Operator:  Welcome to the Marriott International second quarter 2011 earnings conference call.  Today’s call is being recorded.  At this time for opening remarks and introductions I would like to turn the call over to the president and chief operating officer, Mr. Arne Sorenson.  Please go ahead sir.

Arne Sorenson:  Good morning, everyone.  Welcome to our second quarter 2011 earnings conference call.  Joining me today are Carl Berquist, our executive vice president and chief financial officer, Laura Paugh, senior vice president, investor relations and Betsy Dahm, senior director, investor relations.  Special guests today are Steve Weisz, who will be president and chief executive officer of Marriott Vacations Worldwide, and John Geller, who will serve as executive vice president and chief financial officer for Marriott Vacations Worldwide.

As always, before we get into the discussion of our results, let me first remind everyone that many of our comments today are not historical facts and are considered forward looking statements under federal securities laws.  These statements are subject to numerous risks and uncertainties, as described in our SEC filings, which could cause future results to differ materially from those expressed in or implied by our comments.  Forward looking statements in the press release that we issued last night, along with our comments today, are effective only today, July 14, 2011, and will not be updated as actual events unfold.  You can find a reconciliation of non-GAAP financial measures referred to in our remarks on our web site at www.marriott.com/investor.

One special clarification as we start the call this morning, unfortunately we have two press releases that are out there this morning.  The correct press release went out on PR Newswire and by fax and was filed with the SEC late yesterday.  An earlier draft of the press release was posted on our corporate web site.  That has since been taken down and replaced with the accurate and current press release.  For those of you who pulled the press release off our corporate web site last night you should presume that you have the wrong one and make sure that you get the right one.  And of course we are standing by today to take your calls and to make sure that you have the correct press release.  We apologize for any confusion that the posting of the earlier draft may have caused.

1 Not a verbatim transcript; extraneous material omitted and edited for clarity.
One year ago, at the New York University Hospitality Conference, I was asked about the prospects for the U.S. lodging industry. I responded that I was “wildly optimistic”. At the time, there was considerable uncertainty about the pace of the recovery but the long term opportunity was obvious.

More recently, I was asked by an investor if I was still “wildly optimistic”. While uncertainty is still very much in the picture given recent mixed economic news and ongoing world events, I remain very bullish about the long term prospects for the lodging industry in general and for Marriott in particular. With strong demand and the prospect for low supply growth, we are marching steadily towards a return to peak 2007 RevPAR. Return to 2007 peak profitability per room for our owners and for Marriott will take a bit longer, but as profitability improves and we consider the contribution of the roughly 100,000 net additional rooms we have added to our system since 2007, to say nothing of the 30,000 plus rooms we open each year going forward, the earnings potential of Marriott is ample cause for significant optimism.

We’ve come a long way over the last year. Transient business is back in a big way. The 2011 transient occupancy rate for the Marriott brand increased 3.5 percentage points, reaching 2007 peak transient occupancy levels this quarter. Overall transient RevPAR rose 7 percent for company-operated Marriotts in North America.

Systemwide RevPAR for our limited service hotels in North America increased about 7 percent on top of a roughly 5 percent improvement in 2010.

Second quarter results in international markets reflected a combination of economic recovery in developed countries and extraordinary economic growth in emerging markets. Excluding the Middle East and Japan, international RevPAR increased over 12 percent, or nearly 18 percent including the currency impact.

We opened over 32,000 rooms in the last 12 months, roughly a 4 1/2 percent net unit growth rate. Our development pipeline increased to more than 100,000 rooms with nearly 40 percent of our rooms in the full service pipeline in China and India. Our development pipeline in China grew by over 25 percent in the last 3 months alone. Later this year, we expect to introduce a newly designed Courtyard prototype specifically tailored for the Chinese market which should further accelerate our development in that country.

Our Autograph brand is breaking records. Autograph RevPAR, not included in our comparable RevPAR statistics, rose an amazing 19 percent for the 3 months ending in May with RevPar index up 8 points. Our fastest launch ever, in just 16 months, we’ve added 20 hotels to the collection, including 4 Autographs in Europe, and we expect to have about 40 properties open or signed by year end 2011.

We continue to control costs. Operating margins of our company-operated hotels improved in the second quarter and Marriott International’s adjusted pretax margin, excluding the impact of reimbursed costs, also improved, reaching close to 24 percent in the quarter compared to 22 percent in the prior year.
And finally, we are returning cash to our shareholders... a lot of cash. Year to date, we have returned over $700 million in share repurchases and dividends to shareholders and we remain committed to do more.

We’re very proud of our second quarter accomplishments. The foundations of these successes were laid long ago. We began our journey to be “asset light” in 1973 when we signed our first hotel management agreement. Since then, we’ve grown our system from 11,000 rooms to over 630,000 rooms, and increased net income 20 fold.

Several key strategies contributed to our success.

First, our brands are outstanding. We ensure our brands stay current and deliver value to our guests by frequent renovations and repositionings. We tailor new brands and designs to local customers around the world, most recently in India, China, Brazil and Spain.

Second, high quality contracts support high quality brands. Our management and franchise agreements are long and stable, typically with initial terms of 20 to 30 years. Brand standards are an important element of every contract. In this industry, poorly positioned hotels and short term or terminable contracts can have a lingering negative impact. We want to ensure that each hotel, and each relationship, enhances the value of our system and brings strong value to us, to our customers, and to our owners.

Third, successful lodging brands need to grow. Guest preference for a brand can’t be maintained if the guest can’t find their favorite hotel in the markets where they travel. We’ve averaged about 4.5 percent net rooms growth annually for the past 10 years and we continue to add hotels, even in the U.S. where supply growth is very low.

