MARRIOTT INTERNATIONAL INC /MD/
Form 10-Q
July 12, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 15, 2012
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File No. 1-13881

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 322,771,415 shares of Class A Common Stock, par value $0.01 per share, outstanding at June 29, 2012.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Twelve Weeks Ended		Twenty-Four Weeks Ended	
	June 15, 2012	June 17, 2011	June 15, 2012	June 17, 2011
REVENUES				
Base management fees	$141	$149	$265	$283
Franchise fees	145	120	271	223
Incentive management fees	56	50	106	92
Owned, leased, corporate housing, and other revenue	264	249	481	473
Timeshare sales and services	—	288	—	564
Cost reimbursements	2,170	2,116	4,205	4,115
	2,776	2,972	5,328	5,750
OPERATING COSTS AND EXPENSES				
Owned, leased, and corporate housing-direct	203	220	398	424
Timeshare-direct	—	245	—	470
Reimbursed costs	2,170	2,116	4,205	4,115
General, administrative, and other	160	159	307	318
	2,533	2,740	4,910	5,327
OPERATING INCOME	243	232	418	423
Gains and other income	5	3	7	5
Interest expense	(34)	(37)	(67)	(78)
Interest income	3	3	7	7
Equity in losses	(8)	—	(9)	(4)
INCOME BEFORE INCOME TAXES	209	201	356	353
Provision for income taxes	(66)	(66)	(109)	(117)
NET INCOME	$143	$135	$247	$236
EARNINGS PER SHARE-Basic				
Earnings per share	$0.44	$0.38	$0.75	$0.65
EARNINGS PER SHARE-Diluted				
Earnings per share	$0.42	$0.37	$0.72	$0.63
CASH DIVIDENDS DECLARED PER SHARE	$0.1300	$0.1000	$0.2300	$0.1875

See Notes to Condensed Consolidated Financial Statements

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

	Twelve Weeks Ended		Twenty-Four Weeks Ended	
	June 15, 2012	June 17, 2011	June 15, 2012	June 17, 2011
Net income	$143	$135	$247	$236
Other comprehensive income (loss):				
Foreign currency translation adjustments	(17)	10	(6)	15
Other derivative instrument adjustments, net of tax	4	(13)	1	(14)
Unrealized gain (loss) on available-for-sale securities, net of tax	(3)	(10)	(1)	(10)
Reclassification of losses	1	—	1	—
Total other comprehensive loss, net of tax	(15)	(13)	(5)	(9)
Comprehensive income	$128	$122	$242	$227

See Notes to Condensed Consolidated Financial Statements

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

	(Unaudited) June 15, 2012	December 30, 2011
ASSETS		
Current assets		
Cash and equivalents	$105	$102
Accounts and notes receivable	939	875
Inventory	12	11
Current deferred taxes, net	181	282
Prepaid expenses	48	54
Other	70	—
	1,355	1,324
Property and equipment	1,383	1,168
Intangible assets		
Goodwill	874	875
Contract acquisition costs and other	846	846
	1,720	1,721
Equity and cost method investments	223	265
Notes receivable	197	298
Deferred taxes, net	846	873
Other	283	261
	$6,007	$5,910
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities		
Current portion of long-term debt	$407	$355
Accounts payable	592	548
Accrued payroll and benefits	633	650
Liability for guest loyalty program	508	514
Other	502	491
	2,642	2,558
Long-term debt	2,153	1,816
Liability for guest loyalty program	1,468	1,434
Other long-term liabilities	868	883
Marriott shareholders’ equity		
Class A Common Stock	5	5
Additional paid-in-capital	2,464	2,513
Retained earnings	3,335	3,212
Treasury stock, at cost	(6,875)	(6,463)
Accumulated other comprehensive loss	(53)	(48)
	(1,124)	(781)
	$6,007	$5,910

See Notes to Condensed Consolidated Financial Statements

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

	Twenty-Four Weeks Ended	
	June 15, 2012	June 17, 2011
OPERATING ACTIVITIES		
Net income	$247	$236
Adjustments to reconcile to cash provided by operating activities:		
Depreciation and amortization	67	76
Income taxes	113	74
Timeshare activity, net	—	113
Liability for guest loyalty program	21	35
Restructuring costs, net	—	(4)
Asset impairments and write-offs	4	5
Working capital changes and other	(35)	(54)
Net cash provided by operating activities	417	481
INVESTING ACTIVITIES		
Capital expenditures	(257)	(91)
Dispositions	4	—
Loan advances	(2)	(11)
Loan collections and sales	106	88
Equity and cost method investments	(12)	(70)
Contract acquisition costs	(19)	(47)
Other	(39)	(95)
Net cash used in investing activities	(219)	(226)
FINANCING ACTIVITIES		
Commercial paper/credit facility, net	147	156
Issuance of long-term debt	590	—
Repayment of long-term debt	(352)	(129)
Issuance of Class A Common Stock	48	62
Dividends paid	(67)	(64)
Purchase of treasury stock	(550)	(668)
Other financing activities	(11)	—
Net cash used in financing activities	(195)	(643)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	3	(388)
CASH AND EQUIVALENTS, beginning of period	102	505
CASH AND EQUIVALENTS, end of period	$105	$117

See Notes to Condensed Consolidated Financial Statements

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

1. Basis of Presentation

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

On November 21, 2011 ("the spin-off date"), we completed a spin-off of our timeshare operations and timeshare development business through a special tax-free dividend to our shareholders of all of the issued and outstanding common stock (the "spin-off") of our wholly owned subsidiary Marriott Vacations Worldwide Corporation ("MVW"). Because of our significant continuing involvement in MVW operations after the spin-off (by virtue of license and other agreements between us and MVW), we continue to include the historical financial results before the spin-off date of our former Timeshare segment in our historical financial results as a component of continuing operations. See Footnote No. 16, "Spin-off" of the Notes to our Financial Statements in this Form 10-Q for more information on the spin-off.

These condensed consolidated financial statements have not been audited. We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. generally accepted accounting principles (“GAAP”). Although we believe our disclosures are adequate to make the information presented not misleading, you should read the financial statements in this report in conjunction with the consolidated financial statements and notes to those financial statements in our Annual Report on Form 10-K for the fiscal year ended December 30, 2011, (“2011 Form 10-K”). Certain terms not otherwise defined in this Form 10-Q have the meanings specified in our 2011 Form 10-K.

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

Our 2012 second quarter ended on June 15, 2012; our 2011 fourth quarter ended on December 30, 2011; and our 2011 second quarter ended on June 17, 2011. In our opinion, our financial statements reflect all normal and recurring adjustments necessary to present fairly our financial position as of June 15, 2012, and December 30, 2011, the results of our operations for the twelve and twenty-four weeks ended June 15, 2012, and June 17, 2011, and cash flows for the twenty-four weeks ended June 15, 2012, and June 17, 2011. Interim results may not be indicative of fiscal year performance because of seasonal and short-term variations. We have eliminated all material intercompany transactions and balances between entities consolidated in these financial statements.

Restricted Cash

Restricted cash in our Balance Sheets at the end of the 2012 second quarter and year-end 2011 is recorded as $24 million and zero, respectively, in the “Other current assets” line and $19 million and $16 million, respectively, in the “Other long-term assets” line. Restricted cash primarily consists of cash held internationally that we have not repatriated due to statutory, tax and currency risks.

2. New Accounting Standards

Accounting Standards Update No. 2011-04 – “Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs” (“ASU No. 2011-04”)

We adopted ASU No. 2011-04 in the 2012 first quarter which generally provides a uniform framework for fair

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value measurements and related disclosures between GAAP and International Financial Reporting Standards (“IFRS”). Additional disclosure requirements in the update include: (1) for Level 3 fair value measurements, quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements to changes in the unobservable inputs; (2) for an entity’s use of a nonfinancial asset that is different from the asset’s highest and best use, the reason for the difference; (3) for financial instruments not measured at fair value but for which disclosure of fair value is required, the fair value hierarchy level in which the fair value measurements were determined; and (4) the disclosure of all transfers between Level 1 and Level 2 of the fair value hierarchy. The adoption of this update did not have a material impact on our financial statements.

See the “Fair Value Measurements” caption of Footnote No. 1, “Summary of Significant Accounting Policies” of our 2011 Form 10-K for more information on the three levels of fair value measurements.

Accounting Standards Update No. 2011-05 – “Comprehensive Income (Topic 220): Presentation of Comprehensive Income” (“ASU No. 2011-05”) and Accounting Standards Update No. 2011-12 - "Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05" ("ASU No. 2011-12")

We adopted ASU No. 2011-05 in the 2012 first quarter which amends existing guidance by allowing only two options for presenting the components of net income and other comprehensive income: (1) in a single continuous financial statement, a statement of comprehensive income or (2) in two separate but consecutive financial statements, an income statement followed by a separate statement of other comprehensive income. We also adopted ASU No. 2011-12 which defers until further notice ASU No. 2011-05's requirement that items that are reclassified from other comprehensive income to net income be presented on the face of the financial statements. ASU No. 2011-05 required retrospective application. The adoption of these updates changed the order in which we presented certain financial statements, but did not have any other impact on our financial statements.

3. Income Taxes

We file income tax returns, including returns for our subsidiaries, in various jurisdictions around the world. The Internal Revenue Service ("IRS") has examined our federal income tax returns, and we have settled all issues for tax years through 2009. We participated in the IRS Compliance Assurance Program ("CAP") for the 2010 tax year and all but one issue, which we anticipate appealing, are resolved. We participated in CAP for the 2011 tax year, and are participating in CAP for 2012. This program accelerates the examination of key transactions with the goal of resolving any issues before the tax return is filed. Various income tax returns are also under examination by foreign, state and local taxing authorities.

Our unrecognized tax benefits of $40 million at the end of the 2012 second quarter remained unchanged from the balance at the end of the 2012 first quarter. For the first half of 2012, we increased unrecognized tax benefits by $1 million from $39 million at year-end 2011 primarily due to new information related to federal and state tax issues. The unrecognized tax benefits balance of $40 million at the end of the 2012 second quarter included $24 million of tax positions that, if recognized, would impact our effective tax rate.

We recorded a net $16 million adjustment in the first half of 2012 to reduce shareholders' equity, primarily as a result of additional MVW spin-off adjustments reducing tax benefits to be recognized on the disposition of the timeshare business.

As a large taxpayer, the IRS and other taxing authorities continually audit us. Although we do not anticipate that a significant impact to our unrecognized tax benefit balance will occur during the next 52 weeks as a result of these audits, it remains possible that the amount of our liability for unrecognized tax benefits could change over that time period.

4. Share-Based Compensation

Under our 2002 Comprehensive Stock and Cash Incentive Plan (the “Comprehensive Plan”), we award: (1) stock options to purchase our Class A Common Stock (“Stock Option Program”); (2) stock appreciation rights (“SARs”) for our Class A Common Stock (“SAR Program”); (3) restricted stock units (“RSUs”) of our Class A

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Common Stock; and (4) deferred stock units. We grant awards at exercise prices or strike prices equal to the market price of our Class A Common Stock on the date of grant.

We recorded share-based compensation expense related to award grants of $19 million and $22 million for the twelve weeks ended June 15, 2012 and June 17, 2011, respectively, and $38 million and $43 million for the twenty-four weeks ended June 15, 2012 and June 17, 2011, respectively. Deferred compensation costs related to unvested awards totaled $163 million and $101 million at June 15, 2012 and December 30, 2011, respectively.

RSUs

We granted 2.8 million RSUs during the first half of 2012 to certain officers and key employees, and those units vest generally over four years in equal annual installments commencing one year after the date of grant. RSUs granted in the first half of 2012 had a weighted average grant-date fair value of $35.

SARs and Stock Options

We granted 1.1 million SARs to officers, key employees, and directors during the first half of 2012. These SARs generally expire ten years after the date of grant and both vest and may be exercised in cumulative installments of one quarter at the end of each of the first four years following the date of grant. The weighted average grant-date fair value of SARs granted in the 2012 first half was $12 and the weighted average exercise price was $35.

We granted 0.3 million stock options to officers and key employees during the first half of 2012. These stock options expire ten years after the date of grant and generally vest and may be exercised in cumulative installments of one quarter at the end of each of the first four years following the date of grant. The weighted average grant-date fair value of stock options granted in the 2012 first half was $12 and the weighted average exercise price was $35.

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

We used the following assumptions to determine the fair value of the SARs and stock options granted during the first half of 2012.

Expected volatility	31	%
Dividend yield	1.01	%
Risk-free rate	1.9 - 2.0%	
Expected term (in years)	8 - 10	

In making these assumptions, we base expected volatility on the weighted-average historical stock volatility. We base risk-free rates on the corresponding U.S. Treasury spot rates for the expected duration at the date of grant, which we convert to a continuously compounded rate. The dividend yield assumption takes into consideration both historical levels and expectations of future payout. The weighted average expected terms for SARs and options are an output of our valuation model which utilizes historical data in estimating the period of time that the SARs and options are expected to remain unexercised. We calculate the expected terms for SARs and options for separate groups of retirement eligible and non-retirement eligible employees. Our valuation model also uses historical data to estimate exercise behaviors, which includes determining the likelihood that employees will exercise their SARs and options before expiration at a certain multiple of stock price to exercise price.

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Other Information

At the end of the 2012 second quarter, we reserved 44 million shares under the Comprehensive Plan, including 21 million shares under the Stock Option Program and the SAR Program.

5. Fair Value of Financial Instruments

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

	At June 15, 2012		At Year-End 2011	
($ in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cost method investments	$31	$26	$31	$25
Senior, mezzanine, and other loans	197	190	298	252
Restricted cash	19	19	16	16
Marketable securities	54	54	50	50
Total long-term financial assets	$301	$289	$395	$343
Senior Notes	(1,483)	(1,630)	(1,286)	(1,412)
Commercial paper	(478)	(478)	(331)	(331)
Other long-term debt	(133)	(139)	(137)	(137)
Other long-term liabilities	(74)	(74)	(77)	(77)
Total long-term financial liabilities	$(2,168)	$(2,321)	$(1,831)	$(1,957)

We estimate the fair value of our senior, mezzanine, and other loans by discounting cash flows using risk-adjusted rates, both of which are Level 3 inputs. We estimate the fair value of our cost method investments by applying a cap rate to stabilized earnings (a market approach using Level 3 inputs). The carrying value of our restricted cash approximates its fair value.

