Hyatt Hotels Corp
Form 10-Q/A
November 01, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q/A
(Amendment No. 1)

(Mark One)

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

For the quarterly period ended September 30, 2012

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. 001-34521

HYATT HOTELS CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	20-1480589 (I.R.S. Employer Identification No.)
71 South Wacker Drive 12th Floor, Chicago, Illinois (Address of Principal Executive Offices)	60606 (Zip Code)

(312) 750-1234
(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

As of October 26, 2012, there were 45,387,810 shares of the registrant’s Class A common stock, $0.01 par value, outstanding and 118,614,584 shares of the registrant’s Class B common stock, $0.01 par value, outstanding.

EXPLANATORY NOTE

On October 31, 2012, the Company filed its Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (the “10-Q”) with the Securities and Exchange Commission. The certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed as exhibits 32.1 and 32.2 to the 10-Q referred to the incorrect quarterly period. The Company hereby files this Amendment No. 1 on Form 10-Q/A, which includes the new certifications pursuant to Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002, to correct this error. This amendment speaks as of the date of the original report and does not update or modify the disclosures therein in any way other than as described above.

HYATT HOTELS CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR THE PERIOD ENDED SEPTEMBER 30, 2012

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HYATT HOTELS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In millions of dollars, except per share amounts)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
REVENUES:				
Owned and leased hotels	$503	$470	$1,504	$1,386
Management and franchise fees	68	66	227	211
Other revenues	22	18	59	49
Other revenues from managed properties	384	343	1,159	1,062
Total revenues	977	897	2,949	2,708
DIRECT AND SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES:				
Owned and leased hotels	382	360	1,148	1,086
Depreciation and amortization	88	75	263	218
Other direct costs	8	8	21	18
Selling, general, and administrative	75	58	238	199
Other costs from managed properties	384	343	1,159	1,062
Direct and selling, general, and administrative expenses	937	844	2,829	2,583
Net gains (losses) and interest income from marketable securities held to fund operating programs	8	(15)	18	(7)
Equity earnings (losses) from unconsolidated hospitality ventures	(5)	1	(6)	6
Interest expense	(18)	(15)	(53)	(42)
Asset impairments	—	(1)	—	(2)
Other income (loss), net	(5)	(15)	12	(21)
INCOME BEFORE INCOME TAXES	20	8	91	59
(PROVISION) BENEFIT FOR INCOME TAXES	3	5	(19)	—
NET INCOME	23	13	72	59
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	—	1	—	2
NET INCOME ATTRIBUTABLE TO HYATT HOTELS CORPORATION	$23	$14	$72	$61
EARNINGS PER SHARE - Basic				
Net income	$0.14	$0.08	$0.44	$0.35
Net income attributable to Hyatt Hotels Corporation	$0.14	$0.08	$0.44	$0.36
EARNINGS PER SHARE - Diluted				
Net income	$0.14	$0.08	$0.44	$0.35
Net income attributable to Hyatt Hotels Corporation	$0.14	$0.08	$0.44	$0.36

See accompanying notes to condensed consolidated financial statements.

HYATT HOTELS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In millions of dollars)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net income	$23	$13	$72	$59
Other comprehensive income (loss), net of taxes:				
Foreign currency translation adjustments, net of income tax of $(3) and $- for the three months ended and $(2) and $3 for the nine months ended September 30, 2012 and 2011, respectively	28	(53)	23	(15)
Unrealized gains (losses) on available for sale securities, net of income tax of $- and $(2) for the three months ended and $1 and $(2) for the nine months ended September 30, 2012 and 2011, respectively	1	(2)	2	(2)
Unrealized gain on derivative activity, net of income tax of $- and $(6) for the three months ended and $- and $(5) for the nine months ended September 30, 2012 and 2011, respectively	—	(11)	—	(9)
Other comprehensive income (loss)	29	(66)	25	(26)
COMPREHENSIVE INCOME (LOSS)	52	(53)	97	33
COMPREHENSIVE LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	—	1	—	2
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO HYATT HOTELS CORPORATION	$52	$(52)	$97	$35

See accompanying notes to condensed consolidated financial statements.