Fourth, and related to number three, tying up capital in permanent real estate investments slows growth and depresses ROIC. So we are selective in our use of Marriott capital and recycle our investments as a regular practice. As a result, we generate a considerable amount of cash over time. In the nearly 40 years since we signed our first management agreement, we have returned over $12 billion to our shareholders through share repurchases and dividends, not to mention the value we have delivered to our shareholders through spin-offs and substantial capital appreciation.

Fundamentally, the foundation of our company is based on our people, service culture, brand commitment, innovation and our long term focus on owner and shareholder returns. Ultimately, these are why we and our owners have greater opportunities for growth ahead.

To tell you more about the second quarter, I’d like to turn the call over to Carl Berquist. Carl?

Carl Berquist: Thanks, Arne.

In the second quarter, we reported diluted earnings per share of $0.37, a 19 percent increase from prior year. We were about a penny favorable to the midpoint of our $0.34 to $0.38 April guidance. Fee revenue was about a penny shy largely related to weaker than expected RevPAR in the D.C. market. Timeshare sales and services, net, was about 2 cents lower than expected largely due to reportability…we expect about half of this shortfall will turnaround later this year and the remainder
next year. On the plus side, G&A was about 2 cents better than expected due to several non-routine items, including a reversal of an earlier loan loss provision. Our tax line contributed about a penny favorable associated with some discrete tax items; and our ongoing share repurchases contributed about a penny.

North American transient demand was very strong in the second quarter. Systemwide North American RevPAR rose 6.6 percent with most markets showing significant RevPAR improvement including double-digit RevPAR growth in southern Florida, Houston, San Francisco and the California desert.

In the past 2 years, one of the strongest markets has been Washington, D.C. Even in the second quarter, RevPAR was ahead of the 2007 levels. At the same time, second quarter D.C. systemwide RevPAR rose only 1 percent, reflecting the shortened Congressional calendar, ongoing budget battles and hesitant federal agencies reluctant to book near term group business.

Washington is an important market to us. Approximately 5 percent of our domestic systemwide rooms are located in the Greater Washington, D.C. market, considerably higher than the industry’s concentration. And the market is more important to us than even the rooms distribution implies. In 2010, approximately 6 percent of our worldwide fee revenue came from this market and 13 percent of our incentive fees.

Based on our long experience in this market though, Washington is also very resilient and we remain very optimistic about its long term prospects.

Across North America, second quarter group RevPAR at the Marriott brand increased 2 percent year over year. Our sales executives are doing a great job. Group bookings made in the second quarter for later in 2011 increased 18 percent and long term groups are returning. In the second quarter, we booked business for 2012 that was 19 percent higher than the prior year and booked business for 2013 that was 13 percent higher. In fact, nearly a quarter of the group business booked in our second quarter were for the years 2014 and beyond.

House profit margins in the second quarter for domestic company-operated properties rose 100 basis points, reflecting higher occupancy and room rates.

In international markets, house profit margins benefited from strong RevPAR in most markets, increasing 160 basis points excluding the Middle East and Japan markets.

With good cost controls, we expect domestic house profit margins to increase 100 to 125 basis points and international margins to increase roughly 150 basis points for the full year, and that is excluding the impact of the Middle East and Japan.

Fee revenue rose 11 percent in the second quarter with incentive fees up 9 percent. Incentive fee growth year over year was constrained by modestly lower incentive fees in the D.C. market and declines in incentive fees at hotels in the Middle East.
Our owned and leased profits declined $2 million due to lower hotel termination fees year over year and lower results at our leased hotel in Tokyo. Elsewhere owned and leased hotels reported stronger results.

For our timeshare business, second quarter contract sales were a bit ahead of expectations. Compared to the prior year, timeshare sales and services, net, declined due to lower interest income, and to a lesser extent, higher product costs. Compared to our expectations, lower timeshare sales and services, net, reflected higher sales and marketing costs as well as delays in revenue recognition associated with certain special promotions.

General and administrative expenses rose 12 percent year over year in the second quarter, reflecting higher non-routine workout costs, legal costs and approximately $3 million in expenses associated with the spin-off transaction. G&A also reflected higher costs associated with our international growth and routine compensation.

Compared to our guidance, G&A was about $5 to $10 million better than expected in the second quarter largely due to a $5 million reversal of a loan loss provision and lower than expected workout costs which we now believe will occur later in the year.

Turning to guidance for the rest of the year… our international RevPAR growth, even excluding the Middle East, is likely to slow a bit in the third quarter from the second quarter pace. The 2010 World Expo will be a tough comp for our Shanghai hotels later this year. RevPAR growth in Europe is expected to moderate in the second half due to the timing of this year’s fairs in Germany as well as tougher comparables. As a result, for the third quarter, we expect international systemwide RevPAR growth to total 6 to 8 percent, and that is excluding the Middle East and Japan.

Given these trends, for the full year, we expect international RevPAR to increase 7 to 9 excluding the Middle East and Japan, a bit higher than last quarter’s guidance due to the strong first half performance.

With relatively more leisure in the third quarter, we expect North American systemwide RevPAR growth of 5 to 7 percent. We expect the fourth quarter to be modestly stronger, and therefore on a full year basis still expect 6 to 8 percent RevPAR growth.

For our timeshare business in the third quarter, we expect contract sales to run slightly ahead of last year’s adjusted levels. We assume timeshare sales and services, net, to total $40 to $45 million with continued reductions in interest income as outstanding mortgage balances continue to decline. We expect timeshare segment results to total $25 to $30 million in the third quarter.