We are required to carry our marketable securities at fair value. We value these securities using directly observable Level 1 inputs. The carrying value of our marketable securities at the end of our 2012 second quarter was $54 million, which included debt securities of the U.S. Government, its sponsored agencies and other U.S. corporations invested for our self-insurance programs as well as shares of a publicly traded company.

We estimate the fair value of our other long-term debt, excluding leases, using expected future payments discounted at risk-adjusted rates, both of which are Level 3 inputs. We determine the fair value of our senior notes using quoted market prices, which are directly observable Level 1 inputs. At year-end 2011 and the end of the 2012 second quarter, the carrying value of our commercial paper approximated its fair value due to the short maturity. Other long-term liabilities primarily consist of guarantee costs, reserves and deposit liabilities. The carrying values of our guarantee costs, reserves and deposit liabilities approximate their fair values.

See the “Fair Value Measurements” caption of Footnote No. 1, “Summary of Significant Accounting Policies” of our 2011 Form 10-K for more information.

6. Earnings Per Share

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

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	Twelve Weeks Ended		Twenty-Four Weeks Ended	
	June 15, 2012	June 17, 2011	June 15, 2012	June 17, 2011
(in millions, except per share amounts)				
Computation of Basic Earnings Per Share				
Net income	$143	$135	$247	$236
Weighted average shares outstanding	327.9	356.9	330.8	362.0
Basic earnings per share	$0.44	$0.38	$0.75	$0.65
Computation of Diluted Earnings Per Share				
Net income	$143	$135	$247	$236
Weighted average shares outstanding	327.9	356.9	330.8	362.0
Effect of dilutive securities				
Employee stock option and SARs plans	6.6	9.1	6.7	9.8
Deferred stock incentive plans	0.8	0.9	0.9	0.9
Restricted stock units	2.7	2.5	3.1	3.2
Shares for diluted earnings per share	338.0	369.4	341.5	375.9
Diluted earnings per share	$0.42	$0.37	$0.72	$0.63

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

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

(a) for the twelve-week period ended June 15, 2012, 1.0 million options and SARs;
(b) for the twelve-week period ended June 17, 2011, 1.0 million options and SARs;
(c) for the twenty-four week period ended June 15, 2012, 1.0 million options and SARs; and
(d) for the twenty-four week period ended June 17, 2011, 1.0 million options and SARs.

7. Inventory

Inventory, totaling $12 million as of June 15, 2012 and $11 million as of December 30, 2011, primarily consists of hotel operating supplies for the limited number of properties we own or lease.

8. Property and Equipment

We show the composition of our property and equipment balances in the following table:

($ in millions)	June 15, 2012	December 30, 2011
Land	$552	$454
Buildings and leasehold improvements	679	667
Furniture and equipment	824	810
Construction in progress	288	164
	2,343	2,095
Accumulated depreciation	(960)	(927)
	$1,383	$1,168

In the following table, we show the composition of our assets recorded under capital leases, which we have included in our property and equipment total balances in the preceding table:

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($ in millions)	June 15, 2012	December 30, 2011
Land	$29	$30
Buildings and leasehold improvements	136	128
Furniture and equipment	36	34
Construction in progress	2	3
	203	195
Accumulated depreciation	(78)	(76)
	$125	$119

9. Notes Receivable

We show the composition of our notes receivable balances (net of reserves and unamortized discounts) in the following table:

($ in millions)	June 15, 2012	December 30, 2011
Senior, mezzanine, and other loans	$275	$382
Less current portion	(78)	(84)
	$197	$298

We classify notes receivable due within one year as current assets in the caption “Accounts and notes receivable” in our Balance Sheets. We show the composition of our long-term notes receivable balances (net of reserves and unamortized discounts) in the following table:

($ in millions)	June 15, 2012	December 30, 2011
Loans to equity method investees	$—	$2
Other notes receivable	197	296
	$197	$298

The following tables show future principal payments (net of reserves and unamortized discounts) as well as interest rates, and unamortized discounts for our notes receivable.

Notes Receivable Principal Payments (net of reserves and unamortized discounts) and Interest Rates

($ in millions)	Amount
2012	$49
2013	57
2014	44
2015	55
2016	—
Thereafter	70
Balance at June 15, 2012	$275
Weighted average interest rate at June 15, 2012	4.9 %
Range of stated interest rates at June 15, 2012	0 to 12.7%

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Notes Receivable Unamortized Discounts

($ in millions)	Total
Balance at year-end 2011	$12
Balance at June 15, 2012	$13

At the end of the 2012 second quarter, our recorded investment in impaired "Senior, mezzanine, and other loans" was $102 million. We had an $88 million notes receivable reserve representing an allowance for credit losses, leaving $14 million of our investment in impaired loans, for which we had no related allowance for credit losses. At year-end 2011, our recorded investment in impaired "Senior, mezzanine, and other loans" was $96 million, and we had a $78 million notes receivable reserve representing an allowance for credit losses, leaving $18 million of our investment in impaired loans, for which we had no related allowance for credit losses. During the 2012 first half and full fiscal year 2011, our average investment in impaired "Senior, mezzanine, and other loans" totaled $99 million and $89 million, respectively.

The following table summarizes the activity related to our "Senior, mezzanine, and other loans" notes receivable reserve for the first half of 2012:

($ in millions)	Notes Receivable Reserve
Balance at year-end 2011	$78
Additions	2
Reversals	(1)
Write-offs	(1)
Transfers and other	10
Balance at June 15, 2012	$88

At the end of the 2012 second quarter, past due senior, mezzanine, and other loans totaled $7 million.

10. Long-term Debt

We provide detail on our long-term debt balances in the following table:

($ in millions)	June 15, 2012	December 30, 2011
Senior Notes:		
Series F, matured June 15, 2012	$—	$348
Series G, interest rate of 5.810%, face amount of $316, maturing November 10, 2015 (effective interest rate of 6.51%)[1]	308	307
Series H, interest rate of 6.200%, face amount of $289, maturing June 15, 2016 (effective interest rate of 6.27%)[1]	289	289
Series I, interest rate of 6.375%, face amount of $293, maturing June 15, 2017 (effective interest rate of 6.42%)[1]	292	291
Series J, interest rate of 5.625%, face amount of $400, maturing February 15, 2013 (effective interest rate of 5.68%)[1]	399	399
Series K, interest rate of 3.000%, face amount of $600, maturing March 1, 2019 (effective interest rate of 4.08%)[1]	594	—
Commercial paper, average interest rate of 0.4386% at June 15, 2012	478	331
$1,750 Credit Facility	—	—
Other	200	206
	2,560	2,171

Less current portion	(407)	(355)
	$2,153	$1,816

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(1) Face amount and effective interest rate are as of June 15, 2012.

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

In the first quarter of 2012, we issued $600 million aggregate principal amount of 3.000 percent Series K Notes due 2019 (the "Notes"), completed in two offerings: (1) $400 million aggregate principal amount which closed on February 27, 2012 and (2) $200 million aggregate principal amount which closed on March 14, 2012. We received total net proceeds of approximately $590 million from these offerings, after deducting underwriting discounts and estimated expenses. We expect to use the proceeds for general corporate purposes, which may include working capital, capital expenditures, acquisitions, stock repurchases, or repayment of commercial paper borrowings as they become due.

We will pay interest on the Notes on March 1 and September 1 of each year, commencing on September 1, 2012. The Notes will mature on March 1, 2019, and we may redeem them, in whole or in part, at our option, under the terms provided in the form of Note. We issued the Notes under an indenture dated as of November 16, 1998 with The Bank of New York Mellon, as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank), as trustee.

At end of the second quarter of 2012, we made a $356 million cash payment of principal and interest to retire, at maturity, all of our outstanding Series F Senior Notes.

We are party to a multicurrency revolving credit agreement (the “Credit Facility”) that provides for $1.75 billion of aggregate borrowings to support general corporate needs, including working capital, capital expenditures, and letters of credit. The Credit Facility expires on June 23, 2016. The availability of the Credit Facility also supports our commercial paper program. Borrowings under the Credit Facility bear interest at LIBOR (the London Interbank Offered Rate) plus a spread, based on our public debt rating. We also pay quarterly fees on the Credit Facility at a rate also based on our public debt rating. While any outstanding commercial paper borrowings and/or borrowings under our Credit Facility generally have short-term maturities, we classify the outstanding borrowings as long-term based on our ability and intent to refinance the outstanding borrowings on a long-term basis.

We show future principal payments (net of unamortized discounts) and unamortized discounts for our debt in the following tables:

Debt Principal Payments (net of unamortized discounts)

($ in millions)	Amount
2012	$4
2013	408
2014	59
2015	315
2016	775
Thereafter	999
Balance at June 15, 2012	$2,560

Unamortized Debt Discounts

($ in millions)	Amount
Balance at year-end 2011	$12
Balance at June 15, 2012	$17

We paid cash for interest, net of amounts capitalized, of $44 million in the first half of 2012 and $65 million in the first half of 2011.

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11. Capital Structure

The following table details changes in shareholders' equity.

(in millions, except per share amounts)

Common Shares Outstanding		Total	Class A Common Stock	Additional Paid-in-Capital	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Loss
333.0	Balance at year-end 2011	$(781)	$5	$2,513	$3,212	$ (6,463)	$(48)
—	Net income	247	—	—	247	—	—
—	Other comprehensive loss	(5)	—	—	—	—	(5)
—	Cash dividends ($0.2300 per share)	(76)	—	—	(76)	—	—
4.4	Employee stock plan issuance	57	—	(33)	(48)	138	—
(14.7)	Purchase of treasury stock	(550)	—	—	—	(550)	—
—	Spin-off of MVW adjustment	(16)	—	(16)	—	—	—
322.7	Balance at June 15, 2012	$(1,124)	$5	$2,464	$3,335	$ (6,875)	$(53)

12. Contingencies

Guarantees

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

We show the maximum potential amount of future fundings and the carrying amount of the liability for guarantees at June 15, 2012 for which we are the primary obligor in the following table.

($ in millions) Guarantee Type	Maximum Potential Amount of Future Fundings	Liability for Guarantees
Debt service	$ 107	$10
Operating profit	102	43
Other	15	3
Total guarantees where we are the primary obligor	$ 224	$56

We included our liability for guarantees at June 15, 2012 for which we are the primary obligor in our Balance Sheet as follows: $9 million in the "Other current liabilities" and $47 million in the "Other long-term liabilities."

Our guarantees listed in the preceding table include $34 million of debt service guarantees that will not be in effect until the underlying properties open and we begin to operate the properties or certain other events occur.

The guarantees in the preceding table do not include the following:

- $154 million of guarantees related to Senior Living Services lease obligations of $118 million (expiring in 2018) and lifecare bonds of $36 million (estimated to expire in 2016), for which we are secondarily liable. Sunrise Senior Living, Inc. (“Sunrise”) is the primary obligor on both the leases and $6 million of the lifecare bonds; Health Care Property Investors, Inc., as successor by merger to CNL Retirement Properties, Inc. (“CNL”), is the primary obligor on $29 million of the lifecare bonds, and Five Star Senior Living is the primary obligor on the remaining $1 million of lifecare bonds.

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Before we sold the Senior Living Services business in 2003, these were our guarantees of obligations of our then consolidated Senior Living Services subsidiaries. Sunrise and CNL have indemnified us for any fundings we may be called upon to make under these guarantees. Our liability associated with these guarantees had a carrying value of $3 million at June 15, 2012. In 2011 Sunrise provided us $3 million cash collateral to cover potential exposure under the existing lease and bond obligations for 2012 and 2013. In conjunction with our consent of the extension in 2011 of certain lease obligations for an additional five-year term until 2018, Sunrise provided us an additional $1 million cash collateral and an $85 million letter of credit issued by Key Bank to secure our exposure under the lease guarantees for the continuing leases during the extension term and certain other obligations of Sunrise. During the extension term, Sunrise agreed to make an annual payment to us with respect to the cash flow of the continuing lease facilities, subject to a $1 million annual minimum.

- Lease obligations, for which we became secondarily liable when we acquired the Renaissance Hotel Group N.V. in 1997, consisting of annual rent payments of approximately $6 million and total remaining rent payments through the initial term of approximately $40 million. Most of these obligations expire by the end of 2020. CTF Holdings Ltd. (“CTF”) had originally provided €35 million in cash collateral in the event that we are required to fund under such guarantees, approximately $5 million (€4 million) of which remained at June 15, 2012. Our exposure for the remaining rent payments through the initial term will decline to the extent that CTF obtains releases from the landlords or these hotels exit the system. Since the time we assumed these guarantees, we have not funded any amounts, and we do not expect to fund any amounts under these guarantees in the future.
- Certain guarantees and commitments relating to the timeshare business, which were outstanding at the time of the 2011 Timeshare spin-off and for which we became secondarily liable as part of the spin-off. These MVW payment obligations, for which we currently have a total exposure of $32 million, relate to a project completion guarantee, various letters of credit, and several guarantees. MVW has indemnified us for these obligations. Most of the obligations expire in 2012, 2013, and 2014, except for one guarantee in the amount of $20 million (Singapore Dollars 26 million) that expires in 2022. We have not funded any amounts under these obligations, and do not expect to do so in the future. Our liability for these obligations had a carrying value of $2 million at June 15, 2012. See Footnote No. 16 "Spin-off" of the Notes to our Financial Statements in this Form 10-Q for more information on the spin-off of our timeshare operations and timeshare development business.
- A recoverable $69 million operating profit guarantee, originally entered into in 2000, for which we became secondarily liable in the 2012 first quarter upon the restructuring of agreements for certain Ritz-Carlton properties. The operating profit guarantee for which we became secondarily liable in the 2012 first quarter obligates us to fund up to $69 million and was, at year-end 2011, a $69 million guarantee obligation for which we were the primary obligor and had fully funded. During the 2012 first quarter, we were repaid for the $69 million note receivable plus interest for the guarantee fundings. In the 2012 first quarter, we entered into an agreement with an entity with a net worth of approximately $1 billion (the "Entity"), whereby the Entity agreed to immediately reimburse us for any fundings under the operating profit guarantee. The Entity is obligated to maintain certain liquidity and net worth covenants in support of this obligation to us. Most of this operating profit guarantee and corresponding Entity guarantee to us will expire in 2014 with a final expiration in 2016.
- A project completion guarantee that we provided to a lender for a joint venture project with an estimated aggregate total cost of $495 million (Canadian $510 million). The associated joint venture will satisfy payments for cost overruns for this project through contributions from the partners or from borrowings, and we are liable on a several basis with our partners in an amount equal to our 20 percent pro rata ownership in the joint venture. In 2010, our partners executed documents indemnifying us for any payments that may be required for this guarantee obligation. Our liability associated with this project completion guarantee had a carrying value of $3 million at June 15, 2012.
- A guarantee related to a lease, originally entered into in 2000, for which we became secondarily liable

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in the 2012 second quarter as a result of the sale of the ExecuStay corporate housing business to Oakwood. Oakwood has indemnified us for the obligations under this guarantee. Our total exposure at the end of the 2012 second quarter for this guarantee is $11 million in future rent payments if the lease is terminated through 2013 and will be reduced to $6 million if the lease is terminated from 2014 through the end of the lease in 2019. Our liability associated with this guarantee had a carrying value of $1 million at June 15, 2012.

