Note on forward-looking statements: This document contains "forward-looking statements" within the meaning of federal securities laws, including RevPAR, profit margin and earnings trends, estimates and assumptions; the number of lodging properties we expect to add in the future; our expectations about investment spending; and similar statements concerning anticipated future events and expectations that are not historical facts. We caution you that these statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those we identify below and other risk factors that we identify in our most recent annual report on Form 10-K or quarterly report on Form 10-Q. Risks that could affect forward-looking statements in this document include changes in market conditions; the continuation and pace of the economic recovery; supply and demand changes for hotel rooms; competitive conditions in the lodging industry; relationships with clients and property owners; and the availability of capital to finance hotel growth and refurbishment. Any of these factors could cause actual results to differ materially from the expectations we express or imply in this document. We make these forward-looking statements as of April 19, 2012. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Marriott International, Inc.
First Quarter 2012 Earnings Conference Call Transcript[1]
April 19, 2012

Operator: Welcome to the Marriott International first quarter 2012 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 executive officer, Mr. Arne Sorenson. Please go ahead.

Arne Sorenson: Good morning, everyone. Welcome to our first quarter 2012 earnings conference call. Joining me today are Carl Berquist, executive vice president and chief financial officer, Laura Paugh, senior vice president, investor relations and Betsy Dahm, senior director, investor relations.

Before we begin let me publicly wish Betsy a very happy birthday. We are lucky to have her on our team.

Betsy Dahm: Thank you Arne.

Arne Sorenson: 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, April 19, 2012, 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.

We just got back from Marriott's full service general managers conference at LA Live, the first such global conference we've held in 5 years. Seven hundred general managers attended from around

[1] Not a verbatim transcript; extraneous material omitted and edited for clarity.

the world. We celebrated the wonderful job they are doing and the extraordinary engagement of our associates. And we talked about the amazing opportunities for Marriott International.

In Los Angeles, the focus of the meeting was on our brands and our people. Last year, our owners and franchisees spent an estimated $1.5 billion on renovations and repositionings. Our Greatroom should be in two-thirds of our Marriott and Renaissance hotels by the end of 2012, and we expect three-quarters of our more than 800 domestic Courtyard hotels will offer the new Courtyard Refreshing Business lobby by then as well. As these innovations roll out, we are seeing increases in both RevPAR index and in hotel profitability. At our conference, we showcased the next generation of Greatrooms, we presented new guestroom designs, and we worked on other new product and service enhancements. We'll have more to show you as these ideas hit the market. But to be sure, we are building on a solid foundation of innovation and product quality.

New unit development is a key part of our brand strategy. The halo from new hotels with the latest in design and services can enhance the entire system. The JW Marriott and Ritz-Carlton Hotels at LA Live come to mind; as do the Cosmopolitan, an Autograph Hotel, in Las Vegas; the J.W. Marriott Marquis in Dubai, slated to be the world's tallest hotel when it opens later this year; or the Ritz-Carlton Pudong with sweeping views of Shanghai, and a decidedly modern take on luxury.

While we continue to add new brand-building hotels around the world, supply growth for the hotel industry has rarely looked better. In the U.S., Smith Travel estimates hotel room supply will grow by less than 1 percent in 2012. We expect supply growth to remain very low for a number of years, particularly in the full service segments. Very little construction financing is available, particularly for large properties, and when it can be found it typically requires personal guarantees and considerable equity. To expand in North America today, a strong brand is table stakes. Marriott brands account for roughly 10 percent of North American rooms but over the last 12 months, we opened nearly 20 percent of the new rooms in the industry. Given the strength of our development pipeline, we expect to continue to expand our share for many years to come.

Moderating industry supply growth is a great story abroad as well. As most hotels developed in China are part of mixed use projects, we expect a modest pullback in supply growth as the Chinese government attempts to cool the hot residential real estate market. This will likely slow the extraordinary pace of new hotel deals and openings a bit. Despite this, we continue to expect China to remain one of the fastest growing lodging markets in the world. Among upper upscale and luxury hotels in Asia overall, we have a 10 percent share of operating rooms but a 15 percent share of rooms under construction.

In India, more moderate economic growth has slowed the pace of new full service hotel development, although we continue to see a strong appetite for our Courtyard and Fairfield brands. We have nearly 20 Courtyards and nearly 10 Fairfields in our India pipeline.

In Europe, we believe the supply growth will likely remain under 1 percent for the next few years. There, we are pursuing conversions for our full service brands, including Autograph, and we see great opportunities for ground-up development of Courtyards and AC Hotels as well.

Of course, modest supply growth doesn't guarantee strong RevPAR growth. As we've said before, lodging demand is highly correlated with GDP, corporate profits and capital spending. Today, we would add "international travel" to that list. Over the last 12 months, international arrivals to our hotels in the U.S. increased 7 percent. Arrivals from Brazil were up 16 percent and arrivals from China were up 32 percent. We are very encouraged that the U.S. government is taking steps to simplify and speed the visa approval process, along with its Brand U.S.A initiative to promote travel to the United States.