For the full year 2011, we continue to expect contract sales to be slightly lower than the prior year adjusted amounts. We assume timeshare sales and services, net, to total $205 to $215 million. This is about $10 million lower than our prior full year expectations. About $5 million of this profit decline is related to lower revenue reportability, which we expect will be offset by higher reportability in 2012. The other $5 million of the profit decline is mainly related to start-up costs for our “banking and borrowing” points in the Marriott Vacation Club Destinations points program. We expect timeshare segment results to total about $140 to $150 million for 2011.
We expect our G&A expense for the full year to increase about 6 to 8 percent over adjusted levels in the prior year. This forecast reflects the non-routine costs we talked about earlier as well as higher spending for brand initiatives and the costs of our international growth market.

Our full year G&A guidance is modestly higher than our forecast from last quarter, largely due to nearly $5 million in transaction expenses associated with the timeshare spin-off recognized through the second quarter. We expect additional spin-off transactions in the second half, which could be material, and which have not been included in our guidance.

On this basis, for the full year, we expect earnings per share will increase 17 to 24 percent over the prior year adjusted EPS. We anticipate EBITDA will climb 9 to 13 percent compared to last year’s adjusted amount. For simplicity, this guidance assumes the split will not occur until year end 2011 and again, excludes future spin-off transaction costs.

We assume about $500 million to $700 million in investment spending in 2011, including $50 to $100 million in maintenance spending. We recently negotiated a five year extension to our bank revolver which now has $1.75 billion of total capacity and doesn’t mature until 2016. We repurchased over 18 million shares for over $675 million through the second quarter. We expect to remain aggressive given our recent stock price and substantial investment capacity.

Now, to provide more details about the vacation ownership business and the pending transaction, I’d like to turn things over to Steve Weisz.

**Steve Weisz:** Thanks, Carl.

This is an exciting time at Marriott Vacation Club. As we prepare to be an independent company, we’ve put a lot of thought into our future strategy. In our view, no one does vacation ownership better. We market our products by leveraging the strongest lodging brands and a world class sales force. We execute against high customer expectations with outstanding products and services that encourages customers to buy yet more product. And as a result, our more than 400,000 customers are very loyal and highly satisfied. We believe an independent Marriott Vacations Worldwide will be attractive to shareholders for several reasons.

First, we will be the largest public pure-play vacation ownership business. We have a highly skilled management team with an outstanding track record, focused on this attractive business at an early stage of a recovery.

Second, we see upside in the business. We are still in the early stages of the rollout of our Marriott Vacation Club Destinations program. We continue to sign up existing owners and our average contract sale continues to increase. So there is still considerable upside as the program continues to gain traction with new owners.

Third, we will have strong liquidity and modest non-securitized debt. We recently demonstrated our resiliency in the deepest recession, with good cost control and strong cash flow and feel that we are well positioned to thrive regardless of the economic climate.
Fourth, while we recognize that vacation ownership has historically been a capital intensive business, our cash needs in the near term are quite modest. We have $1.3 billion of inventory, including $600 million of finished goods inventory. This will minimize our capital needs for the next few years. We also believe we can generate cash flow over time from the sale of excess assets, including some very attractive beachfront real estate. In fact, we expect to generate meaningful amounts of free cash flow for the foreseeable future.

As our inventory declines over time, we intend to pursue asset-light expansion opportunities. We expect to leverage our management know-how to manage timeshare operations for other brands and/or develop ancillary businesses to drive high margin recurring and stable revenues. We also expect to be able to develop new resorts, buy distressed inventory or enter into turnkey projects with third party developers. Ours will be a resourceful and nimble company, able to quickly seize opportunities presented to us.

We know there are many questions about the appropriate valuation for this new company. We’re working on proforma numbers for our new timeshare company and expect to have forecasts available when we do our road show this fall. For valuation, we recommend a sum-of-the-parts approach given that we expect to have a material portion of our cash flow coming from strong and sustainable management fees and net financing income as well as our development business.

We look forward to meeting with as many of you as possible early this fall. With that, I’ll turn things back to Arne.

**Arne Sorenson:** Ok. And with that we are ready to take your questions.

**Question and Answer Session:**

**David Loeb, Robert W. Baird & Company, Inc.:** Hi. I'd really like to ask about the tax benefit from the spin off, Carl. Can you quantify what you think the total quantity of that could be, what you think the present value of that or essentially how quickly you think you can use that?

**Carl Berquist:** Sure, Dave. I think what we talked about is that we expect the cash tax benefits to be several hundred million dollars. And just to clarify, that's cash taxes. We've benefited those over the years, but this is inherently triggering those taxes as part of the spin. And a good portion of those will be recognized currently or be benefited currently at the date of the spin with the rest carried forward over the next several years. It's about half and half, David.

**David Loeb, Robert W. Baird & Company, Inc.:** Okay. And several hundred million means $300 million, $400 million?

**Carl Berquist:** We'll give you more detail on that when we do our pro formas later this summer and file our amendments on a Form 10.

**David Loeb, Robert W. Baird & Company, Inc.:** Okay. Thank you.
Josh Attie, Citigroup: Hi, thanks. Can you talk a little bit about your guidance for the back half of the year? The US RevPAR guidance for the year of 6 percent to 8 percent seems to imply a significant ramp in the fourth quarter, and if you're running at about 6 percent for the first 3 quarters, it seems like you need to do about 8 percent in the fourth quarter to hit the midpoint and 12 percent to hit the high end. Can you just talk about what gives you comfort with the ability to hit those numbers?

Arne Sorenson: Yes, Josh, it's Arne. I'm not sure exactly what numbers you're looking at. But I've got North American systemwide Q2 actuals at 6.6 percent. And I think the Q1 number, which I don't have in front of me, was about in the same range. And so we are sitting close, not quite at the midpoint of that 6 percent to 8 percent range but not too terribly far south of it. When we look at the balance of the year as Carl said in his comments, we would expect Q3 to be maybe a little bit weaker than Q4, really fundamentally because it's a bit more of a leisure quarter than Q4 is. Obviously we'll have to see how Q4 gets developed and we're giving you our best sense at this point, but there's no guarantees on this. But we would expect that the 6 percent to 8 percent range is still the right balance and expect that Q4 is going to be around the midpoint of that range, not dramatically different than that.