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

Commitments and Letters of Credit

In addition to the guarantees noted in the preceding paragraphs, as of June 15, 2012, we had the following commitments outstanding:

- A commitment to invest up to $7 million of equity for noncontrolling interests in partnerships that plan to purchase North American full-service and limited-service properties, or purchase or develop hotel-anchored mixed-use real estate projects. We expect to fund this commitment within two years.
- A commitment to invest up to $24 million of equity for noncontrolling interests in partnerships that plan to develop limited-service properties. We expect to fund $21 million of this commitment within two years. We do not expect to fund the remaining $3 million of this commitment.
- Several commitments aggregating $32 million with no expiration date and which we do not expect to fund.
- A commitment, with no expiration date, to invest up to $11 million in a joint venture for development of a new property that we expect to fund within two years, as follows: $9 million in 2012 and $2 million in 2013.
- $3 million of loan commitments that we have extended to owners of lodging properties. We do not expect to fund these commitments, $2 million of which will expire within three years and $1 million will expire after five years.
- We have a right and under certain circumstances an obligation to acquire our joint venture partner's remaining 50 percent interest in two joint ventures over the next nine years at a price based on the performance of the ventures. We made a $12 million (€9 million) deposit in conjunction with this contingent obligation in 2011, a $4 million (€3 million) deposit in the second quarter of 2012, and the final deposit of $4 million (€3 million) after the second quarter of 2012. The deposits are refundable to the extent we do not acquire our joint venture partner's remaining interests.
- We have a right and under certain circumstances an obligation to acquire the landlord's interest in the real estate property and attached assets of a hotel that we lease for approximately $56 million (€45 million) during the next two years.
- Various commitments for the purchase of information technology hardware, software, and maintenance services in the normal course of business totaling $74 million. We expect to fund these commitments within three years as follows: $23 million in 2012, $48 million in 2013, and $3 million in 2014.

At June 15, 2012, we had $64 million of letters of credit outstanding ($63 million outside the Credit Facility and approximately $1 million under our Credit Facility), the majority of which related to our self-insurance programs. Surety bonds issued as of June 15, 2012, totaled $110 million, the majority of which federal, state and local governments requested in connection with our lodging operations and self-insurance programs.

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Legal Proceedings

On January 19, 2010, several former Marriott employees (the "plaintiffs") filed a putative class action complaint against us and the Stock Plan (the "defendants"), alleging that certain equity awards of deferred bonus stock granted to the plaintiffs and other current and former employees for fiscal years 1963 through 1989 are subject to vesting requirements under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), that are in certain circumstances more rapid than those set forth in the awards, various other purported ERISA violations, and various breaches of contract in connection with the awards. The plaintiffs seek damages, class attorneys' fees and interest, with no amounts specified. The action is proceeding in the United States District Court for the District of Maryland (Greenbelt Division) and Robert J. England, Dennis Walter Bond Sr. and Michael P. Steigman are the current named plaintiffs. The parties currently are engaged in limited discovery concerning the issues of statute of limitations and class certification. We anticipate filing a motion for summary judgment in the fall of 2012. We and the Stock Plan have denied all liability, and while we intend to vigorously defend against the claims being made by the plaintiffs, we can give you no assurance about the outcome of this lawsuit. We currently cannot estimate the range of any possible loss to the Company because an amount of damages is not claimed, there is uncertainty as to whether a class will be certified and if so as to the size of the class, and the possibility of our prevailing on our statute of limitations defense may significantly limit any claims for damages.

In March 2012, the Korea Fair Trade Commission ("KFTC") obtained documents from two of our managed hotels in Seoul, Korea in connection with an investigation which we believe is focused on pricing of hotel services within the Seoul region. We understand that the KFTC also has sought documents from approximately ten other hotels in the Seoul region that we do not operate, own or franchise. We have not yet received a complaint or other legal process. We are cooperating with this investigation.

13. Business Segments

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

- North American Full-Service Lodging, which includes the Marriott Hotels & Resorts, Marriott Conference Centers, JW Marriott, Renaissance Hotels, Renaissance ClubSport, and Autograph Collection properties located in the United States and Canada;
- North American Limited-Service Lodging, which includes the Courtyard, Fairfield Inn & Suites, SpringHill Suites, Residence Inn, and TownePlace Suites properties located in the United States and Canada, and, before its sale in the 2012 second quarter, our Marriott ExecuStay corporate housing business;
- International Lodging, which includes the Marriott Hotels & Resorts, JW Marriott, Renaissance Hotels, Autograph Collection, Courtyard, AC Hotels by Marriott, Fairfield Inn & Suites, Residence Inn, and Marriott Executive Apartments properties located outside the United States and Canada; and
- Luxury Lodging, which includes The Ritz-Carlton, Bulgari Hotels & Resorts, and EDITION properties worldwide (together with residential properties associated with some Ritz-Carlton hotels).

In addition, before the spin-off, our former Timeshare segment consisted of the timeshare operations and timeshare development business that we transferred to MVW in conjunction with the spin-off. Our former Timeshare segment's historical financial results for periods before the spin-off date continue to be included in our historical financial results as a component of continuing operations as reflected in the tables that follow. See Footnote No. 16, "Spin-off" for more information on the spin-off.

We evaluate the performance of our segments based primarily on the results of the segment without allocating corporate expenses, income taxes, or indirect general, administrative, and other expenses. We allocate gains and losses, equity in earnings or losses from our joint ventures, divisional general, administrative, and other expenses, and income or losses attributable to noncontrolling interests to each of our segments. “Other unallocated corporate” represents that portion of our revenues, general, administrative, and other expenses, equity in earnings or losses, and other gains or losses that we do not allocate to our segments. "Other unallocated corporate" includes license fees we receive from our credit cards and, following the spin-off, also includes license fees from MVW.

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We aggregate the brands presented within our segments considering their similar economic characteristics, types of customers, distribution channels, the regulatory business environments and operations within each segment and our organizational and management reporting structure.

Revenues

($ in millions)	Twelve Weeks Ended June 15, 2012	Twelve Weeks Ended June 17, 2011	Twenty-Four Weeks Ended June 15, 2012	Twenty-Four Weeks Ended June 17, 2011
North American Full-Service Segment	$1,373	$1,305	$2,674	$2,556
North American Limited-Service Segment	591	564	1,123	1,066
International Segment	306	301	577	567
Luxury Segment	428	391	827	776
Former Timeshare Segment	—	390	—	748
Total segment revenues	2,698	2,951	5,201	5,713
Other unallocated corporate	78	21	127	37
	$2,776	$2,972	$5,328	$5,750

Net Income (Loss)

($ in millions)	Twelve Weeks Ended June 15, 2012	Twelve Weeks Ended June 17, 2011	Twenty-Four Weeks Ended June 15, 2012	Twenty-Four Weeks Ended June 17, 2011
North American Full-Service Segment	$110	$89	$199	$167
North American Limited-Service Segment	106	98	190	170
International Segment	46	45	81	81
Luxury Segment	25	20	46	38
Former Timeshare Segment	—	29	—	64
Total segment financial results	287	281	516	520
Other unallocated corporate	(47)	(58)	(100)	(120)
Interest expense and interest income [1]	(31)	(22)	(60)	(47)
Income taxes	(66)	(66)	(109)	(117)
	$143	$135	$247	$236

(1) Of the $37 million and $78 million of interest expense shown on the Income Statement for the twelve and twenty-four weeks ended June 17, 2011, respectively, we allocated $12 million and $24 million, respectively, to our former Timeshare Segment.

Equity in Losses of Equity Method Investees

($ in millions)	Twelve Weeks Ended June 15, 2012	Twelve Weeks Ended June 17, 2011	Twenty-Four Weeks Ended June 15, 2012	Twenty-Four Weeks Ended June 17, 2011
North American Full-Service Segment	$1	$1	$1	$—
North American Limited-Service Segment	1	1	1	(1)
International Segment	2	(1)	2	(1)
Luxury Segment	(10)	(1)	(11)	(2)
Total segment equity in losses	$(6)	$—	$(7)	$(4)
Other unallocated corporate	(2)	—	(2)	—
	$(8)	$—	$(9)	$(4)

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Assets

($ in millions)	At Period End June 15, 2012	December 30, 2011
North American Full-Service Segment	$1,255	$1,241
North American Limited-Service Segment	527	497
International Segment	1,024	1,026
Luxury Segment	1,043	931
Total segment assets	3,849	3,695
Other unallocated corporate	2,158	2,215
	$6,007	$5,910

14. Acquisitions and Dispositions

2012 Planned and Completed Acquisitions

In the first quarter of 2012, we acquired land and a building we plan to develop into a hotel for $160 million in cash. In conjunction with this acquisition, we had also made a cash deposit of $6 million late in 2011.

In the second quarter of 2012, we entered into a definitive agreement with Gaylord Entertainment Company ("Gaylord Entertainment") to acquire the Gaylord brand and hotel management company for $210 million. The transaction, which we expect will close by October 2012, remains subject to the approval of Gaylord Entertainment’s conversion into a real estate investment trust by its shareholders, lender consent to amendments to Gaylord Entertainment’s credit facility, and other customary closing conditions. After the transaction closes, Gaylord Entertainment will continue to own the existing Gaylord hotels and we will assume management of these properties under the Gaylord Hotel brand subject to long-term management agreements. We expect the transaction will add four hotels and nearly 8,000 rooms to our North American full-service portfolio.

2012 Completed Dispositions

After the 2012 second quarter, we completed the sale of an equity interest in a North American Limited-Service joint venture (formerly two joint ventures which were merged before the sale). As part of the transaction we also amended certain provisions of the management agreements for the underlying hotel portfolio. As a result, we received cash proceeds of approximately $90 million, and we expect to recognize deferred base fee revenue totaling $5 million and a gain of approximately $40 million in the 2012 third quarter. A portion of this gain represents recognition of the remaining gain we deferred in 2005 due to contingencies in the original transaction documents associated with one of the joint ventures, as these contingencies expired with this sale.

In the 2012 second quarter, we completed the sale of our ExecuStay corporate housing business. Neither the sales price nor the gain we recognized was material to our results of operations and cash flows. The revenues, results of operations, assets, and liabilities of our ExecuStay business also were not material to the Company's financial position, results of operations or cash flows for any of the periods presented, and accordingly we have not reflected ExecuStay as a discontinued operation.

15. Variable Interest Entities

In accordance with the applicable accounting guidance for the consolidation of variable interest entities, we analyze our variable interests, including loans, guarantees, and equity investments, to determine if an entity in which we have

a variable interest is a variable interest entity. Our analysis includes both quantitative and qualitative reviews. We base our quantitative analysis on the forecasted cash flows of the entity, and our qualitative analysis on

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our review of the design of the entity, its organizational structure including decision-making ability, and relevant financial agreements. We also use our qualitative analyses to determine if we must consolidate a variable interest entity as its primary beneficiary.

In conjunction with the transaction with CTF described more fully in Footnote No. 8, “Acquisitions and Dispositions,” of our Annual Report on Form 10-K for 2007, under the caption “2005 Acquisitions,” we manage hotels on behalf of tenant entities 100 percent owned by CTF, which lease the hotels from third-party owners. Due to certain provisions in the management agreements, we account for these contracts as operating leases. At June 15, 2012, we managed seven hotels on behalf of three tenant entities. The entities have minimal equity and minimal assets comprised of hotel working capital and furniture, fixtures, and equipment. In conjunction with the 2005 transaction, CTF had placed money in a trust account to cover cash flow shortfalls and to meet rent payments. In turn, we released CTF from its guarantees fully in connection with four of these properties and partially in connection with the other three properties. As of year-end 2011, the trust account had been fully depleted. The tenant entities are variable interest entities because the holder of the equity investment at risk, CTF, lacks the ability through voting rights to make key decisions about the entities’ activities that have a significant effect on the success of the entities. We do not consolidate the entities because we do not have: (1) the power to direct the activities that most significantly impact the entities' economic performance or (2) the obligation to absorb losses of the entities or the right to receive benefits from the entities that could potentially be significant. We are liable for rent payments for four of the seven hotels if there are cash flow shortfalls. Future minimum lease payments through the end of the lease term for these hotels totaled approximately $16 million at the end of the 2012 second quarter. In addition, as of the end of the 2012 second quarter we are liable for rent payments of up to an aggregate cap of $11 million for the three other hotels if there are cash flow shortfalls. Our maximum exposure to loss is limited to the rent payments and certain other tenant obligations under the lease, for which we are secondarily liable.

16. Spin-off

On November 21, 2011, we completed a spin-off of our timeshare operations and timeshare development business through a special tax-free dividend to our shareholders of all of the issued and outstanding common stock of our wholly owned subsidiary MVW.

As a result of the spin-off, MVW is an independent company whose common shares are listed on the New York Stock Exchange under the symbol "VAC." We do not beneficially own any shares of MVW common stock and do not consolidate MVW's financial results for periods after the spin-off date as part of our financial reporting. However, because of our significant continuing involvement in MVW operations after the spin-off (by virtue of the license and other agreements between us and MVW), our former Timeshare segment's historical financial results for periods before the spin-off date continue to be included in Marriott's historical financial results as a component of continuing operations.

Under license agreements entered into effective as of the spin-off date, we receive license fees consisting of a fixed annual fee of $50 million plus two percent of the gross sales price paid to MVW for initial developer sales of interests in vacation ownership units and residential real estate units and one percent of the gross sales price paid to MVW for resales of interests in vacation ownership units and residential real estate units, in each case that are identified with or use the Marriott or Ritz-Carlton marks. The license fee also includes a periodic inflation adjustment. We record these license fees as franchise fee revenues and do not allocate them to any of our segments, but instead include them in "other unallocated corporate."