In Europe, comparable hotel RevPAR increased 3 percent in the quarter despite the weak economy. International gateway markets were stronger than regional markets in Europe with increasing demand coming from the U.S., China and India. In London alone, RevPAR rose 9 percent in the first fiscal quarter. We are looking forward to several special events in Europe in 2012, including the Olympics in London, a strong convention schedule in Paris and the European Soccer Championship in Warsaw.

Among our U.S. hotels, one big story this quarter was group. Last year, we completed the rollout of our new North American sales organization. Following a 5-year effort, today, our sales offices are well-coordinated and maniacally organized around the customer. Sales executives are incented to drive revenue to the entire portfolio, benefitting each of the hotels in the system. In the first quarter, pitching and catching business between regions totaled $50 million, a nearly 50 percent year-over-year increase. Meeting planner satisfaction levels are up, extending our already meaningful lead over our competitors. Booking pace for the Marriott brand for the remainder of 2012 is up over 11 percent compared to only 2 percent a year ago. Attendance at group meetings is running ahead of expectations. A few meeting planners are complaining about the lack of available space for new bookings during peak times. We are delighted with the performance of our sales organization.

We are also very proud of our Ritz-Carlton organization. In the first fiscal quarter, Ritz-Carlton hotels in North America reported comparable RevPAR growth of 7 percent, largely driven by room rates. Demand from consultants and tech companies is strong and incentive business is back. With strong demand from transient customers, we are pushing room rates higher. In 2011 and again in the first quarter, Ritz-Carlton's global RevPAR index increased substantially to all-time highs. We have 23 Ritz-Carlton hotels under development today, with more than half in Asia, including four properties that will open in the next 12 months.

2012 is Marriott's 85th anniversary and our 55th year in the lodging business. We remain as committed as ever to our vision to be the best hospitality company in the world as measured by loyalty, profitability and growth. We've got the brands, the strategy, the culture and the people to make that vision a reality.

Now Carl will take us though the first quarter's results.

Carl Berquist: Thanks, Arne.

In the first quarter, we reported diluted earnings per share of $0.30, a 30 percent increase from the prior year adjusted results and at the high end of our $0.26 to $0.30 February guidance. Our year-over-year comparison adjusts last year's results for the timeshare spin-off.

Worldwide constant dollar systemwide RevPAR rose nearly 7 percent, ahead of our 5 to 6 percent guidance. In the U.S., our RevPAR outperformance was largely due to significant last minute group bookings, higher group attendance, and strong special corporate rated business.

Special corporate revenue at comparable Marriott hotels rose over 9 percent with roughly ½ of the improvement coming from higher room rates. Weekend RevPAR at Marriott hotels rose over 8 percent.

Outside North America, constant dollar RevPAR for comparable systemwide hotels rose about 6 percent. Recall that our international hotels report only January and February RevPAR statistics in the first quarter. If you include March results, on a calendar basis, systemwide RevPAR at our international hotels increased 6 ½ percent in the quarter and RevPAR at our worldwide systemwide hotels increased 7 percent.

Demand in the first quarter was very strong in the Caribbean, Latin America and Asia. Japan continues to improve. Occupancy at the Tokyo Ritz-Carlton totaled 71 percent in the fiscal quarter compared to 28 percent in April of last year. RevPAR in the Middle East declined 6 percent in the quarter, and while Egypt remains a challenging market, we expect easier comps as the year goes on.

Worldwide house profit margins increased 120 basis points during the first fiscal quarter and house profit per available room increased 10 percent. Property-level margins were helped by improved productivity in most regions of the world and by the mild winter in the U.S.

Base fees increased 3 percent and franchise fees rose 8 percent in this seasonally slow quarter. We outperformed our RevPAR guidance but base fees were negatively impacted by about $3 million in fee reversals associated with two revised contracts. Incentive fees rose 19 percent with unit growth in Asia, improved profitability in Eastern Europe and stronger demand at resorts in Mexico and China. In the U.S. we saw strength among the Florida and West Coast resorts which benefited from greater group business.

Owned, leased, corporate housing and other revenues, net of direct expenses, increased 10 percent reflecting stronger results from our leased hotels in Tokyo, Germany, London, Anaheim and New York.

Our operating margins improved dramatically. Adjusting for cost reimbursements, Marriott International's pretax margins totaled roughly 28 percent in the quarter, up 240 basis points from the prior year's adjusted results. EBITDA increased 9 percent over the prior year's adjusted amount and EBITDA margins totaled nearly 42 percent. Return on invested capital was very strong.

On Monday, we announced an agreement to sell ExecuStay, our corporate and temporary apartment housing business, to Oakwood Worldwide in a transaction that should close by the end of April. The transaction is immaterial to Marriott's overall results but with roughly $100 million of reported revenue in 2011, it is a modest positive to our margins going forward.