Josh Attie, Citigroup: Can you also talk about what you think the total costs of the timeshare spin off could be?

Carl Berquist: We've incurred about $5 million so far. Going forward we'll incur costs going forward. We don't have a number for you right now. Part of those costs, though, keep in mind, will be capitalized, whether they're debt acquisition costs or costs related to getting the preferred, and some of those will be expensed. But what we're anticipating is to have a better view for that probably at the end of August when we file the amended Form 10 and we'll give you those numbers -- have a better feel for those numbers at that time.

Josh Attie, Citigroup: Is there any way that you can bracket the cash costs as being over $100 million, less than $100 million?

Carl Berquist: I think I can safely say is won't be over $100 million. But we will give you that both on a cash basis as well as the bookkeeping of it later in the summer.

Josh Attie, Citigroup: Okay. Thank you.

Joe Greff, JPMorgan Chase & Co.: Good morning, all. Can you help us understand your currency assumptions in the back half of the year and then specifically with those 3 areas you mentioned in the second quarter, Middle East, Japan and the Washington, D.C. market? Are you improving -- relatively improving RevPAR results throughout the course of the year or are you thinking about those 3 areas as performing in the second half much the way it has in the second quarter?

Arne Sorenson: Yes, I'll try and take a first crack at this and then Carl can jump in and correct me on the currency thing particularly. But I think the guidance we're giving you is essentially constant dollar guidance, and so by and large we're not trying to get into the currency forecasting business and give you currency adjusted RevPAR numbers. With respect to the Middle East and D.C., Middle
East, Japan and D.C., let's start with D.C. which is more material to us than the Middle East and Japan are. D.C. as we mentioned a quarter ago, our distribution in D.C. is a bit over 2 times the industry's distribution in D.C., so it looms a bit larger for our average statistics. We have been a bit disappointed so far the balance of the year to see D.C. essentially perform at flat to last year. Carl mentioned the good news in D.C. which is it that it's one of the markets which is about at peak RevPAR and not surprisingly that's because the business of government and security and national defense and all of that has been a relatively robust part of our economy for the last number of years and was not hit nearly as bad in the recession as many other aspects of the US economy.

I think now we would say that we expect D.C. to continue to bump along at kind of flat levels through the balance of the year, and that's implicit in our guidance. We have not really talked about 2012 yet and we don't have any budgets or anything else that gives us tremendous insight into 2012. So without the benefit of careful look at group business on the books and some of those things, it's hard to give you a real clear number, but I would guess that the budget conversations and threats to the Federal budget as well as the Presidential election, which will increasingly take center stage next year, neither of those are great things for business in D.C. in 2012. And so we would guess that D.C. is going to continue to be a fairly modest market at least in terms of year-over-year performance.

Middle East and Japan are obviously very different markets. Japan is -- got the leading hotel from a RevPAR perspective in Tokyo which is the Ritz-Carlton, and it has suffered as many hotels in Japan have, both because of less inbound travel by the intercontinental traveler and beyond that by a sense of reduced economic activity and maybe even a little sense of mourning in Japan. We're starting to see some of those trends reverse, so the F&B business, for example, essentially disappeared early after the earthquake and tsunami. We're starting to see some signs of life in that and see that come back. We're seeing occupancy build, but we expect that even in the fourth quarter we will be, oh, I suspect on average 20 percent to 30 percent RevPAR down from the fourth quarter of 2010. Now that's a lot better than where we've been since the early months of the post disaster over there, but still a long way south of where it was before.

Middle East very different markets. I think Egypt, I was there a few weeks ago, got to see our team and get a sense for what's going on on the ground there. Egypt is a fabulous destination, and there's every reason to believe that it will come back. Many markets in D.C. though are, or excuse me, in Egypt are driven by wholesalers often coming out of Europe. That wholesale business is not likely to come back with significance until there has been sustained stability in that market. We haven't seen that yet and so we would both expect in the guidance that we've given and as a predictive matter that Egypt is probably a 12 to 18 month recovery story. It's not a 3 to 6 month recovery story.

Other markets in the Middle East are very different. So you look at Dubai, Dubai’s net benefited in some respects from this. Bahrain is obviously quite weak. We're not in Syria, but we are in Jordan. Jordan is not as bad as Egypt and in many respects is more stable. But generally I think implicit in our guidance is a pretty slow recovery for the region as a whole.

**Joe Greff, JPMorgan Chase & Co.:** That's helpful, thank you. And Carl, there was no mention of share buybacks since June 17 and normally you put some information in or you have in the past. I was hoping you can give us an update on that if you could.
Carl Berquist: Yes, I think if you saw in the press release Bill Marriott's comment said that we've returned to shareholders through dividends or repurchases $700 million year to date or to date, so we kind of give a feel there for that. It's $675 million of repurchases alone through the quarter and it's about 18.5 million shares and we'll continue to be aggressive at these stock prices as I said.

Joe Greff, JPMorgan Chase & Co.: Were you precluded at all over the last months with the Form 10 filing? Was that a reason for the slowdown?

Carl Berquist: No, no, we weren't. Do you mean were we blacked out during that period? No, we were not.

Joe Greff, JPMorgan Chase & Co.: Okay. Thank you.