For more information on the spin-off, see Footnote No. 17, "Spin-Off," of the Notes to our Financial Statements in our 2011 Form 10-K.

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

Forward-Looking Statements

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

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

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

BUSINESS AND OVERVIEW

Lodging Business

Our lodging business model primarily involves managing and franchising hotels, rather than owning them. At June 15, 2012, we operated 43 percent of the hotel rooms in our worldwide system under management agreements, our franchisees operated 54 percent under franchise agreements, we owned or leased 2 percent, and unconsolidated joint ventures that we have an interest in, operated or franchised 1 percent.

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

We earn base management fees and in some cases incentive management fees from the hotels that we manage, and we earn franchise fees on the hotels that others operate under franchise agreements with us. Base fees are typically a percentage of property-level revenue while incentive fees are typically a percentage of net house profit adjusted for a specified owner return. Net house profit is calculated as gross operating profit (house profit) less non-controllable expenses such as insurance, real estate taxes, capital spending reserves, and the like.

We remain focused on doing the things that we do well; that is, selling rooms, taking care of our guests, and making sure we control our costs. Our brands remain strong as a result of skilled management teams, dedicated associates, superior customer service with an emphasis on guest and associate satisfaction, significant distribution, our Marriott Rewards and The Ritz-Carlton Rewards loyalty programs, a multichannel reservations system, and desirable property amenities. We, along with owners and franchisees, continue to invest in our brands by means of new, refreshed, and reinvented properties, new room and public space designs, and enhanced amenities and technology offerings. We address through various means hotels in the system that do not meet standards. We continue to enhance the appeal of our proprietary, information-rich, and easy-to-use website, Marriott.com, through functionality and service improvements, and we expect to continue capturing an increasing proportion of property-level reservations via this cost-efficient channel.

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Our profitability, as well as that of owners and franchisees, has benefited from our approach to property-level and above-property productivity. Properties in our system continue to maintain very tight cost controls. We also control above-property costs, some of which we allocate to hotels, by remaining focused on systems, processing, and support areas.

Lodging Performance Measures

We consider Revenue per Available Room ("RevPAR"), which we calculate by dividing room sales for comparable properties by room nights available to guests for the period, to be a meaningful indicator of our performance because it measures the period-over-period change in room revenues for comparable properties. RevPAR may not be comparable to similarly titled measures, such as revenues. References to RevPAR throughout this report are in constant dollars, unless otherwise noted. We calculate constant dollar statistics by applying exchange rates for the current period to the prior comparable period.

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

Lodging Results

Conditions for our lodging business continued to improve in the first half of 2012, reflecting generally low supply growth, a favorable economic climate in many markets around the world, the impact of operating efficiencies across our company, and a year-over-year increase in the number of hotels. During this period, most markets in North and South America and Mexico experienced strong demand. However, some markets, particularly the greater Washington D.C. market, still continue to have weak demand. In the greater Washington, D.C. market, government spending restrictions and a short congressional calendar continued to reduce lodging demand, especially impacting the surrounding suburban markets. Economic growth in Europe was moderate during the first half of 2012; reflecting strong demand in most international gateway cities, but weaker demand in markets dependent on more regional demand. Demand was also weak in Germany, Switzerland and Austria. RevPAR and occupancy rates at properties in the Middle East improved in the 2012 second quarter benefiting from favorable comparisons with the prior year as political unrest in that region subsided somewhat in the 2012 second quarter. RevPAR in the Asia Pacific region continued to be strong in the 2012 first half particularly for properties in Thailand, China, and Japan; however, demand in the 2012 second quarter moderated slightly as compared to the 2012 first quarter.

In the second quarter of 2012, as compared to the year ago quarter, worldwide average daily rates increased 4.1 percent on a constant dollar basis to $140.65 for comparable systemwide properties, with RevPAR increasing 6.7 percent to $104.01 and occupancy increasing 1.8 percentage points to 74.0 percent. For the first half of 2012, as compared to the first half of 2011, worldwide average daily rates increased 3.9 percent on a constant dollar basis to $137.55 for comparable systemwide properties, with RevPAR increasing 6.7 percent to $96.52 and occupancy increasing 1.9 percentage points to 70.2 percent.

We monitor market conditions and carefully price our rooms daily to meet individual hotel demand levels. We modify the mix of our business to increase revenue as demand changes. Demand for higher rated rooms continued to improve in most markets in the first half of 2012, which allowed us to reduce discounting and special offers for transient business. This mix improvement benefited average daily rates.

The hotels in our system serve both transient and group customers. Overall, business transient and leisure transient demand was strong in the first and second quarters of 2012, although retail business transient occupancy

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was down a bit in the second quarter of 2012 compared to the 2012 first quarter, largely due to displacement during periods of increased group and negotiated corporate (or special corporate) occupancy. Group demand continued to strengthen in the first half of 2012 and the group revenue booking pace for comparable North American Marriott Hotels & Resorts properties for the remainder of 2012 is up approximately 10 percent year over year. For 2013, group revenue booking pace is up 8 percent compared to only one percent a year ago. Typically, two-thirds of group business is booked before the year of arrival and one-third is booked in the year of arrival. During an economic recovery, group pricing tends to lag transient pricing due to the significant lead times for group bookings. Group business booked in earlier periods at lower rates continues to roll off, and with improving group demand, is being replaced with bookings reflecting generally higher rates. In the first half of 2012, group customers spent more on their meetings and property-level food and beverage volumes improved. Additionally, we saw an increase in short-term bookings for both large and small groups during the first half of 2012, and attendance at meetings frequently exceeded initial projections.

Lodging System Growth and Pipeline

During the first half of 2012, we added 8,292 rooms (gross) to our system. Approximately 47 percent of new rooms were located outside the United States and 27 percent of the room additions were conversions from competitor brands. We currently have approximately 115,000 rooms in our lodging development pipeline not including the nearly 8,000 rooms from our planned acquisition of the Gaylord brand and hotel management company. For the full 2012 fiscal year, we expect to add 20,000 to 25,000 rooms (gross) to our system, not including nearly 8,000 rooms from the Gaylord transaction. We expect approximately 9,000 rooms to exit the system for the 2012 full fiscal year, largely due to financial and quality issues. The figures in this paragraph do not include residential, timeshare, or ExecuStay units.

Lodging Transactions

In the second quarter of 2012, we entered into a definitive agreement with Gaylord Entertainment Company ("Gaylord Entertainment") to acquire the Gaylord brand and hotel management company for $210 million. The transaction, which we expect will close by October 2012, remains subject to the approval of Gaylord Entertainment's conversion into a real estate investment trust by its shareholders, lender consent to amendments to Gaylord Entertainment's credit facility, and other customary closing conditions. After the transaction closes, Gaylord Entertainment will continue to own the existing Gaylord hotels and we will assume management of these properties under the Gaylord Hotel brand subject to long-term management agreements. We expect the transaction will add four hotels and nearly 8,000 rooms to our North American full-service portfolio.

Also in the 2012 second quarter, we completed the sale of our ExecuStay corporate housing business. Neither the sales price nor the gain we recognized was material to our results of operations and cash flows. The revenues, results of operations, assets, and liabilities of our ExecuStay business also were not material to our financial position, results of operations or cash flows for any of the periods presented, and accordingly we have not reflected ExecuStay as a discontinued operation.

After the 2012 second quarter, we completed the sale of an equity interest in a North American Limited-Service joint venture (formerly two joint ventures which were merged before the sale). As part of the transaction, we also amended certain provisions of the management agreements for the underlying hotel portfolio. As a result, we received cash proceeds of approximately $90 million, and we expect to recognize deferred base fee revenue totaling $5 million and a gain of approximately $40 million in the 2012 third quarter. A portion of this gain represents recognition of the remaining gain we deferred in 2005 due to contingencies in the original transaction documents associated with one of the joint ventures, as those contingencies expired with this sale.

Timeshare Spin-off

On November 21, 2011 ("the spin-off date"), we completed a spin-off of our timeshare operations and timeshare development business through a special tax-free dividend to our shareholders of all of the issued and outstanding

common stock of our wholly owned subsidiary Marriott Vacations Worldwide Corporation ("MVW"). In connection with the spin-off, we entered into several agreements with MVW, and, in some cases, certain of its

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subsidiaries, that govern our post-spin-off relationship with MVW, including a Separation and Distribution Agreement and two License Agreements for the use of Marriott and Ritz-Carlton marks and intellectual property. Under license agreements with us, MVW is both the exclusive developer and operator of timeshare, fractional, and related products under the Marriott brand and the exclusive developer of fractional and related products under The Ritz-Carlton brand. We now receive license fees from MVW under these license agreements that we include in franchise fees. We do not allocate MVW license fees to any of our segments and instead include them in "other unallocated corporate."

Because of our significant continuing involvement in MVW operations after the spin-off (by virtue of the license and other agreements between us and MVW), we continue to include the historical financial results before the spin-off of our former Timeshare segment in our historical financial results as a component of continuing operations. Please see Footnote No. 16, “Spin-off,” and “Part II, Item 1A – Risk Factors; Other Risks” for more information.

CONSOLIDATED RESULTS

As noted in the preceding "Business and Overview" section, we completed the spin-off of our timeshare operations and timeshare development business in late 2011. Accordingly, we no longer have a Timeshare segment and instead now earn license fees that we do not allocate to any of our segments and include in "other unallocated corporate." The following table details the components of our former Timeshare segment revenues and results for the twelve and twenty-four weeks ended June 17, 2011 and also shows the components of revenues we received from MVW for the twelve and twenty-four weeks ended June 15, 2012.

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($ in millions)	Twelve Weeks Ended June 15, 2012	June 17, 2011	Change 2012/2011	Twenty-Four Weeks Ended June 15, 2012	June 17, 2011	Change 2012/2011
Former Timeshare segment revenues						
Base fee revenue	$—	$13		$—	$26	
Total sales and services revenue	—	288		—	564	
Cost reimbursements	—	89		—	158	
Former Timeshare segment revenues	—	390	$(390)	—	748	$(748)
Other unallocated corporate revenues from MVW						
Franchise fee revenue	$14	$—		$27	$—	
Cost reimbursements	41	—		60	—	
Revenues from MVW	55	—	55	87	—	87
Total revenue impact	$55	$390	$(335)	$87	$748	$(661)
Former Timeshare segment results operating income impact						
Base fee revenue	$—	$13		$—	$26	
Timeshare sales and services, net	—	43		—	94	
General, administrative, and other expense	—	(16)		—	(33)	
Former Timeshare segment results operating income impact [1]	—	40	$(40)	—	87	$(87)
Timeshare spin-off costs [2]	—	(3)	3	—	(4)	4
Other Unallocated corporate operating income impact from MVW						
Franchise fee revenue	14	—	14	27	—	27
Total operating income impact	14	37	(23)	27	83	(56)
Gains and other income [1]	—	1	(1)	—	1	(1)
Interest expense [1]	—	(12)	12	—	(24)	24
Income before income taxes impact	$14	$26	$(12)	$27	$60	$(33)

[1] Segment results for our former Timeshare segment for the twelve and twenty-four weeks ended June 17, 2011 of $29 million and $64 million, respectively, include interest expense allocated to our former Timeshare segment of $12 million and $24 million, respectively and gains and other income allocated to our former Timeshare segment of $1 million for both the twelve and twenty-four weeks ended June 17, 2011.

[2] Costs incurred to spin-off our former Timeshare segment were recorded in the "General, administrative, and other expenses" caption of our Income Statement for the twelve and twenty-four weeks ended June 17, 2011 and we did not allocate those spin-off costs to our former Timeshare segment.

The following discussion presents an analysis of results of our operations for the twelve and twenty-four weeks ended June 15, 2012, compared to the twelve and twenty-four weeks ended June 17, 2011. The results for the first half of

2011 include the results of the former Timeshare segment.

Revenues

Twelve Weeks. Revenues decreased by $196 million (7 percent) to $2,776 million in the second quarter of

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2012 from $2,972 million in the second quarter of 2011. As detailed in the preceding table, the spin-off contributed to a net $335 million decrease in revenues that was partially offset by a $139 million increase in revenues in our lodging business.

The $139 million increase in revenues for our lodging business was a result of: higher cost reimbursements revenue ($102 million), higher owned, leased, corporate housing, and other revenue ($15 million), higher franchise fees ($11 million), higher incentive management fees ($6 million (comprised of a $3 million increase for North America and a $3 million increase outside of North America)), and higher base management fees ($5 million).

Cost reimbursements revenue represents reimbursements of costs incurred on behalf of managed and franchised properties and relates, predominantly, to payroll costs at managed properties where we are the employer, but also includes reimbursements for other costs, such as those associated with our Marriott Rewards and Ritz-Carlton Rewards programs. As we record cost reimbursements based upon costs incurred with no added markup, this revenue and related expense has no impact on either our operating income or net income. We also receive cost reimbursements revenue from MVW for reimbursement of certain costs incurred in conjunction with transition services agreements and participation in our rewards program. The $54 million increase in total cost reimbursements revenue, to $2,170 million in the 2012 second quarter from $2,116 million in the 2011 second quarter, reflected a $102 million increase (allocated across our lodging business) as a result of the impact of higher property-level demand and growth across the system, partially offset by a net $48 million decline in timeshare-related cost reimbursements due to the spin-off. Since the end of the 2011 second quarter, our managed rooms decreased by 1,075 rooms net of hotels added to our system, primarily due to conversions to franchised rooms. We added 12,680 franchised rooms to our system, net of hotels exiting the system, since the end of the 2011 second quarter.

The decrease in total base management fees, to $141 million in the 2012 second quarter from $149 million in the 2011 second quarter, primarily reflected a decline of $13 million in former Timeshare segment base management fees due to the spin-off, partially offset by a net increase of $5 million across our lodging business primarily as a result of stronger RevPAR. The increase in total franchise fees, to $145 million in the 2012 second quarter from $120 million in the 2011 second quarter, primarily reflected an increase of $14 million in MVW license fees due to the spin-off and an increase of $11 million across our lodging business as a result of stronger RevPAR and, to a lesser extent, the impact of unit growth across the system. The increase in incentive management fees from $50 million in the second quarter of 2011 to $56 million in the second quarter of 2012 primarily reflected higher net property-level income resulting from higher property-level revenue. The increase also reflected continued property-level cost controls and, to a lesser extent, new unit growth in international markets.