HYATT HOTELS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions of dollars, except per share amounts)
(Unaudited)

	September 30, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$446	$534
Restricted cash	49	27
Short-term investments	542	588
Receivables, net of allowances of $9 and $10 at September 30, 2012 and December 31, 2011, respectively	542	225
Inventories	82	87
Prepaids and other assets	63	78
Prepaid income taxes	24	29
Deferred tax assets	54	23
Assets held for sale	74	—
Total current assets	1,876	1,591
Investments	298	280
Property and equipment, net	4,109	4,043
Financing receivables, net of allowances	132	360
Goodwill	134	102
Intangibles, net	378	359
Deferred tax assets	216	197
Other assets	593	575
TOTAL ASSETS	$7,736	$7,507
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$4	$4
Accounts payable	113	144
Accrued expenses and other current liabilities	362	306
Accrued compensation and benefits	131	114
Liabilities held for sale	3	—
Total current liabilities	613	568
Long-term debt	1,219	1,221
Other long-term liabilities	999	890
Total liabilities	2,831	2,679
Commitments and contingencies (see Note 12)		
EQUITY:		
Preferred stock, $0.01 par value per share, 10,000,000 shares authorized and none outstanding as of September 30, 2012 and December 31, 2011	—	—
Class A common stock, $0.01 par value per share, 1,000,000,000 shares authorized, 46,233,680 outstanding and 46,269,953 issued at September 30, 2012, Class B common stock, $0.01 par value per share, 451,472,717 shares authorized, 118,614,584 shares issued and outstanding at September 30, 2012 and Class A common stock, $0.01 par value per share, 1,000,000,000 shares authorized, 44,683,934 outstanding and 44,720,207 issued at December 31, 2011, Class B common stock, $0.01 par value per share, 452,472,717 shares	2	2

authorized, 120,478,305 shares issued and outstanding at December 31, 2011		
Additional paid-in capital	3,360	3,380
Retained earnings	1,589	1,517
Treasury stock at cost, 36,273 shares at September 30, 2012 and December 31, 2011	(1)	(1)
Accumulated other comprehensive loss	(55)	(80)
Total stockholders’ equity	4,895	4,818
Noncontrolling interests in consolidated subsidiaries	10	10
Total equity	4,905	4,828
TOTAL LIABILITIES AND EQUITY	$7,736	$7,507

See accompanying notes to condensed consolidated financial statements.

HYATT HOTELS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions of dollars)
(Unaudited)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$72	$59
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	263	218
Deferred income taxes	(18)	(13)
Asset impairments	—	2
Provisions on hotel loans	—	4
Equity losses from unconsolidated hospitality ventures, including distributions received	21	9
Foreign currency losses	3	4
Loss on sale of real estate	—	2
Realized gains from other marketable securities	(9)	—
Net unrealized (gains) losses from other marketable securities	(8)	19
Working capital changes and other	42	34
Net cash provided by operating activities	366	338
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities and short-term investments	(283)	(241)
Proceeds from marketable securities and short-term investments	351	231
Contributions to investments	(52)	(31)
Proceeds from sale of investments	52	—
Acquisitions, net of cash acquired	(180)	(688)
Capital expenditures	(210)	(216)
Issuance of notes receivable	(53)	(2)
Proceeds from sales of real estate	—	90
Real estate sale proceeds transferred to escrow as restricted cash	—	(35)
Proceeds from sale of assets held for sale	—	18
Real estate sale proceeds transferred from escrow to cash and cash equivalents	—	132
Increase in restricted cash - investing	(19)	(55)
Other investing activities	(25)	(8)
Net cash used in investing activities	(419)	(805)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt, net of issuance costs	—	519
Repayments of long-term debt	—	(54)
Repurchase of common stock	(33)	(396)
Other financing activities	3	(13)
Net cash provided by (used in) financing activities	(30)	56
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(5)	(9)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(88)	(420)
CASH AND CASH EQUIVALENTS—BEGINNING OF YEAR	534	1,110
CASH AND CASH EQUIVALENTS—END OF PERIOD	$446	$690
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$64	$45