Shaun Kelley, BofA Merrill Lynch: Hi, good morning, everyone. Just maybe one to start off with, Arne, in your opening remarks you mentioned a little bit about profitability per room taking a little bit longer, and I don't want to completely nitpick here but I'm wondering just what you meant by a little longer, kind of in that. Is that longer than your original expectation or just longer given kind of something else you're seeing or your -- but how does that compare to your original plan and what you laid out at the analyst day?

Arne Sorenson: It's no change from what we would have contemplated and talked about at the analyst meeting and longer refers only to in comparison to RevPAR. So when you look at the RevPAR numbers, and we've talked about D.C. a little bit in this call obviously, D.C. is roughly at peak RevPAR already. You look at the US as a whole, and clearly the US as a whole is not back to peak RevPAR but we can see it. And it's not far out. So a year or 18 months or 2 years probably worst case from now, we're looking at most markets in the United States being back to peak RevPAR. But that's not enough to get us back to peak profitability, either for our hotel owners or for Marriott, and obviously our models differ a little bit.

We're going to be fee driven, they're going to be driven by the profit margins in those hotels. And that's what's going to take a little bit longer. I don't have a date for you on that. But we would have a reasonably high level of confidence as we would have in prior cycles that within a couple of years or so after peak RevPAR we should approaching in many markets peak profitability and we look forward to seeing how that works its way through. And obviously in the context of that I also talked about the tremendous unit growth which will also be adding certainly to our system and our profitability as we go forward.

Shaun Kelley, BofA Merrill Lynch: That's helpful. And then my second question was on you mentioned both in the prepared remarks and in one of the answers to one of the questions about leisure business being a little bit slower and part of the driver of the third quarter. I think generally speaking we've all seen either the June and July RevPAR numbers slow a little bit sequentially, so I guess is it your take that that is mostly kind of a customer and demographic shift? Have you seen any changes on the group business behavior, you gave some good booking statistics, but just curious if you've seen like is it just a real dichotomy there that's going to -- that's probably going to continue as we think about the recovery? Because it seems a little different than maybe we've seen in past cycles.
Arne Sorenson: No. In fact, the use of the word dichotomy I think is -- would substantially overstate what we're talking about in terms of relatively softer Q3 than Q4. If anything, we've been very heartened by the strength of leisure business. Now, let's back up and state the obvious. Leisure travel is more price sensitive than business travel, surprise, surprise. Notwithstanding that, I think most of the leisure business which has driven our hotels is probably coming out of the higher wealth demographic. As a consequence, the persistent high unemployment, the weakness in the construction trades and the like is probably less relevant currently to what we're seeing in leisure demand. But leisure demand is going to be more influenced by pricing and by consumer sentiment and those sorts of things. And as a consequence we see it be a little bit weaker, but still pretty healthy on a year-over-year basis and are quite gratified by what we've seen so far.

I think all things considered what we're communicating today is a steady as she goes report. What we see is a broad recovery that's underway. It is playing out in many respects the way exactly we would expect it to play out. So business transient travel is the strongest showing great performance year over year both in terms of pricing and in terms of volume. We're seeing group bookings build steadily and Carl gave you some of the statistics. We're up -- bookings in Q2 were up anywhere from roughly 15 percent to roughly 20 percent depending on whether you're looking at bookings for Q3 or Q4 or 2012 or 2013, et cetera, good healthy year-over-year growth and good leisure performance. And so we mean very much to be reiterating the high single digit, 6 percent to 8 percent RevPAR growth that we talked about a quarter ago, and would really not add any caution with the exception of the stories we've talked about the Middle East, Japan and D.C. And to state the obvious, we are reading the same newspapers that you all are reading and if some of these newspapers lead to slower GDP growth than any of us anticipated, that will have an impact ultimately on business travel and the rest of it, but we're not seeing that show up in our business today.

Shaun Kelley, BofA Merrill Lynch: That's helpful. And just one last one maybe for Carl. You brought down the high end of your North American hotel margin guidance, but you maintained the North American RevPAR full-year target, so just wondering is that a function of mix or kind of what are you seeing that's bringing down that a little bit just as you think about things from the owner's perspective? And that's it for me.

Carl Berquist: Sure. It's probably a little sensitivity around D.C., and we'd probably as a result tighten the range a little bit. That's all it was really.

Shaun Kelley, BofA Merrill Lynch: Okay. Thank you very much.

Patrick Scholes, FBR Capital Markets: Hi, good morning. In your prepared remarks I believe you mentioned that group RevPAR during the second quarter was up only about 2 percent, just a couple questions in that regard. Do you see that sort of that lower growth rate a function of just groups burning off that were booked at lower rates in 2009 and 2010? And additionally of new groups being booked, what are some of the headwinds to pricing power that you're seeing right now for as it relates to groups?

Arne Sorenson: Yes, we have -- we slice and dice this data in more ways than you'd like to know in truth. But the -- when we look at the Q2 stayed and paid, and that's what that roughly 2 percent growth is looking at again, it's not looking at bookings in Q2 but it's looking at the business that came on the books. It shouldn't surprise you to know that the weakest business was the business that
was booked 2 and 3 years ago. So when we look at business booked 2 years ago, stayed in our second quarter, it was down almost 10 percent. Shouldn't surprise you because 2 years ago we were really wrestling with fairly dark days in the economy. 3 years ago wasn't quite as bad even though actually if you look at the stock market, the stock market was probably worse 3 years ago than it was 2 years ago, and that's probably a little bit that folks making decisions about group business are not responding necessarily to what they see on the Dow that day but a little bit it takes some time for them to react.

And so when we look instead at business booked more recently, it is meaningfully better than those weak numbers, but again fundamentally and this is in the prepared comments and we talked about it a quarter ago, it takes awhile to build the book of group business. And as a consequence we're not surprised to see the stayed and paid RevPAR growth numbers in Q2 lower than the transient numbers, and we'd expect that those will build over time as we get the benefit of that plus 15 percent to 20 percent group revenue booked in Q2 as it ultimately shows up in our hotels.