The increase in owned, leased, corporate housing, and other revenue, to $264 million in the 2012 second quarter, from $249 million in the 2011 second quarter, primarily reflected $12 million of higher hotel agreement termination fees, $9 million of higher branding fees, and $1 million of higher owned and leased revenue, partially offset by $7 million of lower corporate housing revenue due to the sale of the ExecuStay corporate housing business in the 2012 second quarter. The increase in owned and leased revenue primarily reflected $8 million of higher revenue at our leased property in Japan, benefiting from favorable comparisons with 2011 as a result of very weak demand due to the earthquake and tsunami as well as a $2 million business interruption payment received in the 2012 second quarter from a utility company, partially offset by $6 million of lower revenue at a property that converted from leased to managed at year-end 2011. Combined branding fees associated with card endorsements and the sale of branded residential real estate by others totaled $27 million and $18 million for the 2012 and 2011 second quarters, respectively.

Twenty-four Weeks. Revenues decreased by $422 million (7 percent) to $5,328 million in the first half of 2012 from $5,750 million in the first half of 2011. As detailed in the preceding table, the spin-off contributed to a net $661 million decrease in revenues that was partially offset by a $239 million increase in revenues in our lodging business.

The $239 million increase in revenues for our lodging business was a result of: higher cost reimbursements

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revenue ($188 million), higher franchise fees ($21 million), higher incentive management fees ($14 million (comprised of a $6 million increase for North America and an $8 million increase outside of North America)), higher base management fees ($8 million), and higher owned, leased, corporate housing, and other revenue ($8 million).

The $90 million increase in total cost reimbursements revenue, to $4,205 million in the first half of 2012 from $4,115 million in the first half of 2011, reflected a $188 million increase (allocated across our lodging business) as a result of the impact of higher property-level demand and growth across the system, partially offset by a net $98 million decline in timeshare-related cost reimbursements due to the spin-off.

The decrease in total base management fees, to $265 million in the first half of 2012 from $283 million in the first half of 2011, primarily reflected a decline of $26 million in former Timeshare segment base management fees due to the spin-off, partially offset by a net increase of $8 million across our lodging business primarily as a result of stronger RevPAR. The net increase of $8 million included the unfavorable impact of $3 million of fee reversals in the first half of 2012 for two properties to reflect contract revisions. The increase in total franchise fees, to $271 million in the first half of 2012 from $223 million in the first half of 2011, primarily reflected an increase of $27 million in MVW license fees due to the spin-off and an increase of $21 million across our lodging business as a result of stronger RevPAR and, to a lesser extent, the impact of unit growth across the system. The increase in incentive management fees from $92 million in the first half of 2011 to $106 million in the first half of 2012 primarily reflected higher net property-level income resulting from higher property-level revenue. The increase also reflected continued property-level cost controls and, to a lesser extent, new unit growth in international markets.

The increase in owned, leased, corporate housing, and other revenue, to $481 million in the first half of 2012, from $473 million in the first half of 2011, primarily reflected $9 million of higher branding fees and $6 million of higher hotel agreement termination fees, partially offset by $6 million of lower corporate housing revenue due to the sale of the ExecuStay corporate housing business in the 2012 second quarter and $2 million of lower owned and leased revenue. The decrease in owned and leased revenue primarily reflected $11 million of lower revenue at a property that converted from leased to managed at year-end 2011, offset by $11 million of higher revenue at our leased property in Japan, benefiting from favorable comparisons with 2011 as a result of very weak demand due to the earthquake and tsunami as well as a $2 million business interruption payment received in the 2012 second quarter from a utility company. Combined branding fees associated with card endorsements and the sale of branded residential real estate by others totaled $43 million and $34 million for the first halves of 2012 and 2011, respectively.

Operating Income

Twelve Weeks. Operating income increased by $11 million to $243 million in the 2012 second quarter from $232 million in the 2011 second quarter. A $34 million increase in operating income across our lodging business was partially offset due to the spin-off which contributed to a net $23 million decrease in operating income, as detailed in the preceding table. The $34 million increase reflected $32 million of higher owned, leased, corporate housing, and other revenue net of direct expenses, an $11 million increase in franchise fees, a $6 million increase in incentive management fees, and a $5 million increase in base management fees, partially offset by a $20 million increase in general, administrative and other expenses. We discuss the reasons for the increases in base management fees, franchise fees, and incentive management fees across our lodging business compared to the 2011 second quarter in the preceding “Revenues” section.

The $32 million (110 percent) increase in owned, leased, corporate housing, and other revenue net of direct expenses was primarily attributable to $12 million of higher hotel agreement termination fees, $10 million of net stronger results primarily at some leased properties (particularly our leased properties in Japan and London), $9 million of higher branding fees, and $1 million of lower corporate housing expenses, net of corporate housing revenue, due to the sale of the ExecuStay corporate housing business in the 2012 second quarter. Our leased property in Japan experienced particularly strong demand in the 2012 second quarter, benefiting from favorable comparisons with 2011 as a result of very weak demand due to the earthquake and tsunami as well as a $2 million business interruption payment received in the 2012 second quarter from a utility company.

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General, administrative, and other expenses increased by $1 million (1 percent) to $160 million in the second quarter of 2012 from $159 million in the second quarter of 2011. The increase reflected a $20 million increase across our lodging business, partially offset by a decline of $19 million due to the spin-off (consisting of $16 million of former Timeshare segment general, administrative, and other expenses and $3 million of Timeshare spin-off costs). The $20 million increase across our lodging business was primarily a result of the accelerated amortization of $7 million of deferred contract acquisitions costs in the 2012 second quarter related to a North American Full-Service segment property (for which we earned a termination fee that we recorded in owned, leased, corporate housing, and other revenue), $7 million of increased compensation and other overhead expenses, a $5 million reversal of a loan loss provision in the 2011 second quarter related to one property with increased expected future cash flows, and a $5 million increase in reserves in the 2012 second quarter primarily associated with guarantees, partially offset by a $5 million performance cure payment for a North American Full-Service segment property in the 2011 second quarter. See our discussion under the "North American Full-Service Lodging" caption for additional information on the termination fee and the related accelerated amortization of deferred contract acquisition costs recorded in the 2012 second quarter.

The $20 million increase in total general, administrative, and other expenses across our lodging business consisted of an $11 million increase that we did not allocate to any of our segments, a $5 million increase allocated to our International segment, a $4 million increase allocated to our Luxury segment, and a $1 million increase allocated to our North American Limited-Service segment, partially offset by a $1 million decrease allocated to our North American Full-Service segment.

Twenty-four Weeks. Operating income decreased by $5 million to $418 million in the first half of 2012 from $423 million in the first half of 2011. As detailed in the preceding table, the spin-off contributed to a net $56 million decrease in operating income that was partially offset by a $51 million increase in operating income across our lodging business. This $51 million increase reflected $34 million of higher owned, leased, corporate housing, and other revenue net of direct expenses, a $21 million increase in franchise fees, a $14 million increase in incentive management fees, and an $8 million increase in base management fees, partially offset by a $26 million increase in general, administrative and other expenses. We discuss the reasons for the increases in base management fees, franchise fees, and incentive management fees across our lodging business compared to the first half of 2011 in the preceding “Revenues” section.

The $34 million (69 percent) increase in owned, leased, corporate housing, and other revenue net of direct expenses was primarily attributable to $16 million of net stronger results at some owned and leased properties (particularly our leased properties in Japan and London) due to higher property-level margins, $9 million of higher branding fees, $6 million of higher hotel agreement termination fees, and $2 million of lower corporate housing expenses, net of corporate housing revenue due to the sale of our ExecuStay corporate housing business in the 2012 second quarter. Our leased property in Japan experienced particularly strong demand in the 2012 second quarter, benefiting from favorable comparisons with 2011 as a result of very weak demand due to the earthquake and tsunami as well as a $2 million business interruption payment received in the 2012 second quarter from a utility company.

General, administrative, and other expenses decreased by $11 million (3 percent) to $307 million in the first half of 2012 from $318 million in the first half of 2011. The decrease reflected a decline of $37 million due to the spin-off (consisting of $33 million of former Timeshare segment general, administrative, and other expenses and $4 million of Timeshare spin-off costs), partially offset by an increase of $26 million across our lodging business primarily as a result of $10 million of increased compensation and other overhead expenses, the accelerated amortization of $8 million of deferred contract acquisitions costs in the first half of 2012 related to a North American Full-Service segment property (for which we earned a termination fee that we recorded in owned, leased, corporate housing, and other revenue), a $5 million reversal of a loan loss provision in the first half of 2011 related to one property with increased expected future cash flows, $4 million of higher legal expenses, and a $5 million increase in reserves in the 2012 first half primarily associated with guarantees, partially offset by a $5 million performance cure payment for a North American Full-Service property in the first half of 2011.

The $26 million increase in total general, administrative, and other expenses across our lodging business

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consisted of a $16 million increase that we did not allocate to any of our segments, a $5 million increase allocated to our International segment, a $3 million increase allocated to our Luxury segment, and a $2 million increase allocated to our North American Limited-Service segment.

Gains and Other Income

We show our gains and other income for the twelve and twenty-four weeks ended June 15, 2012, and June 17, 2011 in the following table:

($ in millions)	Twelve Weeks Ended		Twenty-Four Weeks Ended	
	June 15, 2012	June 17, 2011	June 15, 2012	June 17, 2011
Gains on sales of real estate and other	$3	$3	$5	$5
Income from cost method joint ventures	2	—	2	—
	$5	$3	$7	$5

Interest Expense

Twelve Weeks. Interest expense decreased by $3 million (8 percent) to $34 million in the second quarter of 2012 compared to $37 million in the second quarter of 2011. This decrease was primarily due to the spin-off as interest expense in the 2011 second quarter that was allocated to the former Timeshare segment totaled $12 million. This decrease was offset by a $9 million increase in interest expense for our lodging business primarily related to the Series K Notes issued in the first quarter of 2012 ($5 million) as well as increased interest expense associated with our Marriott Rewards program ($2 million). See the “LIQUIDITY AND CAPITAL RESOURCES” caption later in this report for additional information on the Series K Notes.

Twenty-four Weeks. Interest expense decreased by $11 million (14 percent) to $67 million in the first half of 2012 compared to $78 million in the first half of 2011. This decrease was primarily due to the spin-off as interest expense in the first half of 2011 that was allocated to the former Timeshare segment totaled $24 million. This decrease was offset by a $13 million increase in interest expense for our lodging business primarily related to the Series K Notes issued in the first quarter of 2012 ($7 million) as well as increased interest expense associated with our Marriott Rewards program ($5 million).

Interest Income and Income Tax

Twelve Weeks. Interest income of $3 million in the second quarter of 2012 was unchanged compared to $3 million in the second quarter of 2011, primarily reflecting a $2 million increase related to two new notes receivable issued in conjunction with the spin-off, offset by a $2 million decrease primarily associated with the repayment of certain loans during and after the 2011 second quarter.

Our tax provision of $66 million in the second quarter of 2012 was unchanged compared to $66 million in the second quarter of 2011, primarily reflecting a greater percentage of pre-tax income in the 2012 second quarter from jurisdictions outside the U.S. with lower tax rates and the absence of timeshare activity in the 2012 second quarter results due to the spin-off, which were offset by the effect of higher pre-tax income from our lodging business.

Twenty-four Weeks. Interest income of $7 million in the first half of 2012 was unchanged compared to $7 million in the first half of 2011, primarily reflecting a $5 million increase related to two new notes receivable issued in conjunction with the spin-off, offset by a $5 million decrease primarily associated with the repayment of certain loans during and after the 2011 second quarter.

Our tax provision decreased by $8 million (7 percent) to a tax provision of $109 million in the first half of 2012 from a tax provision of $117 million in the first half of 2011. The decrease was primarily due to a greater percentage of pre-tax income in the 2012 first half from jurisdictions outside the U.S. with lower tax rates, a release of tax valuation allowances for renegotiations of lease agreements, recognition of benefits related to tax holidays in foreign jurisdictions, and the absence of timeshare activity in the 2012 first half results due to the spin-off, which were partially offset by the effect of an increase in pre-tax income from our lodging business and an increase in tax provision due to tax return adjustments.

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Equity in Losses

Twelve Weeks. Equity in losses of $8 million in the second quarter of 2012 increased by $8 million from equity in losses of zero in the second quarter of 2011. The increase primarily reflected $8 million of increased losses at a Luxury segment joint venture, primarily related to impairment of certain underlying residential properties and a $2 million loan loss provision for certain notes receivable due from another Luxury segment joint venture, partially offset by $3 million of increased earnings at an International segment joint venture.

Twenty-four Weeks. Equity in losses of $9 million in the first half of 2012 increased by $5 million from equity in losses of $4 million in the first half of 2011. The increase primarily reflected $8 million of increased losses at a Luxury segment joint venture, primarily related to impairment of certain underlying residential properties and a $2 million loan loss provision for certain notes receivable due from another Luxury segment joint venture, partially offset by $4 million of increased earnings at an International segment joint venture.

Net Income

Twelve Weeks. Net income increased by $8 million to $143 million in the second quarter of 2012 from $135 million in the second quarter of 2011, and diluted earnings per share increased by $0.05 per share (14 percent) to $0.42 per share from $0.37 per share in the second quarter of 2011. As discussed in more detail in the preceding sections beginning with “Operating Income,” the $8 million increase in net income compared to the year-ago quarter was due to higher owned, leased, corporate housing, and other revenue net of direct expenses ($32 million), higher franchise fees across our lodging business ($11 million), higher incentive management fees across our lodging business ($6 million), higher base management fees across our lodging business ($5 million), and higher gains and other income across our lodging business ($3 million). These increases were partially offset by higher general, administrative, and other expenses across our lodging business ($20 million), the income before taxes impact of the spin-off ($12 million), higher interest expense across our lodging business ($9 million), and higher equity in losses ($8 million).

Twenty-four Weeks. Net income increased by $11 million to $247 million in the first half of 2012 from $236 million in the first half of 2011, and diluted earnings per share increased by $0.09 per share (14 percent) to $0.72 per share from $0.63 per share in the first half of 2011. As discussed in more detail in the preceding sections beginning with “Operating Income,” the $11 million increase in net income compared to the prior year was due to higher owned, leased, corporate housing, and other revenue net of direct expenses ($34 million), higher franchise fees across our lodging business ($21 million), higher incentive management fees across our lodging business ($14 million), lower income taxes ($8 million), higher base management fees across our lodging business ($8 million), and higher gains and other income across our lodging business ($3 million). These increases were partially offset by the income before taxes impact of the spin-off ($33 million), higher general, administrative, and other expenses across our lodging business ($26 million), higher interest expense across our lodging business ($13 million), and higher equity in losses ($5 million).

