and results.* We manage global reservation systems that communicate reservations to our hotels from individuals who book reservations directly with us online, through our mobile apps, through our telephone call centers, or through intermediaries like travel agents, Internet travel websites, and other distribution channels. The cost, speed, accuracy and efficiency of our reservation systems are critical aspects of our business and are important considerations for hotel owners when choosing our brands. Our business may suffer if we fail to maintain, upgrade, or prevent disruption to our reservation systems. Disruptions in or changes to our reservation systems could result in a disruption to our business and the loss of important data.

Other Risks

*Ineffective internal control over financial reporting could result in errors in our financial statements, reduce investor confidence, and adversely impact our stock price*. As discussed in Part II, Item 8 "Management's Report on Internal Control Over Financial Reporting" of our 2018 Form 10-K, in the 2018 fourth quarter, we identified a material weakness in internal control related to our accounting for our Loyalty Program, which resulted in errors in our previously issued financial statements for the 2018 first, second, and third quarters. Internal controls related to the implementation of ASU 2014-09 and the accounting for our Loyalty Program are important to accurately reflect our financial position and results of operations in our financial reports. We are in the process of remediating the material weakness and responding to requests from the SEC for documents and information related to these matters. If the additional controls and processes that we have implemented while we work to remediate the material weakness are not sufficient, or if we identify additional control deficiencies that individually or together constitute significant deficiencies or material weaknesses, our ability to accurately record, process, and report financial information and consequently, our ability to prepare financial statements within required time periods, could be adversely affected. Failure to properly remediate the material weakness or the discovery of additional control deficiencies could result in violations of applicable securities laws, stock exchange listing requirements, and the covenants under our debt agreements, subject us to litigation and investigations, negatively affect investor confidence in our financial statements, and adversely impact our stock price and ability to access capital markets.

*Changes in laws and regulations could reduce our profits or increase our costs.* We are subject to a wide variety of laws, regulations, and policies in jurisdictions around the world, including those for financial reporting, taxes, healthcare, cybersecurity, privacy, climate change, and the environment. Changes to such laws, regulations, or policies could reduce our profits. We also anticipate that many of the jurisdictions where we do business will continue to review taxes and other revenue raising measures, and any resulting changes could impose new restrictions, costs, or prohibitions on our current practices or reduce our profits. In particular, governments may revise tax laws, regulations, or official interpretations in ways that could significantly impact us, and other modifications could reduce the profits that we can effectively realize from our operations or could require costly changes to those operations or the way in which they are structured.

*We could be subject to additional tax liabilities.* We are subject to a variety of taxes in the U.S. (federal and state) and numerous foreign jurisdictions. We may recognize additional tax expense and be subject to additional tax liabilities due to changes in laws, regulations, administrative practices, principles, and interpretations related to tax, including changes to the global tax framework, competition, and other laws and accounting rules in various jurisdictions. Such changes could come about as a result of economic, political, and other conditions.

Our tax expense and liabilities may also be affected by other factors, such as changes in our business operations, acquisitions, investments, entry into new businesses and geographies, intercompany transactions, the relative amount of our foreign earnings, losses incurred in jurisdictions for which we are not able to realize related tax benefits, the applicability of special tax regimes, changes in foreign currency exchange rates, changes in our stock price, and changes in our deferred tax assets and liabilities and their valuation. Significant judgment is required in evaluating and estimating our tax expense and liabilities. In the ordinary course of our business, there are many transactions and calculations for which the ultimate tax determination is uncertain. For example, the legislation known as the U.S. Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act") requires complex computations to be performed that were not previously required by U.S. tax law, significant judgments to be made in interpretation of the provisions of the 2017 Tax Act, significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the U.S. Internal Revenue Service, and other standard-setting bodies will continue to interpret or issue guidance on how provisions of the 2017 Tax Act will be applied or otherwise administered. As future guidance is issued, we may make adjustments to amounts that we have previously recorded that may materially impact our financial statements in the period in which the adjustments are made.

We are also currently subject to tax controversies in various jurisdictions, and these jurisdictions may assess additional tax liabilities against us. Developments in an audit, investigation, or other tax controversy could have a material effect on our operating results or cash flows in the period or periods for which that development occurs, as well as for prior and subsequent periods. We regularly assess the likelihood of an adverse outcome resulting from these proceedings to determine the adequacy of our tax accruals. Although we believe our tax estimates are reasonable, the final outcome of audits, investigations, and any other tax controversies could be materially different from our historical tax accruals.

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

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

(a) Unregistered Sale of Securities

None.

(b) Use of Proceeds

None.

(c) Issuer Purchases of Equity Securities

*(in millions, except per share amounts)*

| Period | Total Number of Shares Purchased | Average Price per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [1] | Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs [1] |
|---|---|---|---|---|
| July 1, 2019 - July 31, 2019 | 1.5 | $ 140.36 | 1.5 | 23.8 |
| August 1, 2019 - August 31, 2019 | 2.1 | $ 129.02 | 2.1 | 21.7 |
| September 1, 2019 - September 30, 2019 | 0.2 | $ 127.20 | 0.2 | 21.5 |

(1) On November 9, 2017 and February 15, 2019, we announced that our Board of Directors increased our common stock repurchase authorization by 30 million shares and 25 million shares, respectively. As of September 30, 2019, 21.5 million shares remained available for repurchase under Board approved authorizations. We repurchase shares in the open market and in privately negotiated transactions.

## Item 6. ***Exhibits***

We have not filed as exhibits certain instruments defining the rights of holders of the long-term debt of Marriott pursuant to Item 601(b)(4)(iii) of Regulation S-K promulgated under the Exchange Act, because the amount of debt authorized and outstanding under each such instrument does not exceed 10 percent of the total assets of the Company and its consolidated subsidiaries. The Company agrees to furnish a copy of any such instrument to the Commission upon request.

| 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.(ii) to our Form 8-K filed August 14, 2019 (File No. 001-13881). |
| *10 | Summary of Marriott International, Inc. Director Compensation. | *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 | The following financial statements from Marriott International, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in Inline XBRL: (i) the Condensed Consolidated Statements of Income; (ii) the Condensed Consolidated Statements of Comprehensive Income; (iii) the Condensed Consolidated Balance Sheets; and (iv) the Condensed Consolidated Statements of Cash Flows. | *Submitted electronically with this report.* |
| 101.INS | XBRL Instance Document - the instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL 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.* |
| 104 | The cover page from Marriott International, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in Inline XBRL (included as Exhibit 101). | *Submitted electronically with this report.* |

* Denotes management contract or compensatory plan.

## SIGNATURE

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

MARRIOTT INTERNATIONAL, INC.
5th day of November, 2019

/s/ Bao Giang Val Bauduin

Bao Giang Val Bauduin
Controller and Chief Accounting Officer
(Duly Authorized Officer)