Patrick Scholes, FBR Capital Markets: Great, thank you for the color.

Janet Brashear, Sanford C. Bernstein & Company, Inc.: Thank you. Arne, you were saying earlier that fee revenues were 6 percent from D.C. and 13 percent incentive fees from D.C. Could you give us the same numbers for the Middle East and Japan? And then I'm curious about India, if the last time you had some terrorist activity in Mumbai there was spill over to other places in India from a hotel perspective?

Arne Sorenson: I'll let Carl pull and double check this and I think -- let me talk about India first. We're obviously saddened to read about and hear about yesterday the events that took place in Mumbai. From my recollection the impact of the last event in Mumbai in India and around the region in terms of RevPAR was not significant. Obviously it had some impact in Mumbai itself, but that was not long lasting and should be viewed as an isolated event and not as turmoil that kept people away for some period of time. We'll have to see the way that this develops after the events of yesterday, but provided it is a single terrorist event on one day that does not sort of recur soon and repeatedly we would not expect that the impact would be significant. I think on Middle -- gross Middle East fees full year is about 1 percent of our gross fees. Carl?

Carl Berquist: Right. It's about-- Japan's about--.

Arne Sorenson: Normal years.

Carl Berquist: Yes, normal years. I think if you wanted to look at the effect on -- for the Middle East and Japan and you'd take those out of our RevPAR, I mean our incentive fees, and just did incentive fee increase without the D.C., Middle East or Japan, incentive fees would have been up almost 22 percent in the second quarter. So you could see the effect that that had on the percentage that we ended up reporting at 9 percent.

Janet Brashear, Sanford C. Bernstein & Company, Inc.: Okay, great.
Arne Sorenson: Janet, let me jump in here for a second because I think I misspoke. I think our fees coming out of Egypt in 2010 were about 1 percent of our gross fees, not fees out of the entire Middle East region.

Carl Berquist: I think it's more like $30 million to $35 million is the total fees out of the Middle East last year.

Laura Paugh: I think that's right.

Arne Sorenson: In 2010.


Janet Brashear, Sanford C. Bernstein & Company, Inc.: Total regular fees or total regular plus incentive?

Arne Sorenson: Total fees.

Laura Paugh: Total fees, including incentive fees.

Janet Brashear, Sanford C. Bernstein & Company, Inc.: Great. Thank you. Just one further question, as you look at the corporate side, what are you thinking about rate negotiations going into the fall? And then as you look at the group side, how are the rollouts of Sales Force One and your group catering and yield system going?

Arne Sorenson: So special corporate negotiations obviously we're not under way yet. And we will have to see the way the economy develops and I think get a better read as we go forward. I think generally we've seen good rate growth this year compared to 2010, but we still see special corporate rates which are double digits down from peak levels, varies a little bit account to account, but I think we're likely to see fairly healthy rate growth in 2012 compared to 2011 if the economic recovery continues the way it appears to be.

Sales transformation and some of the sales systems we've rolled out, I think we remain quite confident in, long term encouraged by the early anecdotes that were coming back out of the system. To be fair, the last 2 regions in the United States we rolled out in June, so they've just got up and running. And so we're now for the first time in a position where we've got sales transformation across the entire United States. Among the positive things we're seeing, we measure a business that is pitched and caught outside of one region into another, and that business is almost 50 percent more than we would have anticipated and a very healthy contribution. But to be fair, it's still very early in the process, and so you will not see us or hear us on the aircraft carrier deck claiming victory yet. We think that's probably another some months or some quarters away, but we feel good about the way it's going so far.

Janet Brashear, Sanford C. Bernstein & Company, Inc.: Thank you.

Ryan Meliker, Morgan Stanley: Good morning, guys. A couple quick questions here. I'm just wondering with regards to the group RevPAR growth you mentioned 2 percent growth in the second
quarter, I think STR's estimate for your fiscal quarter would have been closer to 8 percent for group. Do your properties typically have a longer lead booking time than the average upper upscale segment property and maybe that's one of the disparities where you had more groups that were booked in advance 2 years ago during that terrible economic time that you discussed earlier?

**Arne Sorenson:** I am absolutely certain that that's a piece of it. So we are -- the bigger we are, and we know we are bigger than any of our principle competitors, maybe with the exception of Gaylord which obviously is a very different kind of company.

**Ryan Meliker, Morgan Stanley:** Right.

**Arne Sorenson:** But the bigger the hotel, the bigger the meeting, the longer the lead time. We, I think, dominate in the association space, the association meeting business is probably often 2, 3, 4, even 5 years booked in advance. And that long window may have some relevance. I'm not sure where you are getting that 8 percent number, but a piece of that could also be market driven or comp hotel driven. So you've got group business which has grown a bit more but has also been spread across some new hotels, new hotels in -- some are in our system, many are in other brand systems, so that may also go into that equation.

**Ryan Meliker, Morgan Stanley:** Right, that makes perfect sense. And then so given that longer lead time for your properties, do you have -- what percentage of your group bookings are actually on the books right now for 4Q, I would imagine the vast majority of them are already on the books then? And then--?

**Arne Sorenson:** For what?

**Ryan Meliker, Morgan Stanley:** For 4Q, for the fourth quarter of this year.

**Arne Sorenson:** Yes.

**Ryan Meliker, Morgan Stanley:** And then any idea if you can give us any color on how that rate growth is looking versus 4Q last year for those groups, that would be helpful, too.