Earnings Before Interest Expense, Taxes, Depreciation and Amortization (“EBITDA”) and Adjusted EBITDA

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

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These differences can result in considerable variability in the relative costs of productive assets and the depreciation and amortization expense among companies.

We also evaluate Adjusted EBITDA, another non-GAAP financial measure, as an indicator of operating performance. Our Adjusted EBITDA reflects Timeshare Spin-off Adjustments for 2011 ("Timeshare Spin-off Adjustments") as if the spin-off occurred on the first day of 2011. The Timeshare Spin-off Adjustments to net income of $9 million for the 2011 second quarter totaled $14 million pre-tax and are primarily comprised of the following pre-tax items: 1) removal of the results of our former Timeshare segment ($29 million); 2) the addition of a payment by MVW to us of estimated license fees ($15 million); 3) the removal of unallocated spin-off transaction costs ($3 million); 4) the addition of estimated interest income ($2 million); 5) the addition of estimated interest expense ($4 million); and 6) the addition of other expenses ($1 million) not previously allocated to our Timeshare segment. The Timeshare Spin-off Adjustments to net income of $22 million for the 2011 first half totaled $35 million pre-tax and are primarily comprised of the following pre-tax items: 1) removal of the results of our former Timeshare segment ($64 million); 2) the addition of a payment by MVW to us of estimated license fees ($29 million); 3) the addition of estimated interest income ($5 million); 4) the addition of estimated interest expense ($7 million); 5) the removal of unallocated spin-off transaction costs ($4 million); and 6) the addition of other expenses ($2 million) not previously allocated to our Timeshare segment.

We evaluate Adjusted EBITDA that excludes these items to make period-over-period comparisons of our ongoing core operations before material charges. EBITDA and Adjusted EBITDA also facilitate our comparison of results from our ongoing operations before material charges with results from other lodging companies.
EBITDA and Adjusted EBITDA have limitations and should not be considered in isolation or as substitutes for performance measures calculated in accordance with GAAP. Both of these non-GAAP measures exclude certain cash expenses that we are obligated to make. In addition, other companies in our industry may calculate EBITDA and Adjusted EBITDA differently than we do or may not calculate them at all, limiting EBITDA's and Adjusted EBITDA's usefulness as comparative measures. We provide Adjusted EBITDA for illustrative and informational purposes only and this measure is not necessarily indicative of and we do not purport that it represents what our operating results would have been had the spin-off occurred on the first day of 2011. This information also does not reflect certain financial and operating benefits we expect to realize as a result of the spin-off.
We show our second quarter and first half 2012 and 2011 EBITDA and Adjusted EBITDA calculations and reconcile those measures with Net Income in the following tables.

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($ in millions)	12 Weeks Ended June 15, 2012 As Reported
Net Income	$143
Interest expense	34
Tax provision	66
Depreciation and amortization	38
Less: Depreciation reimbursed by third-party owners	(4)
Interest expense from unconsolidated joint ventures	4
Depreciation and amortization from unconsolidated joint ventures	8
EBITDA	$289

($ in millions)	12 Weeks Ended June 17, 2011		
	As Reported	Timeshare Spin-off Adjustments	Adjusted EBITDA
Net Income	$135	$(9)	
Interest expense	37	(8)	
Tax provision	66	(5)	
Depreciation and amortization	41	(9)	
Less: Depreciation reimbursed by third-party owners	(3)	—	
Interest expense from unconsolidated joint ventures	4	—	
Depreciation and amortization from unconsolidated joint ventures	7	—	
EBITDA	$287	$(31)	$256

($ in millions)	24 Weeks Ended June 15, 2012 As Reported
Net Income	$247
Interest expense	67
Tax provision	109
Depreciation and amortization	67
Less: Depreciation reimbursed by third-party owners	(8)
Interest expense from unconsolidated joint ventures	8
Depreciation and amortization from unconsolidated joint ventures	14
EBITDA	$504

($ in millions)	24 Weeks Ended June 17, 2011		
	As Reported	Timeshare Spin-off	Adjusted EBITDA

		Adjustments	
Net Income	$236	$(22)	
Interest expense	78	(17)	
Tax provision	117	(13)	
Depreciation and amortization	76	(16)	
Less: Depreciation reimbursed by third-party owners	(7)	—	
Interest expense from unconsolidated joint ventures	8	—	
Depreciation and amortization from unconsolidated joint ventures	13	—	
EBITDA	$521	$(68)	$453

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BUSINESS SEGMENTS

We are a diversified lodging company with operations in four business segments: North American Full-Service Lodging, North American Limited-Service Lodging, International Lodging, and Luxury Lodging. See Footnote No. 13, "Business Segments," of the Notes to our Financial Statements for further information on our segments including how we aggregate our individual brands into each segment and other information about each segment, including revenues, net income, equity in earnings (losses) of equity method investees, and assets.

We added 126 properties (20,727 rooms) and 37 properties (7,562 rooms) exited our system since the end of the 2011 second quarter. These figures do not include residential or ExecuStay units. During that time we also added five residential properties (459 units) and no residential properties exited the system. These net property additions include 11 hotels (1,444 rooms) which are operated or franchised as part of our unconsolidated joint venture with AC Hoteles, S.A.

Twelve Weeks. Total segment financial results increased by $6 million to $287 million in the second quarter of 2012 from $281 million in the second quarter of 2011, and total segment revenues decreased by $253 million to $2,698 million in the second quarter of 2012, a 9 percent decrease from revenues of $2,951 million in the second quarter of 2011. A $35 million increase in segment results across our lodging business was partially offset by the spin-off which resulted in a $29 million decrease in segment results, as detailed in the preceding table. Similarly, the spin-off resulted in a $390 million decrease in segment revenues, which was partially offset by a net $137 million increase in revenues across our lodging business.

The quarter-over-quarter net increase in segment revenues of $137 million across our lodging business was a result of a $102 million increase in cost reimbursements revenue, a $13 million increase in owned, leased, corporate housing and other revenue, an $11 million increase in franchise fees, a $6 million increase in incentive management fees, and a $5 million increase in base management fees. The quarter-over-quarter increase in segment results of $35 million across our lodging business reflected an increase of $29 million in owned, leased, corporate housing, and other revenue net of direct expenses, an $11 million increase in franchise fees, a $6 million increase in incentive management fees, and an increase of $5 million in base management fees, partially offset by a $9 million increase in general, administrative, and other expenses, $6 million of higher joint venture equity losses, and $1 million of lower gains and other income. For more detailed information on the variances see the preceding sections beginning with "Operating Income."

In the second quarter of 2012, 30 percent of our managed properties paid incentive management fees to us versus 25 percent in the second quarter of 2011. In addition, in the second quarter of 2012, 60 percent of our incentive fees came from properties outside the United States versus, 61 percent in the second quarter of 2011.

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

Compared to the second quarter of 2011, worldwide comparable company-operated house profit margins in the second quarter of 2012 increased by 110 basis points and worldwide comparable company-operated house profit per available room ("HP-PAR") increased by 9.2 percent on a constant U.S. dollar basis, reflecting higher occupancy, rate increases, improved productivity, and favorable benefits costs. These same factors contributed to North American company-operated house profit margins increasing by 110 basis points compared to the 2011 second quarter. HP-PAR at those same properties increased by 9.1 percent. International company-operated house profit margins increased by 110 basis points, and HP-PAR at those properties increased by 9.2 percent reflecting increased demand and higher RevPAR in most locations and improved productivity.

Twenty-four Weeks. Total segment financial results decreased by $4 million to $516 million in the first half of 2012 from $520 million in the first half of 2011, and total segment revenues decreased by $512 million to $5,201 million in the first half of 2012, a 9 percent decrease from revenues of $5,713 million in the first half of 2011. As detailed in the preceding table, the spin-off resulted in a $64 million decrease in segment results, partially offset by a net $60 million increase in segment results across our lodging business. Similarly, the spin-off resulted in a $748 million decrease in segment revenues, that was partially offset by a net $236 million increase in segment revenues

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across our lodging business.

The year-over-year net increase in segment revenues of $236 million across our lodging business was a result of a $188 million increase in cost reimbursements revenue, a $21 million increase in franchise fees, a $14 million increase in incentive management fees, an $8 million increase in base management fees, and a $5 million increase in owned, leased, corporate housing and other revenue. The year-over-year increase in segment results of $60 million across our lodging business reflected an increase of $31 million in owned, leased, corporate housing, and other revenue net of direct expenses, a $21 million increase in franchise fees, a $14 million increase in incentive management fees, and an increase of $8 million in base management fees, partially offset by a $10 million increase in general, administrative, and other expenses, $3 million of higher joint venture equity losses, and $1 million of lower gains and other income. For more detailed information on the variances see the preceding sections beginning with “Operating Income.”

In the first half of 2012, 32 percent of our managed properties paid incentive management fees to us versus 27 percent in the first half of 2011. In addition, for both the first halves of 2012 and 2011, 61 percent of our incentive fees came from properties outside the United States.

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

Compared to the first half of 2011, worldwide comparable company-operated house profit margins in the first half of 2012 increased by 110 basis points and worldwide comparable company-operated house profit per available room (“HP-PAR”) increased by 9.4 percent on a constant U.S. dollar basis, reflecting higher occupancy, rate increases, improved productivity, and favorable benefits costs. These same factors contributed to North American company-operated house profit margins increasing by 120 basis points compared to the first half of 2011. HP-PAR at those same properties increased by 9.9 percent. International company-operated house profit margins increased by 100 basis points, and HP-PAR at those properties increased by 8.2 percent reflecting increased demand and higher RevPAR in most locations and improved productivity.

Summary of Properties by Brand

Including residential properties, we added 29 lodging properties (5,058 rooms) during the second quarter of 2012, while 13 properties (2,914 rooms) exited the system, increasing our total properties to 3,748 (646,110 rooms). These figures include 35 home and condominium products (3,927 units), for which we manage the related owners’ associations.

Unless otherwise indicated, our references to Marriott Hotels & Resorts throughout this report include JW Marriott and Marriott Conference Centers, references to Renaissance Hotels include Renaissance ClubSport, and references to Fairfield Inn & Suites include Fairfield Inn.

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At June 15, 2012, we operated, franchised, or licensed the following properties by brand:

	Company-Operated		Franchised		Other [3]	
Brand	Properties	Rooms	Properties	Rooms	Properties	Rooms
U.S. Locations						
Marriott Hotels & Resorts	137	70,847	183	55,907	—	—
Marriott Conference Centers	10	2,915	—	—	—	—
JW Marriott	14	9,226	7	2,914	—	—
Renaissance Hotels	37	17,079	41	11,801	—	—
Renaissance ClubSport	—	—	2	349	—	—
Autograph Collection	—	—	21	6,223	—	—
The Ritz-Carlton	39	11,587	—	—	—	—
The Ritz-Carlton-Residential [1]	30	3,598	—	—	—	—
EDITION	—	—	—	—	—	—
Courtyard	280	43,906	528	69,837	—	—
Fairfield Inn & Suites	3	1,055	670	59,926	—	—
SpringHill Suites	32	5,129	259	29,015	—	—
Residence Inn	132	19,160	467	53,134	—	—
TownePlace Suites	22	2,440	180	17,788	—	—
Timeshare [2]	—	—	50	10,628	—	—
Total U.S. Locations	736	186,942	2,408	317,522	—	—
Non-U.S. Locations						
Marriott Hotels & Resorts	135	39,958	33	9,938	—	—
JW Marriott	30	11,121	4	1,016	—	—
Renaissance Hotels	55	18,472	20	5,759	—	—
Autograph Collection	—	—	6	676	5	348
The Ritz-Carlton	40	12,093	—	—	—	—
The Ritz-Carlton-Residential [1]	5	329	—	—	—	—
The Ritz-Carlton Serviced Apartments	4	579	—	—	—	—
EDITION	1	78	—	—	—	—
AC Hotels by Marriott	—	—	—	—	79	8,736
Bulgari Hotels & Resorts	2	117	1	85	—	—
Marriott Executive Apartments	24	3,846	—	—	—	—
Courtyard	55	11,816	53	9,375	—	—
Fairfield Inn & Suites	—	—	13	1,568	—	—
SpringHill Suites	—	—	2	299	—	—
Residence Inn	6	749	16	2,279	—	—
TownePlace Suites	—	—	1	105	—	—
Timeshare [2]	—	—	14	2,304	—	—
Total Non-U.S. Locations	357	99,158	163	33,404	84	9,084
Total	1,093	286,100	2,571	350,926	84	9,084

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

(2) Timeshare properties licensed by MVW under the Marriott Vacation Club, The Ritz-Carlton Destination Club, The Ritz-Carlton Residences, and Grand Residences by Marriott brand names. Includes products that are in active sales as well as those that are sold out.

(3) Properties are operated as part of unconsolidated joint ventures.

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Total Lodging and Timeshare Products by Segment
At June 15, 2012, we operated, franchised, and licensed the following properties by segment:

	Total Lodging and Timeshare Products					
	Properties			Rooms		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
North American Full-Service Lodging Segment [1]						
Marriott Hotels & Resorts	320	14	334	126,754	5,244	131,998
Marriott Conference Centers	10	—	10	2,915	—	2,915
JW Marriott	21	1	22	12,140	221	12,361
Renaissance Hotels	78	2	80	28,880	790	29,670
Renaissance ClubSport	2	—	2	349	—	349
Autograph Collection	21	—	21	6,223	—	6,223
	452	17	469	177,261	6,255	183,516
North American Limited-Service Lodging Segment [1]						
Courtyard	808	19	827	113,743	3,496	117,239
Fairfield Inn & Suites	673	11	684	60,981	1,234	62,215
SpringHill Suites	291	2	293	34,144	299	34,443
Residence Inn	599	18	617	72,294	2,607	74,901
TownePlace Suites	202	1	203	20,228	105	20,333
	2,573	51	2,624	301,390	7,741	309,131
International Lodging Segment [1]						
Marriott Hotels & Resorts	—	154	154	—	44,652	44,652
JW Marriott	—	33	33	—	11,916	11,916
Renaissance Hotels	—	73	73	—	23,441	23,441
Autograph Collection	—	6	6	—	676	676
Courtyard	—	89	89	—	17,695	17,695
Fairfield Inn & Suites	—	2	2	—	334	334
Residence Inn	—	4	4	—	421	421
Marriott Executive Apartments	—	24	24	—	3,846	3,846
	—	385	385	—	102,981	102,981
Luxury Lodging Segment						
The Ritz-Carlton	39	40	79	11,587	12,093	23,680
Bulgari Hotels & Resorts	—	3	3	—	202	202
EDITION	—	1	1	—	78	78
The Ritz-Carlton-Residential [2]	30	5	35	3,598	329	3,927
The Ritz-Carlton Serviced Apartments	—	4	4	—	579	579
	69	53	122	15,185	13,281	28,466
Unconsolidated Joint Ventures						
Autograph Collection	—	5	5	—	348	348
AC Hotels by Marriott	—	79	79	—	8,736	8,736
	—	84	84	—	9,084	9,084
Timeshare [3]	50	14	64	10,628	2,304	12,932
Total	3,144	604	3,748	504,464	141,646	646,110

(1) North American includes properties located in the United States and Canada. International includes properties located outside the United States and Canada.