Cash paid during the period for income taxes	$37	$35
Non-cash investing activities are as follows:		
Equity contribution of property and equipment, net	$—	$10
Equity contribution of long-term debt	$—	$25
Change in accrued capital expenditures	$(35)	$16
Contribution to investment (see Note 3)	$—	$20
Acquired capital leases	$—	$7

See accompanying notes to condensed consolidated financial statements.

HYATT HOTELS CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(amounts in millions of dollars, unless otherwise indicated)
(Unaudited)

1. ORGANIZATION

Hyatt Hotels Corporation, a Delaware corporation, and its consolidated subsidiaries (“Hyatt Hotels Corporation”) provide hospitality services on a worldwide basis through the management, franchising and ownership of hospitality related businesses. As of September 30, 2012, we operated or franchised 250 full service hotels consisting of 104,239 rooms, in 45 countries throughout the world. We hold ownership interests in certain of these hotels. As of September 30, 2012, we operated or franchised 223 select service hotels with 29,560 rooms in the United States. We hold ownership interests in certain of these hotels. We develop, operate, manage, license or provide services to Hyatt-branded timeshare, fractional and other forms of residential or vacation properties.

As used in these Notes and throughout this Quarterly Report on Form 10-Q, the terms “Company,” “HHC,” “we,” “us,” or “ou mean Hyatt Hotels Corporation and its consolidated subsidiaries.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information or footnotes required by GAAP for complete annual financial statements. As a result, this Quarterly Report on Form 10-Q should be read in conjunction with the Consolidated Financial Statements and accompanying Notes in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (the “2011 Form 10-K”).

We have eliminated all intercompany transactions in our condensed consolidated financial statements. We consolidate entities for which we either have a controlling financial interest or are considered to be the primary beneficiary. Management believes that the accompanying condensed consolidated financial statements reflect all adjustments, which are all of a normal recurring nature, considered necessary for a fair presentation of the interim periods.

2. RECENTLY ISSUED ACCOUNTING STANDARDS

Adopted Accounting Standards

Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU 2011-04 is intended to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards. The amendments in ASU 2011-04 clarify the intent of the Financial Accounting Standards Board ("FASB") with regard to the application of existing fair value measurement requirements and change some requirements for measuring or disclosing information about fair value measurements. The provisions of ASU 2011-04 became effective for public companies in the first reporting period beginning after December 15, 2011. The adoption of ASU 2011-04 enhanced the disclosure of the fair value of certain financial assets and liabilities that are not required to be recorded at fair value within our financial statements. See Note 4 for discussion of fair value.

In June 2011, the FASB released Accounting Standards Update No. 2011-05 (“ASU 2011-05”), Comprehensive Income (Topic 220): Presentation of Comprehensive Income. ASU 2011-05 requires companies to present total comprehensive income, the components of net income, and the components of other comprehensive income in either a continuous statement or in two separate but consecutive statements. The amendments of ASU 2011-05 eliminate the option for companies to present the components of other comprehensive income within the statement of changes of stockholders' equity. The provisions of ASU 2011-05 became effective for public companies in fiscal years beginning after December 15, 2011. The adoption of ASU 2011-05 changed our presentation of comprehensive income.

In September 2011, the FASB released Accounting Standards Update No. 2011-08 (“ASU 2011-08”), Intangibles-Goodwill and Other (Topic 350): Testing for Goodwill Impairment. ASU 2011-08 gives companies the option to perform a qualitative assessment before calculating the fair value of the reporting unit. Under the guidance in ASU 2011-08, if this option is selected, a company is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The provisions of ASU 2011-08 became effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, but early adoption was permitted. We adopted ASU 2011-08 during the quarter ended March 31, 2012, but since our annual goodwill impairment test is not performed until the fourth quarter we did not apply its provisions during the nine months ended September 30, 2012. We do not expect ASU 2011-08 to materially impact our condensed consolidated financial statements.