**Arne Sorenson:** I would guess we're probably about 90 percent on the books for the fourth quarter average MHR hotel, Marriott Hotel and Resorts Hotel. I don't know if any of us here have got the rate versus occupancy. I would hazard a guess that it is low single digits, maybe getting towards mid single-digits revenue growth compared to last year's group business on the books at the same time for the fourth quarter of 2010.

**Ryan Meliker, Morgan Stanley:** And then just one final quick question. I'm just hoping that, I don't know, maybe Carl, maybe Steve can answer the question, when you guys switched over to the points based timeshare model, I was under the impression that we were going to see virtually no deferred revenues going forward. Obviously one of the challenges in this quarter with timeshare was deferred revenue, can you give us some color as to why this quarter had larger than expected timeshare? I know you mentioned something with regards to the points based program, or the Marriott Reward Points specifically.
Carl Berquist: Yes, I think I'll have John Geller here who's the -- is going to be the CFO of the new timeshare business, have him answer that. Go ahead, John.

John Geller: There's different components of the deferred revenue. I think where you're not going to see the deferred revenue any more is around percentage complete. We're putting completed inventory in, so in the past we would have deferred revenue as we completed projects that would come in, so that's the piece that virtually is gone. From a timing perspective, quarter to quarter, there is still some deferred revenue and it really relates primarily to our finance sales where you're required to have 10 percent down and for GAAP reporting you also need to cover your first day benefits or sales incentives that we give to customers at the closing table. In the second quarter, for example, we ran some sales incentives and offered some higher first day benefits, and as a result we didn't have that 10 percent down for GAAP. So some of those sales, even though our sales for the second quarter at least for timeshare were flat year over year, our deferred revenue was slightly higher for the quarter because some of that. And we'll see that flip around here in the third and fourth quarter, some of it'll slide I think into next year a little bit, too.

Ryan Meliker, Morgan Stanley: When do you recognize those sales, then?

John Geller: Once you receive enough cash from the customer. So as they pay their loan to us over a couple of periods, once it depends on their down payment, but as we get that cash, those become reportable.

Ryan Meliker, Morgan Stanley: And that 10 percent number is the water mark you're looking for from cash from the customer?

John Geller: Yes.

Ryan Meliker, Morgan Stanley: Wonderful. Thanks so much.

Harry Curtis, Nomura Asset Management: Good morning. If you could maybe put a little bit more meat on the bone as far as the difference between your domestic full service RevPAR, which was up 5.4 percent, and the Smith Travel upper upscale which was up closer to 7 percent, I think that some of it about 50 basis points you ascribe to D.C. And my first question is are you able to quantify the impact of renovations on the quarter? We've talked about the group side, but is there any quantification of the differential? And what we're getting a fair amount of in response to this is that again that you're losing share to your competitors, and I wonder if you could just comment with specifics on why you don't think you're losing share to your competitors?

Arne Sorenson: Yes, I will, and the short answer is we're not losing share to our competitors. So when you look at the Marriott Hotels and Resorts brand, and I will focus my comments on that brand, which is obviously substantial for us and a bellwether brand for us. We are -- we build our RevPAR index by hotel with each hotel looking at typically 5 or 6 hotels which would be within its competitive set. Overwhelmingly those hotels are in the same market. Occasionally you'll find a resort hotel which might have a hotel that's outside of its same geographic market, but 98 percent I suppose of the MHR Hotels, their competitive sets will be entirely located within the same geography.
Every period or every month we report as do most of our competitors in the United States, this is less the case outside the United States, to Smith Travel, and Smith Travel spits back the result of all of that data and tells us whether we are taking or losing share. Since the recession began in late 2007 or early 2008, the Marriott brand has taken about 4 points of index, which is massive. Why did it take index? Well hopefully part of it is because of great things we've been doing around customer focus things, around product focused things, around brand innovation, around renovations and the like, but clearly we were also helped by the cyclicality of group business where we had group business on the books, more than our competitors did because we're bigger shops and benefited from some of those bookings that were done before the recession hit. And as a consequence, our RevPAR did not decline as much as the average Smith Travel did.

Now as we look at 2011 year to date and we adjust for renovations, we see that the MHR brand is down a few tenths of 1 percentage point. We think that that is actually pretty encouraging because of this cyclicality in group business that we know to occur at this state of the recovery. In many respects we would expect to be losing share that could be measurable, and at a few tenths of 1 point, there is no volatility in these numbers that it is effectively nearly zero. And so as we sit here today, we have a tremendous confidence, not only that we have taken massive share over the last 3 or 4 years, but that we are competing very well. And what's driving the difference in these headline numbers is by and large a function of geographic distribution of these hotels and not a function of any share index performance.

Harry Curtis, Nomura Asset Management: So what other markets in addition to D.C. are you more concentrated in than your competitors that could account for the 100 basis points of difference?

Arne Sorenson: We're a much -- obviously it depends on which brand you're measuring it against. Marriott brand is bigger than most of the full service brands, so we're going to tend to have more suburban hotels, we're probably going to tend to have more secondary market hotels. I know among our markets where we have disproportionate market share we've got Detroit, we've got Atlanta, we've got Washington, D.C. And you'd have to go and look at data to see about how those markets perform exactly and how they performed in the first couple of quarters this year. The suburban piece, though, I think is going to be significant. So a quarter ago we talked about D.C. hotels, and I think one of our competitors came out and said well we own a hotel in D.C. and it didn't do so badly.

Well we've got 100 hotels in D.C. and the JW Marriott downtown at 14 and Pennsylvania Avenue, owned by a Host, a great hotel, I don't have the performance of every hotel right here in front of me, but the downtown hotel in Washington which is trading at a higher end performed better in the second quarter than the average across the market. Because you look at Crystal City which is going to be dominated by government business, it's going to have competing hotels in Crystal City and that's going to be a much more hard hit area than the JW Marriott Hotel or the Ritz-Carlton on the west side of Washington, D.C. And unless you look at this competitive set data, the RevPAR index data, you're not getting anything meaningful by looking at the performance of MHR against Smith Travel's upper upscale because you're going to be comparing apples and oranges.