Turning to development… The development team did a great job this quarter signing over 10,000 new rooms. At quarter end, our development pipeline increased from 110,000 to roughly 115,000 rooms. Over 40 percent of our pipeline rooms are under construction and 10 percent are awaiting conversion.

Our Autograph brand continues to gain momentum. We've opened or signed nearly 50 hotels and over 10,000 rooms since we launched the brand just 2 years ago. The brand has proven its strength. Today, the number of conversion candidates is growing as more owners are more willing to renovate or reposition hotels in order to join the brand.

In the first quarter, we opened roughly 3,200 rooms across all brands globally. For the full year, we expect to open 25,000 to 30,000 rooms. We've seen some construction delays for ground-up development in the Middle East and Asia. Conversions are talking a bit more time as many new Autograph hotels are undergoing renovations prior to opening. About half of our expected room openings in 2012 are outside the U.S.

Ten properties with about 2,500 rooms left the system in the first quarter including nearly 700 rooms converting to residential use. For the full year, we expect about 7,000 to 8,000 rooms in total will leave the system. Hotels that do not meet our brand standards must either come into compliance, or exit the system. To maintain a strong brand, pruning is just as important as planting.

In 2012, we expect worldwide systemwide RevPAR to increase 6 to 8 percent, a bit higher than our last guidance. Our higher RevPAR expectations reflects stronger transient business and strong group bookings, particularly bookings at smaller hotels in the U.S. We expect total fee revenue to grow 9 to 12 percent.

Our owned and leased hotels performed very well in the first quarter and are expected to do even better for the year. Much stronger results at leased hotels in London, Tokyo and Anaheim are driving full year estimates higher.

We expect general and administrative expenses to increase 3 to 4 percent in 2012, largely related to incremental costs in international growth markets and inflation.

Earnings per share should increase 21 to 29 percent in 2012 and EBITDA should grow 11 to 17 percent over the prior year adjusted amounts.

We expect investment spending in 2012 to total $600 to $800 million, including about $100 million in maintenance spending. As Arne said, we remain committed to product innovation and brand quality. This year we are investing $300 million in 3 Edition hotels, investments we expect to recycle over time.

Assuming this level of investment spending, we expect to return roughly $1 billion to shareholders through share repurchases and dividends in 2012. To be sure, we continue to look for opportunities for investment in our business. If we find value-creating investments, share repurchase amounts could vary from these amounts. We will remain disciplined in our approach to capital investment and repurchases.

We are very excited about our June security analyst meeting. We are planning property tours in Beijing on June 18, an analyst meeting in Beijing on June 19 and property tours in Shanghai on June 20. Our presentations will focus on our brand and development strategies, as well as our 2014 outlook. We will also take a deep dive on the tremendous opportunity for us in China, a market that, for us, is second only to the U.S. in fees. As is typically the case at Marriott analyst meetings, investors will also have the opportunity to meet and speak with management, particularly our Asia management team. This event will give investors the chance to "kick the tires" on our properties and see the markets first hand. Now it can require 4 weeks to obtain a Chinese visa so we urge you to register for the meeting right away.

We appreciate your interest in Marriott. So that we can speak to as many of you as possible, we ask that you limit yourself to one question and one follow up. We'll take questions now.

QUESTION AND ANSWER SESSION:

Sule Sauvigne, Barclays Capital: Morning. Wondering if you could talk about flow through. With the RevPAR upside you report in the quarter, we were expecting maybe greater flow through and just wondering are you seeing something different in this cycle with flow through or do you just think it's just yet to come, I guess?

Arne Sorenson: No, it's about what we expected, I would say. I mean I think our -- we've got both occupancy and rates driving the RevPAR growth, which is comforting and actually we've been pleasantly surprised to see how much occupancy continues to build to levels which are quite high. But occupancy contribution, obviously RevPAR growth has some cost implications, and I think really what we're seeing is some normal drivers. There are some early signs, which are positive, around heat, light and power costs, particularly for those hotels that are natural-gas dependent, that's a big deal. Starting to see maybe some utilities that are shifting to that lower natural gas cost and that bode well for the future. But with normal growth in benefits and wages and those sorts of things, we see broadly in this 100 to 200-basis point increase in margin range - about what we would expect.

Sule Sauvigne, Barclays Capital: Okay, thank you. And just more of a housekeeping. Where -- can you remind me where the timeshare royalty fees show up?

Arne Sorenson: Franchise --

Sule Sauvigne, Barclays Capital: …is that in franchise?

Arne Sorenson: Franchise fees, yes.

Sule Sauvigne, Barclays Capital: Okay, thank you.

Shaun Kelley, BofA Merrill Lynch: Hi, good morning, everyone. I just wanted to ask a little bit more about the group pace. I know you guys gave a little color to start off with, but wondering if you could help us dig down another level. It seems like this area had lagged a lot last year but you're seeing some very good pick up this year trending even ahead of where your RevPAR averages are, so could you help us understand what segments of customers you're seeing some of that demand from and specifically maybe digging down a notch on the Marriott hotel brand where we saw big a pick up and big accelerations in some of the full-service hotels what you guys are seeing at that brand or across the full-service segment? That'd be helpful.