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

(3) Timeshare properties licensed by MVW under the Marriott Vacation Club, The Ritz-Carlton Destination Club, The Ritz-Carlton Residences, and Grand Residences by Marriott brand names. Includes products that are in active sales as well as those that are sold out.

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The following tables show occupancy, average daily rate, and RevPAR for comparable properties, for each of the brands in our North American Full-Service and North American Limited-Service segments, for our International segment by region, and the principal brand in our Luxury segment, The Ritz-Carlton. We have not presented statistics for company-operated Fairfield Inn & Suites properties in these tables because the brand is predominantly franchised and we operate very few properties, so such information would not be meaningful (identified as “nm” in the tables that follow). Systemwide statistics include data from our franchised properties, in addition to our owned, leased, and managed properties.

The occupancy, average daily rate, and RevPAR statistics we use throughout this report for the twelve weeks ended June 15, 2012, include the period from March 24, 2012, through June 15, 2012, and the statistics for the twelve weeks ended June 17, 2011, include the period from March 26, 2011, through June 17, 2011, (except in each case, for The Ritz-Carlton brand properties and properties located outside of the United States, which for those properties includes the period from March 1 through the end of May). The occupancy, average daily rate, and RevPAR statistics we use throughout this report for the twenty-four weeks ended June 15, 2012, include the period from December 31, 2011, through June 15, 2012, and the statistics for the twenty-four weeks ended June 17, 2011, include the period from January 1, 2011, through June 17, 2011, (except in each case, for The Ritz-Carlton brand properties and properties located outside of the United States, which for those properties includes the period from January 1 through the end of May).

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	Comparable Company-Operated North American Properties [1]			Comparable Systemwide North American Properties [1]		
	Twelve Weeks Ended June 15, 2012	Change vs. 2011		Twelve Weeks Ended June 15, 2012	Change vs. 2011	
Marriott Hotels & Resorts						
Occupancy	76.5 %	1.9	% pts.	73.6 %	1.8	% pts.
Average Daily Rate	$175.85	3.0	%	$160.25	3.4	%
RevPAR	$134.49	5.6	%	$117.96	6.0	%
Renaissance Hotels & Resorts						
Occupancy	77.9 %	2.8	% pts.	74.8 %	1.6	% pts.
Average Daily Rate	$176.16	5.0	%	$155.85	5.8	%
RevPAR	$137.16	8.9	%	$116.59	8.1	%
Autograph Collection						
Occupancy	*	*		78.4 %	1.6	% pts.
Average Daily Rate	*	*		$178.75	2.7	%
RevPAR	*	*		$140.16	4.8	%
Composite North American Full-Service [2]						
Occupancy	76.7 %	2.0	% pts.	73.8 %	1.8	% pts.
Average Daily Rate	$175.89	3.3	%	$159.74	3.8	%
RevPAR	$134.87	6.1	%	$117.95	6.3	%
The Ritz-Carlton North America						
Occupancy	74.2 %	0.3	% pts.	74.2 %	0.3	% pts.
Average Daily Rate	$337.24	6.2	%	$337.24	6.2	%
RevPAR	$250.29	6.7	%	$250.29	6.7	%
Composite North American Full-Service and Luxury [3]						
Occupancy	76.4 %	1.8	% pts.	73.9 %	1.7	% pts.
Average Daily Rate	$193.06	3.6	%	$171.20	3.9	%
RevPAR	$147.51	6.2	%	$126.46	6.4	%
Residence Inn						
Occupancy	78.2 %	(0.4	)% pts.	79.6 %	0.3	% pts.
Average Daily Rate	$124.85	5.4	%	$121.10	4.4	%
RevPAR	$97.62	4.9	%	$96.40	4.8	%
Courtyard						
Occupancy	71.8 %	0.8	% pts.	73.0 %	1.5	% pts.
Average Daily Rate	$118.05	4.8	%	$119.55	4.5	%
RevPAR	$84.82	6.0	%	$87.32	6.7	%
Fairfield Inn						
Occupancy	nm	nm	pts.	71.3 %	2.3	% pts.
Average Daily Rate	nm	nm		$94.35	4.9	%
RevPAR	nm	nm		$67.24	8.4	%
TownePlace Suites						
Occupancy	73.9 %	0.2	% pts.	75.8 %	1.0	% pts.
Average Daily Rate	$81.62	6.5	%	$89.09	5.8	%
RevPAR	$60.32	6.8	%	$67.56	7.3	%
SpringHill Suites						
Occupancy	74.8 %	3.6	% pts.	74.8 %	3.3	% pts.

Average Daily Rate	$104.21		3.3	%	$104.66		4.1	%	
RevPAR	$77.89		8.5	%	$78.27		8.9	%	
Composite North American Limited- Service [4]									
Occupancy	74.0	%	0.6	% pts.	74.7	%	1.5	%	pts.
Average Daily Rate	$117.29		4.8	%	$111.57		4.5	%	
RevPAR	$86.78		5.8	%	$83.30		6.7	%	
Composite North American [5]									
Occupancy	75.4	%	1.3	% pts.	74.4	%	1.6	%	pts.
Average Daily Rate	$161.75		4.2	%	$133.20		4.3	%	
RevPAR	$121.94		6.0	%	$99.06		6.5	%	

* There are no company-operated properties.

(1) Statistics are for the twelve weeks ended June 15, 2012, and June 17, 2011, except for The Ritz-Carlton and Autograph Collection, for which the statistics are for the three months ended May 31, 2012, and May 31, 2011. Statistics include only properties located in the United States.

(2) Composite North American Full-Service statistics include Marriott Hotels & Resorts, Renaissance Hotels, and Autograph Collection properties.

(3) Composite North American Full-Service and Luxury includes Marriott Hotels & Resorts, Renaissance Hotels, Autograph Collection and The Ritz-Carlton properties.

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(4) Composite North American Limited-Service statistics include Residence Inn, Courtyard, Fairfield Inn & Suites, TownePlace Suites, and SpringHill Suites properties.

(5) Composite North American statistics include Marriott Hotels & Resorts, Renaissance Hotels, Autograph Collection, Residence Inn, Courtyard, Fairfield Inn & Suites, TownePlace Suites, SpringHill Suites, and The Ritz-Carlton properties.

	Comparable Company-Operated Properties [1]				Comparable Systemwide Properties [1]			
	Three Months Ended May 31, 2012		Change vs. 2011		Three Months Ended May 31, 2012		Change vs. 2011	
Caribbean and Latin America [2]								
Occupancy	74.3	%	1.7	% pts.	72.5	%	1.4	% pts.
Average Daily Rate	$201.25		6.7	%	$182.70		4.9	%
RevPAR	$149.58		9.3	%	$132.50		6.9	%
Europe [2]								
Occupancy	74.0	%	(0.4	)% pts.	72.5	%	—	% pts.
Average Daily Rate	$174.68		3.2	%	$170.95		3.0	%
RevPAR	$129.34		2.6	%	$123.87		2.9	%
Middle East and Africa [2]								
Occupancy	62.5	%	7.6	% pts.	62.6	%	7.7	% pts.
Average Daily Rate	$143.89		(2.7	)%	$140.20		(2.4	)%
RevPAR	$89.89		10.7	%	$87.83		11.4	%
Asia Pacific [2]								
Occupancy	74.7	%	5.6	% pts.	74.3	%	5.7	% pts.
Average Daily Rate	$136.69		2.6	%	$141.20		2.5	%
RevPAR	$102.16		10.9	%	$104.95		11.1	%
Regional Composite [3]								
Occupancy	73.3	%	2.7	% pts.	72.3	%	2.6	% pts.
Average Daily Rate	$161.89		2.7	%	$161.22		2.6	%
RevPAR	$118.72		6.7	%	$116.63		6.4	%
International Luxury [4]								
Occupancy	68.4	%	4.4	% pts.	68.4	%	4.4	% pts.
Average Daily Rate	$334.07		4.2	%	$334.07		4.2	%
RevPAR	$228.65		11.3	%	$228.65		11.3	%
Total International [5]								
Occupancy	72.8	%	2.9	% pts.	72.0	%	2.8	% pts.
Average Daily Rate	$181.08		3.3	%	$176.89		3.0	%
RevPAR	$131.74		7.6	%	$127.31		7.2	%

(1) We report financial results for all properties on a period-end basis, but report statistics for properties located outside the United States and Canada on a month-end basis. The statistics are for March 1 through the end of May. For the properties located in countries that use currencies other than the U.S. dollar, the comparison to 2011 was on a constant U.S. dollar basis.

(2) Regional information includes Marriott Hotels & Resorts, Renaissance Hotels, and Courtyard properties located outside of the United States and Canada.

(3) Regional Composite statistics include properties located outside of the United States and Canada for Marriott Hotels & Resorts, Renaissance Hotels, and Courtyard brands.

(4) Includes The Ritz-Carlton properties located outside the United States and Canada and Bulgari Hotels & Resorts properties.

(5) Total International includes Regional Composite statistics and statistics for The Ritz-Carlton International and Bulgari Hotels & Resorts brands.

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	Comparable Company-Operated Properties [1]				Comparable Systemwide Properties [1]			
	Three Months Ended May 31, 2012		Change vs. 2011		Three Months Ended May 31, 2012		Change vs. 2011	
Composite Luxury [2]								
Occupancy	71.5	%	2.2	% pts.	71.5	%	2.2	% pts.
Average Daily Rate	$335.84		5.3	%	$335.84		5.3	%
RevPAR	$240.27		8.7	%	$240.27		8.7	%
Total Worldwide [3]								
Occupancy	74.6	%	1.8	% pts.	74.0	%	1.8	% pts.
Average Daily Rate	$167.71		3.9	%	$140.65		4.1	%
RevPAR	$125.04		6.6	%	$104.01		6.7	%

(1) We report financial results for all properties on a period-end basis, but report statistics for properties located outside the United States and Canada on a month-end basis. For the properties located in countries that use currencies other than the U.S. dollar, the comparison to 2011 was on a constant U.S. dollar basis.

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

(3) Total Worldwide statistics include properties worldwide for Marriott Hotels & Resorts, Renaissance Hotels, Autograph Collection, Residence Inn, Courtyard, Fairfield Inn & Suites, TownePlace Suites, SpringHill Suites, and The Ritz-Carlton brands. Statistics for properties located in the United States (except for The Ritz-Carlton and the Autograph Collection) represent the twelve weeks ended June 15, 2012, and June 17, 2011. Statistics for The Ritz-Carlton brand and the Autograph Collection brand properties and properties located outside of the United States represent the three months ended May 31, 2012, and May 31, 2011.

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	Comparable Company-Operated North American Properties [1]		Comparable Systemwide North American Properties [1]	
	Twenty-Four Weeks Ended June 15, 2012	Change vs. 2011	Twenty-Four Weeks Ended June 15, 2012	Change vs. 2011
Marriott Hotels & Resorts				
Occupancy	73.0 %	2.3 % pts.	70.3 %	2.1 % pts.
Average Daily Rate	$172.82	2.8 %	$158.81	3.4 %
RevPAR	$126.14	6.2 %	$111.57	6.6 %
Renaissance Hotels & Resorts				
Occupancy	74.9 %	3.2 % pts.	71.7 %	1.8 % pts.
Average Daily Rate	$170.97	3.9 %	$152.87	4.6 %
RevPAR	$128.13	8.6 %	$109.58	7.3 %
Autograph Collection				
Occupancy	*	*	75.3 %	3.4 % pts.
Average Daily Rate	*	*	$174.36	1.5 %
RevPAR	*	*	$131.30	6.3 %
Composite North American Full-Service [2]				
Occupancy	73.3 %	2.4 % pts.	70.5 %	2.1 % pts.
Average Daily Rate	$172.55	3.0 %	$158.00	3.6 %
RevPAR	$126.43	6.5 %	$111.42	6.7 %
The Ritz-Carlton North America				
Occupancy	72.0 %	0.5 % pts.	72.0 %	0.5 % pts.
Average Daily Rate	$337.69	6.1 %	$337.69	6.1 %
RevPAR	$243.21	6.8 %	$243.21	6.8 %
Composite North American Full-Service and Luxury [3]				
Occupancy	73.2 %	2.3 % pts.	70.6 %	2.0 % pts.
Average Daily Rate	$187.63	3.3 %	$167.89	3.7 %
RevPAR	$137.26	6.6 %	$118.53	6.8 %
Residence Inn				
Occupancy	74.3 %	(0.3)% pts.	76.1 %	0.5 % pts.
Average Daily Rate	$122.80	4.0 %	$119.22	3.9 %
RevPAR	$91.25	3.5 %	$90.70	4.6 %
Courtyard				
Occupancy	67.6 %	0.9 % pts.	68.8 %	1.7 % pts.
Average Daily Rate	$116.56	4.2 %	$117.88	4.2 %
RevPAR	$78.85	5.7 %	$81.10	6.8 %
Fairfield Inn				
Occupancy	nm	nm pts.	66.2 %	2.6 % pts.
Average Daily Rate	nm	nm	$92.73	4.8 %
RevPAR	nm	nm	$61.43	9.1 %
TownePlace Suites				
Occupancy	69.9 %	2.0 % pts.	72.0 %	1.7 % pts.
Average Daily Rate	$82.14	6.4 %	$88.69	5.3 %
RevPAR	$57.37	9.4 %	$63.84	7.9 %
SpringHill Suites				
Occupancy	68.7 %	2.2 % pts.	70.3 %	3.0 % pts.