Harry Curtis, Nomura Asset Management: And so if you were to hazard a guess in the next -- in the coming 2 or 3 quarters, when would you or how long do you think it would -- it's going to take to see your full service domestic RevPAR begin to match up closer to the Smith Travel data?
Arne Sorenson: That's a great question, Harry, and I don't have a very informed answer. But taking a few of the pieces, you can tell from the comments about D.C., we'd expect D.C. is going to tend to hold us back here probably through the Presidential election. If you look simply at that measure that you're talking about, why, because we've got twice as many, more than twice as many hotels in D.C. as the industry does on average. And if we're right about D.C., which is it's going to continue to sort of bounce along at a flat performance, that is going to tend to be a market which causes our average number to be different than the Smith Travel number. Again, I think that is a much too rough measure to look at and is essentially meaningless. The measure to look at is how are we performing against the hotels we compete against by market. And there we're performing exceedingly well.

Harry Curtis, Nomura Asset Management: Okay. That does it for me. Thank you.

Steve Kent, Goldman Sachs: Hi. Can we just talk a little bit more about the weakness in timeshare? I guess I'm just struggling with it. If you have sold so much timeshare and there's greater deferred revenue, when would that be made up? Why would it take even into 2012 for that to happen? And also on the -- same on the timeshare, it seems like you are selling many more weeks to existing customers and at what point do you start to max out the sales to existing customers?

Steve Weisz: Hi, Steve, this is Steve Weisz. Let me try to answer your question. First of all, on the contract sales side if you look at our timeshare, let's leave the fractional and the whole ownership residential piece out, in the second quarter we did exactly what we did in 2010. So the deferred piece that John referred to is not the fact that we had sales in the second quarter that won't be reportable until the first quarter of 2012. It's the fact that the second quarter sales might be reportable in Q3 or Q4, but if you continue doing the kinds of promotions which we believe we will be doing at least in the near term, that some of the sales that will happen in Q3 or Q4 will spill over into Q1 of next year. So it's just kind of the cascading effect of that. And so I think that's the first answer to your question.

The second answer to your question is 39 percent of our sales year to date are to first time buyers which implies that 61 percent are obviously to our existing customers. That's been very deliberate on our part. We have -- we made it a focus. We made it a strategic decision that when we launched the points business in June of 2010, that we really wanted to get in front of every single one of our existing owners to try to help them understand the relative merits of them joining Marriott Vacation Club Destinations. So as we have allocated tour flow and tried to in fact take advantage of talking to people while they're on vacation at our resorts, we have squeezed out tours to first time buyers. That was very deliberate and we said we would do that.

As we start to move further into this year, now having a year behind us, we will have talked to a lot of those customers. We would expect that over time that we will start to see the percentage of first time buyers come back to a more normalized percentage. You may recall that roughly 50 percent of our business over the years has been to first time buyers and roughly 50 percent of our business has been to existing owners and their referrals. So I think it's -- what we are seeing is playing out exactly what we wanted to do. We're very pleased with the receptiveness that our existing owners have had to joining Marriott Vacation Club Destinations, our points program, and we're not at all concerned about the long-term implications of that.

Steve Kent, Goldman Sachs: But Steve, I guess what I'm struggling with is then if that's all the case, then why the need to offer so much more in Marriott Reward points and other incentives to get
people to purchase if the product is as good as we all know and the customers have a high propensity to buy, especially the existing ones, so why the need to roll out that program? That's what doesn't add up for me.

**Steve Weisz:** Well part of it is we made a very calculated effort in 2009 and 2010 to throttle back on financing. That was a cash flow decision on our part where we decided that we were really going to try to deemphasize financing. We've actually been able to bring our financing propensity back up to a more normalized notion in the mid-40s, and part of that is what the effect that John talks about is when you offer -- when you take the financing piece which then -- and then you take the first day benefit, which comes off of a finance sale to get you less than the 10 percent down payment, it's that you take a certain number of payments on a monthly basis to get you back over the 10 percent to have it be reportable. That's really the issue there.

**Arne Sorenson:** The -- we're out of time and I'm going to jump in here, but the -- I think one of the other things that, as a response to your question, Steve Kent, is that a year ago and a year-and-a-half ago Steve Weisz and his team were doing more with pure discounting of the pricing of the timeshare weeks.

**Steve Weisz:** Correct.

**Arne Sorenson:** We've not only eliminated that discounting but in many respects pound for pound we have increased pricing. And there is some promotional activity which is a way of addressing a piece of that to make sure that we've still got a value proposition and a pitch for the customer that is an attractive one, and we think that's -- the decisions they've made in that space are good. You are not hearing Steve Weisz say, or any of us say, that consumer confidence is back to a level which gives us a confidence to believe that we can sell as much weekly timeshare as we were selling in 2006 and 2007. And to get back to those levels is going to require a continuing recovery in the economy and a continuing recovery in consumer confidence. And as those things happen, we'll see that this business continues to grow. But none of us is sitting here saying we feel so good about this product that we don't have to do promotional activity and we can sort of sit back and play hard to get and the customer is going to come in and buy more of this stuff than we can produce, because that's not are where we are yet in this economic recovery. I want to thank--.

**Steve Kent, Goldman Sachs:** Ok, thank you.

**Arne Sorenson:** I want to thank all of you for your time and interest this morning. We're obviously standing by to take any follow-up questions, and we'll be in touch with you as we can be of help to you. In the meantime, enjoy the balance of your summer. Come and see us, stay with us. Talk to you soon. Bye.

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