Arne Sorenson: Well, the 11 percent number that we gave you in the prepared remarks is for the Marriott brand in the U.S..

Carl Berquist: For the rest of the year…

Arne Sorenson: That's for Q2, Q3 and Q4 revenue on the books for group business compared to quarters two, three and four for 2011 a year ago, same portfolio of hotels. And what we see underneath that 11 percent for the brand as a whole is something more like 16 percent to 17 percent growth in group bookings for the smaller hotels and high single digits for the largest convention hotels

What that should tell you is that it is the smaller -- relatively smaller meetings which are leading. And by smaller we don't necessarily mean tiny, but we mean the meetings that are filling 300, 400, 500, 600, 700 room hotels, not necessarily the big Marquis meetings that are filling 2,000 room hotels. Now that's growing too and growing well, but those are meetings which have a much longer lead time and as a consequence we don't see necessarily something that is a significant change from quarter to quarter over the last number of quarters.

Group basically, it's most businesses, so most industries. I think what we're seeing is good appetite and it is very much the case from Ritz Carlton all the way through our full-service brands and would say that generally, things are good. I suspect one cautionary area would be around government groups intensified in the last week by the stories coming out of that GSA meeting and we'll have to see what the ramifications of that are. But generally, group bookings look great.

Shaun Kelley, BofA Merrill Lynch: That's helpful and then one follow up on -- just on the guidance. Incentive fees you guys had indicated were probably in the up 20 percent range last quarter, but with group pace trending as well as it is and some of the big hotels lagging, it looked like the number of hotels actually paying incentive fees started to pick up. Are you still within the 20 percent range on that guide, or is there some potential upside given your increased confidence in RevPAR?

Carl Berquist: I think our guidance for the full year, which stays at the 20 percent, you have some seasonality in there and it's going to vary quarter to quarte,r and it's also which markets are up and whether those markets have hotels in them that pay big incentive fees. For example, Washington, D.C. has some hotels that pay incentive fees and those markets aren't up as much as many of the other markets, as we've talked about in the past. So I think the 20 percent is probably a good number for the full year and it will vary quarter to quarter.

Shaun Kelley, BofA Merrill Lynch: Okay, thanks, Carl. Thanks, everyone.

Joe Greff, JPMorgan Chase & Co.: Good morning, everybody. When you look at the Marriott brand in North America and maybe divide that bucket within the larger group hotels versus the smaller group hotels, where are the occupancy for each of those buckets relative to the prior peak?

Arne Sorenson: Oh, I don't know if I can bucket them on you but the occupancy numbers are peakish. They're really looking good so I think that bodes well for a little bit more aggressively managing rate and mix in hotels. Obviously, not every single market in the United States is the same in Q1. As an example, in part because of the weather. Florida was great and the mountains were not. Washington continues to be a pretty weak market relative to the rest of them, but I think generally, we're seeing occupancy returning to peak-like levels in many markets in the United States, which should bode well.

Joe Greff, JPMorgan Chase & Co.: Great. And then my follow up on that group up 11 percent for Q2 through Q4 for the Marriott brand in the U.S., how much of that is rate versus volume?

Arne Sorenson: It is mostly volume. It's about 2 percent in rate growth.

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

Arne Sorenson: And remember, that rate growth is a mix of all prior bookings from all prior years so while the rate growth for new bookings is better, maybe a bit -- maybe something like double that 2 percent number when we look at the bookings that are being made today, the rate growth is still going to take a little while to come along just as the --

Carl Berquist: Just need to burn off older business.

Arne Sorenson: -- older business burns off.

Joe Greff, JPMorgan Chase & Co.: Thanks.

Joshua Attie, Citigroup: Good morning, thanks. Looking at the first quarter, RevPAR was above the high end of your guidance but the fee revenue was at the mid-point. What were some of the reasons the excess RevPAR didn't translate into higher fees? It doesn't seem like it would be fully explained by the $3 million base fee reversal you mentioned.

Carl Berquist: The $3 million was part of that. I think the other things we had, we had lower relicensing fees as compared to the prior year, I think that's more timing. And then you've got to remember that the MVW fees, they don't grow relative to RevPAR, so and you have those in the franchise fees, as well. And then you have some seasonality relative to incentive fees in there, too. So there's a lot of moving parts in there so it's not just perfectly linear. The only other thing I'd point out is that the ancillary fees, the non-rooms fees, such as food and beverage, et cetera, was growing. It grew about 5 percent in the full-service brands, but it didn't grow at the same pace as you saw with RevPAR in the room side.

Joshua Attie, Citigroup: Okay, thanks. And can you -- separately can you talk about your appetite for acquisitions, or the take on real estate in the near term in order to grow the brands? The balance sheet is in great shape and in the past you've talked about this as a possible method of expanding on continental Europe, is there an acquisition pipeline at the Company and could we see Marriott do a large deal?