In December 2011, the FASB released Accounting Standards Update No. 2011-12 ("ASU 2011-12"), Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. ASU 2011-12 defers only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The provisions of ASU 2011-12 became effective for public companies in fiscal years beginning after December 15, 2011. The adoption of ASU 2011-12 did not materially impact our condensed consolidated financial statements.

Future Adoption of Accounting Standards

In December 2011, the FASB released Accounting Standards Update No. 2011-10 ("ASU 2011-10"), Property, Plant and Equipment (Topic 360): Derecognition of in Substance Real Estate-a Scope Clarification (a consensus of the FASB Emerging Issues Task Force). ASU 2011-10 clarifies when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt, the reporting entity should apply the guidance for Real Estate Sale (Subtopic 360-20). The provisions of ASU 2011-10 become effective for public companies for fiscal years and interim periods within those years, beginning on or after June 15, 2012. The adoption of ASU 2011-10 is not expected to materially impact our condensed consolidated financial statements.

In December 2011, the FASB released Accounting Standards Update No. 2011-11 ("ASU 2011-11"), Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. ASU 2011-11 requires companies to provide new disclosures about offsetting and related arrangements for financial instruments and derivatives. The provisions of ASU 2011-11 are effective for annual reporting periods beginning on or after January 1, 2013, and are required to be applied retrospectively. When adopted, ASU 2011-11 is not expected to materially impact our condensed consolidated financial statements.

In July 2012, the FASB released Accounting Standards Update No. 2012-02 ("ASU 2012-02"), Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. ASU 2012-02 gives companies the option to perform a qualitative assessment before calculating the fair value of the indefinite-lived intangible asset. Under the guidance in ASU 2012-02, if this option is selected, a company is not required to calculate the fair value of the indefinite-lived intangible unless the entity determines it is more likely than not that its fair value is less than its carrying amount. The provisions of ASU 2012-02 are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, but early adoption is permitted. We have elected not to early adopt the provisions of ASU 2012-02, but when adopted, we do not expect ASU 2012-02 to materially impact our condensed consolidated financial statements.

3. EQUITY AND COST METHOD INVESTMENTS

We have investments that are recorded under both the equity and cost methods of accounting. These investments are considered to be an integral part of our business and are strategically and operationally important to our overall results. Our equity and cost method investment balances recorded at September 30, 2012 and December 31, 2011 are as follows:

	September 30, 2012	December 31, 2011
Equity method investments	$225	$207
Cost method investments	73	73
Total investments	$298	$280

During the three months ended September 30, 2012, we sold our interest in two joint ventures classified as equity method investments, which were included in our owned and leased segment, to a third party for $52 million. Each venture owns a hotel that we currently manage. At the time of the sale we signed agreements with the third party purchaser to extend our existing management agreements for the hotels owned by the ventures by ten years. A $28 million pre-tax gain on the sale will be deferred and amortized over the life of the extended management agreements. During the nine months ended September 30, 2012, we invested $45 million in a joint venture, which is classified as an equity method investment, to develop, own and operate a hotel property in the State of Hawaii.

During the nine months ended September 30, 2011, we contributed $20 million to a newly formed joint venture with Noble Investment Group ("Noble") in return for a 40% ownership interest in the venture (see Note 6). In addition, the Company and Noble agreed to invest in the strategic new development of select service hotels in the United States. Under that agreement, we are required to contribute up to a maximum of 40% of the equity necessary to fund up to $80 million (i.e. $32 million) of such new development.

During the three months ended September 30, 2012 there were no impairments related to our equity method investments. During the nine months ended September 30, 2012 we recorded $1 million in impairment charges in equity earnings (losses) from unconsolidated hospitality ventures related to a vacation ownership property.