Arne Sorenson: Well, I think we don't have a different appetite today than we've had over the last number of years, if not number of decades maybe even, and that is we remain committed to being a management franchise company and to being as capital efficient as we can be. I think we sit in a place where we've got a great balance sheet and so we've got flexibility to do some things where opportunities present themselves that we think are strong enough and compelling enough to take some exposure real estate for a period of time. We would still look to recycle that capital

We've done, obviously, a bit with the Edition brand with the three hotels that we've got in London, Miami and New York, which are all working their way towards openings in late 2012 or early 2013, mid-2013 and mid-2014, and those are big bets on those but we feel good about those bets and think we'll be able to recycle that capital well. And I think as we sit here, I would guess that we're going to see transactions in the industry step up a little bit from levels that have been a little bit low over the course of the last three or four quarters. And as it steps up hopefully there'll be some opportunities here that we can participate in hopefully with our partners, but maybe in some circumstances we do it without them. We'll have to see. We don't -- there's nothing really we can forecast for you.

Joshua Attie, Citigroup: Okay, thank you very much.

David Loeb, Robert W. Baird & Company: Can you talk a little bit more broadly about Europe, are you seeing changes in demand trend? It didn't seem like it was particularly weak this quarter and what are your thoughts for the rest of the year on Europe and the major markets?

Arne Sorenson: Yes, the first quarter is comforting. We talked a quarter ago about expecting and budgeting around a 3 percent RevPAR growth for Europe for the full year and admitting that we wouldn't be surprised to see it be worse than that, maybe zero, maybe a little bit less than zero. The first quarter came in right around those budgeted levels and you can tell from the prepared remarks that that is, in many respects, driven by the performance of the global gateway -- global capital markets, the London's and Paris' of the world, which are dependent a bit more on global trends than simply the economies of those countries. And as a consequence they benefit from relatively stronger economic performance of the United States, they benefit from travelers from Asia and elsewhere who want to see those places.

And as we sit here today we would say with one quarter in the bag it makes us feel a bit more confident about the balance of the year in Europe. But we still are mindful of the fact that we've got weakness in provincial UK, which has been the case now for a year or a year-and-a-half. We've got anxiety in France, which is increasing. Spain is not strong and Southern Europe is not strong. We have, for better or worse, only one hotel in Greece so it can hardly move our numbers no matter what happens there. And we're all watching Germany. We've got a decent distribution in Germany. The German economy is the strongest in Western Europe, anyway, but there are risks there and we'll sort of watch them. I think the other bright spot over there and where we are quite strong is Russia and the East. We've got strong distribution of hotels there and I think we see by and large continued strong performance in those markets.

David Loeb, Robert W. Baird & Company: Great, and just as a quick follow up, I think it was Joe's question about using your balance sheet. We've seen you not be shy to use your balance sheet to get Edition rolled out. Are you willing to build on balance sheet for other brands and particularly for select service brands in key markets? Is that something you would consider doing with either a sale on C of O [Certificate of Occupancy] or sales subsequent to opening?

Arne Sorenson: It's possible. I think where investing in capital is most compelling -- now this is a matter of theory so sometimes theory gets overtaken by specific opportunities that get presented, but as a matter of theory the most compelling place to invest our capital is in new platforms for growth. Edition is an example of that. It's a brand new brand and to get it launched, we maybe should have done this a whole lot earlier, I think we could take that criticism. But to get this launched to control some real estate in these key markets is a strong way to get that brand going and we think there will be pay off. Not just from those precise hotels, but from the way the brand grows with our third-party developers

Similarly, I think when you look outside the U.S., you look at continued growth in France where we have about 15 hotels today but it's obviously a big lodging market, how do we go farther. We have done some Courtyard development on balance sheet and I think maybe as we sit here today, Carl, we own two, something like that, and we could see that that, in effect, is like a brand -- a new brand almost, at least a new brand in a new place. We have invested some with our partners in the Fairfield rollout in India be that for very much the same reasons. And so I think the answer is yes, we may. But to do Courtyard development in the United States, as an example, that doesn't really meet that theoretical compelling argument so I wouldn't predict we'd do anything like that, which is significant.

David Loeb, Robert W. Baird & Company: Great, thank you.

Will Marks, JMP Securities: Thank you, good morning. My question just relates to Carl's comment about the quarter and saying some last minute group bookings lead to the outperformance. I think I'm misquoting you, but can you just talk a little bit about that?

Carl Berquist: Sure. What I was referring to is in the year for the year or in the quarter for the quarter bookings they came in stronger than what we had forecasted when we did our original one. The other thing that drove that was the attendance at the meetings. Attendance was higher than what was expected by the meeting planners, as well as us. And then finally, we had fewer cancellations -- group cancellations in the quarter, so all those things combined ended up with better results than we had originally forecasted.

Will Marks, JMP Securities: But do you consider some of that non-recurring in nature?

Carl Berquist: I think the attendance might be a trend in the sense, as well with cancellations. Obviously, as the economy continues to improve throughout the year, you would expect to see both attendance and the cancellations to perform the same way.