Income from cost method investments included in our condensed consolidated statements of income for the three and nine months ended September 30, 2012 and 2011 was insignificant.

The following table presents summarized financial information for all unconsolidated ventures in which we hold an investment that is accounted for under the equity method.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Total revenues	$268	$244	$762	$712
Gross operating profit	93	83	246	230
Income from continuing operations	11	16	14	39
Net income	11	16	14	39

4. FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). GAAP establishes a valuation hierarchy for prioritizing the inputs and the hierarchy places greater emphasis on the use of observable market inputs and less emphasis on unobservable inputs. When determining fair value, an entity is required to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of the hierarchy are as follows:

Level One—Fair values based on unadjusted quoted prices in active markets for identical assets and liabilities;

Level Two—Fair values based on quoted market prices for similar assets and liabilities in active markets, quoted prices in inactive markets for identical assets and liabilities, and inputs other than quoted market prices that are observable for the asset or liability;

Level Three—Fair values based on inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. Valuation techniques could include the use of discounted cash flow models and similar techniques.

We have various financial instruments that are measured at fair value including certain marketable securities and derivative instruments. We currently do not have non-financial assets or non-financial liabilities that are required to be measured at fair value on a recurring basis.

We utilize the market approach and income approach for valuing our financial instruments. The market approach utilizes prices and information generated by market transactions involving identical or similar assets and liabilities and the income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). For instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the classification of fair value assets and liabilities within the fair value hierarchy.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of September 30, 2012 and December 31, 2011, we had the following financial assets and liabilities measured at fair value on a recurring basis:

	September 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level One)	Significant Other Observable Inputs (Level Two)	Significant Unobservable Inputs (Level Three)
Marketable securities included in short-term investments, prepaids and other assets and other assets				
Mutual funds	$271	$ 271	$—	$—
Equity securities	9	9	—	—
U.S. government obligations	108	—	108	—
U.S. government agencies	80	—	80	—
Corporate debt securities	559	—	559	—
Mortgage-backed securities	21	—	21	—
Asset-backed securities	10	—	10	—
Municipal and provincial notes and bonds	14	—	14	—
Marketable securities recorded in cash and cash equivalents				
Interest bearing money market funds	89	89	—	—
Derivative instruments				
Interest rate swaps	2	—	2	—
Foreign currency forward contracts	(4)	—	(4)	—

	December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level One)	Significant Other Observable Inputs (Level Two)	Significant Unobservable Inputs (Level Three)
Marketable securities included in short-term investments, prepaids and other assets and other assets				
Mutual funds	$242	$ 242	$—	$—
Equity securities	35	35	—	—
U.S. government obligations	102	—	102	—
U.S. government agencies	132	—	132	—
Corporate debt securities	487	—	487	—
Mortgage-backed securities	23	—	21	2
Asset-backed securities	7	—	7	—
Municipal and provincial notes and bonds	14	—	14	—
Marketable securities recorded in cash and cash equivalents				
Interest bearing money market funds	60	60	—	—
Derivative instruments				

Interest rate swaps	7	—	7	—
Foreign currency forward contracts	(1)	—	(1)	—

During the three and nine months ended September 30, 2012, there were no transfers between levels of the fair value hierarchy. During the three and nine months ended September 30, 2011, we transferred an equity security

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from Level Two to Level One and there were no transfers in and out of Level Three of the fair value hierarchy. Our policy is to recognize transfers in and transfers out as of the end of each quarterly reporting period.

Marketable Securities

We hold marketable securities to fund certain operating programs and for investment purposes. Our portfolio of marketable securities consists of various types of U.S. Treasury securities, mutual funds, common stock, and fixed income securities, including government agencies, municipal, provincial and corporate bonds. The fair value of our mutual funds and certain equity securities were classified as Level One as they trade with sufficient frequency and volume to enable us to obtain pricing information on an ongoing basis. The remaining securities, except for certain mortgage-backed securities at December 31, 2011, were classified as Level Two due to the use and weighting of multiple market inputs being considered in the final price of the security. Market inputs include quoted market prices from active markets for identical securities, quoted market prices for identical securities in inactive markets, and quoted market prices in active and inactive markets for similar securities.

We invest a portion of our cash balance into short-term interest bearing money market funds that have a maturity of less than ninety days. Consequently, the balances are recorded in cash and cash equivalents. The funds are held with open-ended registered investment companies and the fair value of the funds is classified as Level One as we are able to obtain market available pricing information on an ongoing basis.

Included in our portfolio of marketable securities are investments in debt and equity securities classified as available for sale. At September 30, 2012 and December 31, 2011 these were as follows:

	September 30, 2012			
	Cost or Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Corporate debt securities	$462	$7	$(7)	$462
U.S. government agencies and municipalities	41	—	—	41
Equity securities	9	—	—	9
Total	$512	$7	$(7)	$512

	December 31, 2011			
	Cost or Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Corporate debt securities	$406	$5	$(5)	$406
U.S. government agencies and municipalities	93	—	—	93
Equity securities	9	—	(2)	7
Total	$508	$5	$(7)	$506

Gross realized gains and losses on available for sale securities were insignificant for the three and nine months ended September 30, 2012 and 2011.

The table below summarizes available for sale fixed maturity securities by contractual maturity at September 30, 2012. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Securities not due at a single date are allocated based on weighted average life. Although a portion of our available for sale fixed maturity securities mature after one year, we have chosen to classify the entire portfolio as current. The portfolio's objectives are to preserve capital, provide liquidity to satisfy operating requirements, working capital purposes and strategic initiatives and capture a market rate of return. Therefore, since these securities represent funds available for current operations, the entire investment portfolio is classified as current assets.

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	September 30, 2012	
Contractual Maturity	Cost or Amortized Cost	Fair Value
Due in one year or less	$300	$300
Due in one to two years	203	203
Total	$503	$503

The impact to net income from total gains or losses included in net gains (losses) and interest income from marketable securities held to fund operating programs due to the change in unrealized gains or losses relating to assets still held at the reporting date for the three and nine months ended September 30, 2012 and 2011 were insignificant.

Derivative Instruments

Our derivative instruments are foreign currency exchange rate instruments and interest rate swaps. The instruments are valued using an income approach with factors such as interest rates and yield curves, which represent market observable inputs and are generally classified as Level Two. Credit valuation adjustments may be made to ensure that derivatives are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality and our nonperformance risk. As of September 30, 2012 and December 31, 2011, the credit valuation adjustments were insignificant. See Note 9 for further details on our derivative instruments.

Mortgage Backed Securities

During the nine months ended September 30, 2012, we sold mortgage backed securities that had been classified as Level 3 at December 31, 2011. The following table provides a reconciliation of the beginning and ending balances for the mortgage backed securities measured at fair value using significant unobservable inputs (Level 3):

	Fair Value Measurements at Reporting Date Using Significant Unobservable Inputs (Level 3) - Mortgage Backed Securities	
	2012	2011
Balance at January 1,	$2	$2
Transfers into (out of) Level Three	—	—
Settlements	(2)	—
Total gains (losses) (realized or unrealized)	—	—
Balance at June 30,	$—	$2
Transfers into (out of) Level Three	—	—
Settlements	—	—
Total gains (losses) (realized or unrealized)	—	—
Balance at September 30,	$—	$2

Other Financial Instruments

We estimated the fair value of financing receivables using discounted cash flow analysis based on current market assumptions for similar types of arrangements. Based upon the availability of market data, we have classified our financing receivables as Level Three. The primary sensitivity in these calculations is based on the selection of appropriate interest and discount rates. Fluctuations in these assumptions will result in different estimates of fair value. For further information on financing receivables, see Note 5.