Arne Sorenson: We wouldn't have raised our RevPAR guidance for the full year if we thought it was non-recurring.

Will Marks, JMP Securities: Got it. Thanks.

Robin Farley, UBS: Yes, just a follow up on your comments about Europe. It sounded like when you include March in there that it would have been a better quarter suggesting the month of March was maybe a reversal in the deceleration we saw through Q4 and even through February year to date. Is that fair to say that you've seen an inflection point in Europe and has that continued through April, or can you give us a little more color on what's happened in the more recent weeks in Europe?

Arne Sorenson: Robin, you're very faint. I could hear you but I'm going to try and summarize your question for those that couldn't hear. But basically Robin is asking whether maybe March was an inflection point in Europe where we went from a declining environment to one which is at least positive. I don't think you used words like robust or anything like that, but whether March was an inflection point and I would shy away from concluding that yet. We are guardedly encouraged by what happened in the first quarter in Europe, as we talked about, but Europe's still got plenty of risks and I think the risks are every bit as much, even as we sit here today, to the downside as to the upside. It still wouldn't be surprising to see markets in Europe more in the 0 percent range than elsewhere, and we're going to have, with the shift of Easter and that's going to be something we all talk about in Q2 and how that's impacted business, particularly in Europe and the United States.

And then we'll have these events, like the Olympics and other things, which is we'll have to help first ourselves understand and then help you sort through to make sure you understand how the regular business is performing underneath those big trends. But we would expect it to be just modestly positive excluding those big timing factors or big events.

Robin Farley, UBS: Great, thank you. Thanks for your candor in that answer. Just one follow up on these calendar adjustments. In the U.S. the last week in March seemed quite strong and not included in your fiscal quarter. Do you have any sense of would that have added incentives to the quarter that we might see in your fiscal Q2 results, or do you think that was really just the Easter shift earlier making that last week in March and that it's going to be a wash by the end of April?

Arne Sorenson: If I remember right the last week of March is not Easter impacted.

Carl Berquist: No.

Arne Sorenson: The Easter impacts are going to be an April and May story really. I think if you looked at our calendar -- three-month calendar results as opposed to our fiscal calendar it was modestly more positive, 0.2, something like that, not dramatically different and I wouldn't expect that that's going to be hugely impactful to our Q2 numbers.

Robin Farley, UBS: Okay, thank you.

Harry Curtis, Nomura Securities: Good morning, a couple of housekeeping items. Carl, as of the end of the first quarter what was your diluted share count, not the average that you reported but the end-of-quarter share count?

Carl Berquist: The end of the quarter I believe we were at about 338 million, right around there but if you call Laura or Betsy they'll give you the exact number.

Harry Curtis, Nomura Securities: Okay. And then if you could give us a little bit more color on the base management fee reversal, what prompted the reversal and are there other contracts that are at risk?

Carl Berquist: Sure. Well, with 3,700 hotels and thousands of contracts, at any given time we're working with an owner on a contract here or there, a couple contracts. In this particular case what it was is relative to the restructuring the cap stacks for the hotel, as well as related to some capital that was going into the hotels we agreed to adjust temporarily some fees and that's pretty much what resulted in the fee give back for those two contracts. I think from time to time you'll see us do that. This quarter was a little unique, $3 million is probably a little higher than what we'll see in any given quarter, but it could happen again. But more likely when we do these things, it's typically dealing with getting capital into the hotel, or doing something with the owner relative to the physical asset of the hotel.

Laura Paugh: Harry, the shares outstanding -- the basic shares outstanding at the end of the quarter were 332 million and then you should add to that on average for the quarter we had 11 million shares of dilution, which will take you to roughly 343 million.

Harry Curtis, Nomura Securities: Okay, perfect. Thanks, guys.

Steven Kent, Goldman Sachs: Hi, good morning, can you hear me? Hi, two questions. It's the first time I've heard somebody really talk about China development slowing down, could you just give us a little bit more color on that. Is that broad based, is that Marriott for now and it might reaccelerate later on? I just wanted to hear what prompted you to give us that information. And then secondly, can you just talk about how the board feels about buybacks versus dividend given some of the earlier questions on capital allocation and acquisitions?

Arne Sorenson: Yes, I wouldn't over react to the comments about China. I think we will continue to see China grow pretty robustly and even as we sit here the intake of new deals in China is mostly encouraging. It is in particularly in some of the biggest and most established markets where, by the way, our distribution is strongest.

We've talked before about having about 20 percent of the luxury and upper-tier supply in both Shanghai and Beijing. In some of those markets we are seeing residential development slow and often these big residential developments include a gleaming new fancy hotel, often with one of our brands on it. And we do get asked frequently, not so much by folks focused on lodging but by folks focused on economic development in various parts of the world, what's happening with China, and there is a perception that China is slowing a little bit from levels like 8 percent to 9 percent to levels like 7 percent to 8 percent GDP growth so I think it's all relative.

I think as consequence, we would be a bit more cautious about new deal signings in cities like Shanghai and Beijing. On the other hand, we have been a little later in getting to some of the secondary and tertiary markets and in many respects the risks of residential bubbles in those markets are less and therefore there's less reason for the government to try and slow things down. And the government has got a powerful need to make sure that those cities are developed in a way that preclude the Beijing's and the Shanghai's of the world from becoming 50 million person cities, which is probably unmanageable. So we think there's still going to be tremendous opportunities there.

In terms of the board on share repurchase and dividends, I think you can infer where the board is from our actions. We obviously talk about returning capital to shareholders with them every time we're together and share both what we're doing and what our plans are and we continue to feedback to them what we hear from all of you about your preferences in this space and we'll continue to keep our ears open on it.

Steven Kent, Goldman Sachs: Okay, thank you.

Smedes Rose, Keefe, Bruyette & Woods: Oh, thanks. I wanted to ask you just a little more about your recycling capital but just with so much -- it seems like so much private equity out there, would you ever partner with developers as a way of rolling out Edition faster and making incremental investments in other gateway cities, or do you feel like with the hotels that you have that will I guess establish the brand enough that third-party money will come in? And then I guess on that, too, when you think about selling those hotels that you do own, are you inclined to wait until they are open and fully ramped and mature, or do you take advantage of the current environment where such low interest rates, et cetera?

Arne Sorenson: Those are exactly the kinds of conversations we have. I think on the first point, we would gladly partner with capital partners who have a set of objectives and requirements that are consistent with the project that we may be looking at. I talked about that Fairfield rollout in India, as an example. One of our principal partners in that is essentially private equity money, opportunity fund money, and they're as excited about that as we are. As it relates to Editions specifically, if there are opportunities that came up again and were compelling enough and particularly if we had capital partners that reduced our capital those would be relatively more attractive than starting the fourth one on our own, which I think we're not necessarily eager to do just given the size of the bet that we've already made. In selling, we have talked with a number of folks already. The three assets we have under way are in great cities, great locations, and they will be great hotels when they come out. So not surprisingly there are folks that are interested in them.

It is easier to do a deal when the construction risk is out of it, it's easier to do a deal when it's open and there's some operating history to it, so we won't count on selling these things until they open. But it wouldn't be surprising that we could sell them relatively earlier than later. London is farthest along so it would be easiest in that respect. New York is least far along and so it's an iconic building in a great location and it's going to be a great hotel but that one's got some more work probably before we can have real firm cost estimates, which I would obviously would be important to sell it.

Smedes Rose, Keefe, Bruyette & Woods: Okay. And then I just wanted to ask you on your guidance for owned and leased profits it went up considerably, does that just reflect better results of the hotels or I know sometimes there's other things included in that, was there something that came in?

Carl Berquist: It's primarily our leased hotels that are showing strength and benefiting just from the RevPAR growth that we talked about in the manage and franchise side, the leased hotels are experiencing the same benefits.

Smedes Rose, Keefe, Bruyette & Woods: All right, thank you.

Carl Berquist: The other thing in there is Tokyo is coming on very strong and last year it's an easier comp.

Smedes Rose, Keefe, Bruyette & Woods: All right, thank you.

Ian Weissman, ISI Group: Yes, good morning. I guess you could describe the recovery, at least for the first two years, as being very gateway city focused. Your results today actually don't indicate that. I want to just know if you can maybe dissect a little bit of your portfolio and talk about some of the operating trends in tier 2 and tier 3 cities. Are you starting to see an acceleration of fundamentals in those markets?

Arne Sorenson: Oh, that's a good question, Ian. I think we would say that the recovery is actually quite broad as we sit here today. If you look at the numbers, for example, for the Courtyard portfolio and some of the limited service portfolios, Residence Inn is the weakest. But Residence Inn, because of its extended stay nature tends to lag a little bit and you look at the performance of those other brands, which are broadly distributed across the country and they tell you pretty reassuring things.

I think we have seen a shift a bit in the last year from the Eastern U.S. to the west as being -- the west is more likely to present the strongest markets, I think, in many respects than the east is, but you've got exceptions to that. New York is actually doing reasonably well and Philly is smoking in the first quarter. Chicago's doing well, Boston's doing well, but so is San Francisco and so are many of these markets in the west. So I wouldn't accept a characterization, at least as we sit here today, that this is a recovery, which is limited or circumscribed somehow by just the big markets in the United States.

Ian Weissman, ISI Group: Okay, thank you, that's helpful. And just as a follow up, I know you addressed a little bit about the stock buybacks but with the stock up 35 percent year-to-date, what could we expect for the balance of the year in terms of buybacks?

Carl Berquist: Well, I think as we mentioned earlier that as we look at returning excess funds to shareholders we're expecting that to be about $1 billion for the year right now based on our forecast. We'll do that in dividends and share repurchases. Obviously, we're sensitive to the stock price as we do that, but also to opportunistic investments as they come up, so it's possible that if we did have an opportunity that's not in our forecast right now that number could change.