We estimated the fair value of debt, excluding capital leases, which consists of our Senior Notes. Our Senior Notes are classified as Level Two due to the use and weighting of multiple market inputs in the final price of the security. Market inputs include quoted market prices from active markets for identical securities, quoted market prices for identical securities in inactive markets, and quoted market prices in active and inactive markets for similar securities.

The carrying amounts and fair values of our other financial instruments are as follows:

	Asset (Liability) September 30, 2012				
	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level One)	Significant Other Observable Inputs (Level Two)	Significant Unobservable Inputs (Level Three)
Financing receivables					
Secured financing to hotel owners	$312	$315	$—	$—	$315
Vacation ownership mortgage receivable	40	41	—	—	41
Unsecured financing to hotel owners	69	69	—	—	69
Debt, excluding capital lease obligations	(1,008)	(1,127)	—	(1,127)	—

	Asset (Liability) December 31, 2011				
	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level One)	Significant Other Observable Inputs (Level Two)	Significant Unobservable Inputs (Level Three)
Financing receivables					
Secured financing to hotel owners	$312	$311	$—	$—	$311
Vacation ownership mortgage receivable	42	42	—	—	42
Unsecured financing to hotel owners	16	15	—	—	15
Debt, excluding capital lease obligations	(1,008)	(1,059)	—	(1,059)	—

5. FINANCING RECEIVABLES

We have divided our financing receivables, which include loans and other financing arrangements, into three portfolio segments based on their initial measurement, risk characteristics and our method for monitoring or assessing credit risk. These portfolio segments correspond directly with our assessed class of receivables and are as follows:

- Secured Financing to Hotel Owners—These financing receivables are senior secured mortgage loans and are collateralized by hotel properties currently in operation. These loans consist primarily of a $278 million mortgage loan receivable to an unconsolidated hospitality venture which was formed to acquire ownership of a hotel property in Waikiki, Hawaii, and which is accounted for under the equity method. This mortgage receivable has interest set at one-month LIBOR+3.75% due monthly and a stated maturity date of July 2013 and was therefore reclassified from a long-term to a current receivable during the three months ended September 30, 2012. Secured financing to hotel owners also includes financing provided to certain franchisees for the renovation and conversion of certain franchised hotels. These franchisee loans accrue interest at fixed rates ranging between 5.0% and 5.5%.
- Vacation Ownership Mortgage Receivables—These financing receivables are comprised of various mortgage loans related to our financing of vacation ownership interval sales. As of September 30, 2012, the weighted-average interest rate on vacation ownership mortgage receivables was 14.0%.

- Unsecured Financing to Hotel Owners—These financing receivables are primarily made up of individual unsecured loans and other types of financing arrangements provided to hotel owners. During the nine months ended September 30, 2012, we entered into a loan agreement to provide a $50 million mezzanine loan for the construction of a hotel that we will manage. Under the loan agreement, interest accrues at the greater of one-month LIBOR plus 5.0%, or 6.5%. Our other financing receivables have stated maturities and interest rates. However, the expected repayment terms may be dependent on the future cash flows of the hotels and these instruments, therefore, are not considered loans as the repayment dates are not fixed or determinable. Because these arrangements are not considered loans, we do not include them in our impaired loans analysis. Since these receivables may come due earlier than the stated maturity date, the expected maturity dates have been excluded from the maturities table below.

The three portfolio segments of financing receivables and their balances at September 30, 2012 and December 31, 2011 are as follows:

	September 30, 2012	December 31, 2011
Secured financing to hotel owners	$319	$319
Vacation ownership mortgage receivables at various interest rates with varying payments through 2022	48	50
Unsecured financing to hotel owners	147	91
	514	460
Less allowance for losses	(93)	(90)
Less current portion included in receivables, net	(289)	(10)
Total long-term financing receivables	$132	$360

Financing receivables held by us as of September 30, 2012 are scheduled to mature as follows:

Year Ending December 31,	Secured Financing to Hotel Owners	Vacation Ownership Mortgage Receivables
2012	$1	$2
2013	279	7
2014	1	8
2015	38	7
2016	—	7
2017	—	5
Thereafter	—	12
Total	319	48
Less allowance	(7)	(8)
Net financing receivables	$312	$40