Ian Weissman, ISI Group: Thank you. Appreciate the comments.

Chris Agnew, MKM Partners: Thank you very much. Good morning. Couple of questions on Washington, D.C. Is the performance this year mostly a function of the election cycle and does that mean we should expect pretty much the same through the rest of the year, relatively weak RevPAR trends? And then what does history tell you to expect next year and does it matter if there's a new administration versus a returning administration? Thanks.

Arne Sorenson: That the a lot of questions about Washington. No, yes, no, and no. I may have gotten those wrong. I think the current conditions in Washington are only partly related to the fact that we've got a Presidential campaign under way. I think it also includes the timing of the Congressional calendar, which has had an impact over the last year or so, and I think it also includes some apprehension among government-paid business about impact of future budget cuts and the like. So this is -- and maybe the simplest way to think about it is in contrast to 2008 and 2009 government was then the strongest part of our economy in the United States and as a consequence Washington was the strongest market in a really otherwise lousy, lousy time.

In some respects today it's the reverse. Government business, whether that be travelers -- traveling government personnel or government contracting is not the strongest part of our economy today and as a consequence we see some impact to that. But all of those things together go into relatively weak performance of Washington today. I think those conditions will continue through the balance of the year and as a consequence we wouldn't sit here today and say that you should expect something meaningfully more positive in 2012.

Post Presidential election we will at least have one of those factors which will turn and that should be positive in 2013. I think the group bookings in 2013 look reasonably good, as well, so we would anticipate a better 2013 than 2012. New -- whether it's a new administration or not, you can find reasons why that helps or hurts. I think the biggest threat to Washington long term is a substantial reduction in the size of our government. I'll leave it to you and your political views whether you think that's a good thing or not but, obviously, there is some prospect that that could happen and if that happens that'll have some impact on government business in this market.

Alistair Scobie, Atlantic Equities: Oh, thank you. I think actually most of mine have been covered but particularly given you're going to China in the near future, if you could expand a little bit on that 32 percent outbound -- or incoming travel number that you gave. I think that was relating directly to the U.S.. Could you maybe just talk about what you're seeing in terms of China outbound travel to your major markets generally how that's trending? And then just also the fact that the Chinese New Year this year the way it fell I think incorporated two weekends and made it a nine-day holiday whereas it might have historically been seven days. Do you feel that's had an impact, or is this just something that continues to build from here?

Arne Sorenson: No, I think when the dust has settled on the numbers we've reported the Chinese New Year timing is not a factor in the numbers we put in the books for Q1 and so what we're really seeing is good positive performance in our hotels, stunning really in many respects given the supply growth that's been there and given some anxiety about the pace of China growth. We see the existing hotel performance very, very strong. The 32 percent growth of Chinese inbound to our hotels in the U.S., which we talked about in our prepared remarks, is just one aspect of the tremendous opportunity -- other side of the opportunity that China presents so we spend most of our time talking about growth in China, which is obviously one part of that opportunity.

The other piece is welcoming Chinese travelers as they leave China to see the rest of the world, and we are seeing those numbers sky rocket from -- I don't have numbers for full year 2011 for all China outbound travel, but just four or five years ago we were probably at one million outbound Chinese travelers a year. Within a few years we'll be to 100 million outbound Chinese travelers and the U.S. ought to get a big chunk of that. Europe will clearly get a big chunk of that and, of course, destinations in the Asia-Pacific region will be other places there. We want to be there to welcome and it won't surprise you that the destinations that Chinese -- new Chinese travelers want to go to are among the most compelling destinations in the world. That's going to include your European cities, it's going to include a bunch of closer to home places like Macao and Australia. In the United States it's going to include the places like Hawaii and San Francisco and Los Angeles and Las Vegas and New York and the like. So those are probably the places where that leading wedge of new travelers will come from.

Alistair Scobie, Atlantic Equities: Okay, thank you very much.

Bill Crow, Raymond James: Hey. Good morning. I know it's late but one quick question for you. Arne, as occupancy has recovered nicely in the last couple years could you talk about staffing levels at your managed hotels, where are they relative to maybe a year ago, the prior peak, can you give us any kind of feel for what's go being on there?

Arne Sorenson: I can't give you a headcount number that's meaningful. I think we are seeing as we sit here today very marginal continued improvement in labor productivity, but we're not seeing a slippage of productivity.

Bill Crow, Raymond James: Okay. Could you give us a heads up on when the next big labor negotiation is slated?

Arne Sorenson: We're in the middle of negotiations in Washington D.C.

Bill Crow, Raymond James: Washington, D.C., okay. Very good, that's it. Thanks.

Arne Sorenson: Thank you very much. We have time for one more question, if we’ve got one left.

Operator: We have no further questions.

Arne Sorenson: Oh, excellent, we've got perfect timing. Thank you all very much for your time. We appreciate your interest in Marriott. Safe travels and come and stay with us.

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