Allowance for Losses and Impairments

We individually assess all loans in the secured financing to hotel owners portfolio and the unsecured financing to hotel owners portfolio for impairment. We assess the vacation ownership mortgage receivables portfolio, which consists entirely of loans, for impairment on an aggregate basis. We do not assess, for impairment, our other financing arrangements included in unsecured financing to hotel owners. However, we do regularly evaluate our reserves for these other financing arrangements and record provisions in the financing receivables allowance as necessary. Impairment charges for loans within all three portfolios and reserves related to our other financing arrangements are recorded as provisions in the financing receivables allowance. We consider the provisions on all of our portfolio segments to be adequate based on the economic environment and our assessment of the future collectability of the outstanding loans.

The following tables summarize the activity in our financing receivables allowance for the nine months ended September 30, 2012 and 2011:

	Secured Financing	Vacation Ownership	Unsecured Financing	Total
Allowance at January 1, 2012	$7	$8	$75	$90
Provisions	—	3	6	9
Write-offs	—	(3)	(3)	(6)
Recoveries	—	—	(2)	(2)
Allowance at June 30, 2012	$7	$8	$76	$91
Provisions	—	1	2	3
Write-offs	—	(1)	—	(1)
Recoveries	—	—	—	—
Allowance at September 30, 2012	$7	$8	$78	$93

	Secured Financing	Vacation Ownership	Unsecured Financing	Total
Allowance at January 1, 2011	$4	$10	$68	$82
Provisions	—	1	3	4
Other Adjustments	—	—	1	1
Write-offs	(1)	(2)	—	(3)
Recoveries	—	—	—	—
Allowance at June 30, 2011	$3	$9	$72	$84
Provisions	4	2	2	8
Other Adjustments	—	—	(2)	(2)
Write-offs	—	(2)	—	(2)
Recoveries	—	—	—	—
Allowance at September 30, 2011	$7	$9	$72	$88

Note: Amounts included in other adjustments represent currency translation on foreign currency denominated financing receivables.

We routinely evaluate loans within financing receivables for impairment. To determine whether an impairment has occurred, we evaluate the collectability of both interest and principal. A loan is considered to be impaired when the Company determines that it is probable that we will not be able to collect all amounts due under the contractual terms. We do not record interest income for impaired loans unless cash is received, in which case the payment is recorded to other income (loss), net in the accompanying condensed consolidated statements of income. During the three months ended September 30, 2012, we recorded insignificant impairment charges for loans. During the nine months ended September 30, 2012, we recorded impairment charges of $3 million for loans. During the three months ended September 30, 2011, we established an allowance of $4 million for loans to hotel owners that we deemed to be impaired, which was recognized within other income (loss), net in the accompanying condensed consolidated statements of income. The gross value of our impaired loans and related reserve does increase, outside of impairments recognized, due to the accrual and related reserve of interest income on these loans.

An analysis of our loans included in secured financing to hotel owners and unsecured financing to hotel owners had the following impaired amounts at September 30, 2012 and December 31, 2011, all of which had a related allowance recorded against them:

Impaired Loans
September 30, 2012

	Gross Loan Balance (Principal and Interest)	Unpaid Principal Balance	Related Allowance	Average Recorded Loan Balance
Secured financing to hotel owners	$40	$40	$(7)	$40
Unsecured financing to hotel owners	53	46	(49)	50

Impaired Loans
December 31, 2011

	Gross Loan Balance (Principal and Interest)	Unpaid Principal Balance	Related Allowance	Average Recorded Loan Balance
Secured financing to hotel owners	$41	$40	$(7)	$40
Unsecured financing to hotel owners	51	46	(46)	51

Interest income recognized on these impaired loans within other income (loss), net on our condensed consolidated statements of income for the three and nine months ended September 30, 2012 and 2011 was as follows:

Interest Income

	Three Months Ended September 30,