Average Daily Rate	$105.46		2.4	%	$103.39		3.5	%	
RevPAR	$72.43		5.8	%	$72.71		8.2	%	
Composite North American Limited- Service [4]									
Occupancy	69.7	%	0.7	% pts.	70.4	%	1.7	%	pts.
Average Daily Rate	$116.00		4.0	%	$110.05		4.1	%	
RevPAR	$80.88		5.1	%	$77.53		6.7	%	
Composite North American [5]									
Occupancy	71.7	%	1.6	% pts.	70.5	%	1.8	%	pts.
Average Daily Rate	$157.87		3.8	%	$130.99		4.0	%	
RevPAR	$113.18		6.2	%	$92.35		6.7	%	

* There are no company-operated properties.

(1) Statistics are for the twenty-four weeks ended June 15, 2012, and June 17, 2011, except for The Ritz-Carlton and Autograph Collection, for which the statistics are for the five months ended May 31, 2012, and May 31, 2011. Statistics include only properties located in the United States.

(2) Composite North American Full-Service statistics include Marriott Hotels & Resorts, Renaissance Hotels, and Autograph Collection properties.

(3) Composite North American Full-Service and Luxury includes Marriott Hotels & Resorts, Renaissance Hotels, Autograph Collection and The Ritz-

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Carlton properties.

(4) Composite North American Limited-Service statistics include Residence Inn, Courtyard, Fairfield Inn & Suites, TownePlace Suites, and SpringHill Suites properties.

(5) Composite North American statistics include Marriott Hotels & Resorts, Renaissance Hotels, Autograph Collection, Residence Inn, Courtyard, Fairfield Inn & Suites, TownePlace Suites, SpringHill Suites, and The Ritz-Carlton properties.

	Comparable Company-Operated Properties [1]		Comparable Systemwide Properties [1]	
	Five Months Ended May 31, 2012	Change vs. 2011	Five Months Ended May 31, 2012	Change vs. 2011
Caribbean and Latin America [2]				
Occupancy	75.0 %	1.8 % pts.	71.1 %	1.2 % pts.
Average Daily Rate	$203.56	6.7 %	$184.33	5.3 %
RevPAR	$152.58	9.3 %	$131.10	7.2 %
Europe [2]				
Occupancy	68.8 %	(0.2)% pts.	67.2 %	0.1 % pts.
Average Daily Rate	$169.92	2.9 %	$165.84	2.9 %
RevPAR	$116.98	2.6 %	$111.45	3.0 %
Middle East and Africa [2]				
Occupancy	60.5 %	5.1 % pts.	60.7 %	5.2 % pts.
Average Daily Rate	$144.58	(5.0)%	$140.49	(4.7)%
RevPAR	$87.47	3.7 %	$85.27	4.3 %
Asia Pacific [2]				
Occupancy	72.0 %	6.0 % pts.	71.6 %	5.8 % pts.
Average Daily Rate	$134.79	3.3 %	$140.44	3.0 %
RevPAR	$97.07	12.6 %	$100.49	12.1 %
Regional Composite [3]				
Occupancy	70.1 %	2.7 % pts.	68.8 %	2.5 % pts.
Average Daily Rate	$159.63	2.7 %	$159.08	2.6 %
RevPAR	$111.84	6.8 %	$109.45	6.5 %
International Luxury [4]				
Occupancy	63.7 %	0.5 % pts.	63.7 %	0.5 % pts.
Average Daily Rate	$347.07	6.8 %	$347.07	6.8 %
RevPAR	$221.09	7.7 %	$221.09	7.7 %
Total International [5]				
Occupancy	69.3 %	2.5 % pts.	68.3 %	2.3 % pts.
Average Daily Rate	$180.03	3.2 %	$175.70	3.1 %
RevPAR	$124.77	7.0 %	$120.04	6.7 %

(1) We report financial results for all properties on a period-end basis, but report statistics for properties located outside the United States and Canada on a month-end basis. The statistics are for January 1 through the end of May. For the properties located in countries that use currencies other than the U.S. dollar, the comparison to 2011 was on a constant U.S. dollar basis.

(2) Regional information includes Marriott Hotels & Resorts, Renaissance Hotels, and Courtyard properties located outside of the United States and Canada.

(3) Regional Composite statistics include properties located outside of the United States and Canada for Marriott Hotels & Resorts, Renaissance Hotels, and Courtyard brands.

(4)

Includes The Ritz-Carlton properties located outside the United States and Canada and Bulgari Hotels & Resorts properties.

(5) Total International includes Regional Composite statistics and statistics for The Ritz-Carlton International and Bulgari Hotels & Resorts brands.

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	Comparable Company-Operated Properties [1]		Comparable Systemwide Properties [1]	
	Five Months Ended May 31, 2012	Change vs. 2011	Five Months Ended May 31, 2012	Change vs. 2011
Composite Luxury [2]				
Occupancy	68.2 %	0.5 % pts.	68.2 %	0.5 % pts.
Average Daily Rate	$341.75	6.4 %	$341.75	6.4 %
RevPAR	$232.97	7.2 %	$232.97	7.2 %
Total Worldwide [3]				
Occupancy	71.0 %	1.9 % pts.	70.2 %	1.9 % pts.
Average Daily Rate	$163.90	3.7 %	$137.55	3.9 %
RevPAR	$116.41	6.4 %	$96.52	6.7 %

(1) We report financial results for all properties on a period-end basis, but report statistics for properties located outside the United States and Canada on a month-end basis. For the properties located in countries that use currencies other than the U.S. dollar, the comparison to 2011 was on a constant U.S. dollar basis.

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

(3) Total Worldwide statistics include properties worldwide for Marriott Hotels & Resorts, Renaissance Hotels, Autograph Collection, Residence Inn, Courtyard, Fairfield Inn & Suites, TownePlace Suites, SpringHill Suites, and The Ritz-Carlton brands. Statistics for properties located in the United States (except for The Ritz-Carlton and the Autograph Collection) represent the twenty-four weeks ended June 15, 2012, and June 17, 2011. Statistics for The Ritz-Carlton brand and the Autograph Collection brand properties and properties located outside of the United States represent the five months ended May 31, 2012, and May 31, 2011.

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

($ in millions)	Twelve Weeks Ended				Twenty-Four Weeks Ended			
	June 15, 2012	June 17, 2011	Change 2012/2011		June 15, 2012	June 17, 2011	Change 2012/2011	
Segment revenues	$1,373	$1,305	5	%	$2,674	$2,556	5	%
Segment results	$110	$89	24	%	$199	$167	19	%

Since the second quarter of 2011, across our North American Full-Service Lodging segment we added 8 properties (3,312 rooms) and 7 properties (2,562 rooms) left the system.

Twelve Weeks. In the second quarter of 2012, RevPAR for comparable company-operated North American Full-Service properties increased by 6.1 percent to $134.87, occupancy for these properties increased by 2.0 percentage points to 76.7 percent, and average daily rates increased by 3.3 percent to $175.89.

The $21 million increase in segment results, compared to the 2011 second quarter, primarily reflected $9 million of higher owned, leased, and other revenue net of direct expenses, $7 million of higher base management and franchise fees, $4 million of higher incentive management fees, and $1 million of lower general, administrative, and other expenses. The $9 million increase in owned, leased, and other revenue net of direct expenses primarily reflected a $14 million termination fee for one property in the 2012 second quarter, partially offset by weaker results at one property driven by lower RevPAR and other miscellaneous items. Higher base management and franchise fees primarily reflected increased RevPAR and, to a lesser extent, unit growth, including properties added to the Autograph Collection. The $4 million increase in incentive management fees primarily reflected higher property-level income resulting from higher property-level revenue and margins. The $1 million decrease in general, administrative, and other expenses primarily reflected the accelerated amortization of $7 million of deferred contract acquisition costs related to a property for which we earned the $14 million termination fee, partially offset by a $5 million performance cure payment for one property in the 2011 second quarter, and other lower miscellaneous costs.

Cost reimbursements revenue and expenses associated with our North American Full-Service Lodging segment properties totaled $1,206 million in the second quarter of 2012, compared to $1,159 million in the second quarter of 2011.

Twenty-four Weeks. In the first half of 2012, RevPAR for comparable company-operated North American Full-Service properties increased by 6.5 percent to $126.43, occupancy for these properties increased by 2.4 percentage points to 73.3 percent, and average daily rates increased by 3.0 percent to $172.55.

The $32 million increase in segment results, compared to the first half of 2011, primarily reflected $15 million of higher owned, leased, and other revenue net of direct expenses, $13 million of higher base management and franchise fees, $4 million of higher incentive management fees and unchanged general, administrative, and other expenses. The $15 million increase in owned, leased, and other revenue net of direct expenses primarily reflected a $14 million termination fee for one property in the 2012 second quarter and $2 million of stronger property results driven by higher property-level margins. Higher base management and franchise fees primarily reflected increased RevPAR and, to a lesser extent, unit growth, including properties added to the Autograph Collection. The $4 million increase in incentive management fees primarily reflected higher property-level income resulting from higher property-level revenue and margins and, to a lesser extent, new unit growth. General, administrative, and other expenses were unchanged and primarily reflected the accelerated amortization of $8 million of deferred contract acquisition costs related to the property for which we earned the $14 million termination fee, offset by a $5 million performance cure payment for one property in the 2011 first half and other lower miscellaneous costs.

Cost reimbursements revenue and expenses associated with our North American Full-Service Lodging segment properties totaled $2,364 million in the first half of 2012, compared to $2,277 million in the first half of 2011.

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North American Limited-Service Lodging includes Courtyard, Fairfield Inn & Suites, SpringHill Suites, Residence Inn, TownePlace Suites, and before the sale, included Marriott ExecuStay.

($ in millions)	Twelve Weeks Ended				Twenty-Four Weeks Ended			
	June 15, 2012	June 17, 2011	Change 2012/2011		June 15, 2012	June 17, 2011	Change 2012/2011	
Segment revenues	$591	$564	5	%	$1,123	$1,066	5	%
Segment results	$106	$98	8	%	$190	$170	12	%

Since the second quarter of 2011, across our North American Limited-Service Lodging segment we added 66 properties (8,010 rooms) and 12 properties (1,479 rooms) left the system. The majority of the properties that left the system were older Residence Inn and Fairfield Inn properties. In addition, in the 2012 second quarter, we completed the sale of our ExecuStay corporate housing business. The revenues, results of operations, assets, and liabilities of our ExecuStay business were not material to the Company's financial position, results of operations or cash flows for any of the periods presented.

Twelve Weeks. In the second quarter of 2012, RevPAR for comparable company-operated North American Limited-Service properties increased by 5.8 percent to $86.78, occupancy for these properties increased by 0.6 percentage points to 74.0 percent, and average daily rates increased by 4.8 percent to $117.29.

The $8 million increase in segment results, compared to the second quarter of 2011, primarily reflected $9 million of higher franchise and base management fees and $2 million of higher owned, leased, corporate housing, and other revenue net of direct expenses, partially offset by $1 million of higher general, administrative, and other expenses. Higher franchise and base management fees primarily reflected higher RevPAR due to increased demand, some of which is attributable to the favorable effect of property renovations, and, to a lesser extent, new unit growth. The $2 million increase in owned, leased, corporate housing, and other revenue net of direct expenses primarily reflected stronger leased property results driven by higher property-level revenue and margins.

Cost reimbursements revenue and expenses associated with our North American Limited-Service Lodging segment properties totaled $431 million in the second quarter of 2012, compared to $400 million in the second quarter of 2011.

Twenty-four Weeks. In the first half of 2012, RevPAR for comparable company-operated North American Limited-Service properties increased by 5.1 percent to $80.88, occupancy for these properties increased by 0.7 percentage points to 69.7 percent, and average daily rates increased by 4.0 percent to $116.00.

The $20 million increase in segment results, compared to the first half of 2011, primarily reflected $16 million of higher franchise and base management fees, $4 million of higher owned, leased, corporate housing, and other revenue net of direct expenses, and $2 million of decreased joint venture equity losses, partially offset by $2 million of higher general, administrative, and other expenses. Higher franchise and base management fees primarily reflected higher RevPAR due to increased demand, some of which is attributable to the favorable effect of property renovations, and, to a lesser extent, new unit growth. The $4 million increase in owned, leased, corporate housing, and other revenue net of direct expenses reflected stronger owned and leased property results driven by higher property-level revenue and margins, as well as $2 million of higher corporate housing revenue net of expense reflecting lower expenses due to the sale of the business. The $2 million decrease in joint venture equity losses reflected increased earnings associated with two joint ventures, primarily due to stronger property-level performance. The $2 million increase in general, administrative, and other expenses primarily reflected miscellaneous net cost increases in the first half of 2012.

Cost reimbursements revenue and expenses associated with our North American Limited-Service Lodging segment properties totaled $825 million in the first half of 2012, compared to $769 million in the first half of 2011.

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

($ in millions)	Twelve Weeks Ended				Twenty-Four Weeks Ended			
	June 15, 2012	June 17, 2011	Change 2012/2011		June 15, 2012	June 17, 2011	Change 2012/2011	
Segment revenues	$306	$301	2	%	$577	$567	2	%
Segment results	$46	$45	2	%	$81	$81	—	%

Since the second quarter of 2011, across our International Lodging segment we added 48 properties (8,348 rooms) and 17 properties (3,168 rooms) left the system, largely due to quality issues. The net properties added include 11 properties (1,444 rooms) that are operated or franchised as part of unconsolidated joint ventures.

Twelve Weeks. In the second quarter of 2012, RevPAR for comparable company-operated international properties increased by 6.7 percent to $118.72, occupancy for these properties increased by 2.7 percentage points to 73.3 percent, and average daily rates increased by 2.7 percent to $161.89. Comparable company-operated RevPAR improved significantly in Thailand, our Caribbean and Latin America region, Japan, and China, while Europe experienced more modest RevPAR increases.

The $1 million increase in segment results in the second quarter of 2012, compared to the second quarter of 2011, primarily reflected a $4 million increase in owned, leased, and other revenue net of direct expenses and $3 million of decreased joint venture equity losses, partially offset by $5 million of higher general, administrative, and other expenses. The $4 million increase in owned, leased, and other revenue net of direct expenses primarily reflected net stronger results at certain leased properties driven by higher property-level margins. The $3 million decrease in joint venture equity losses primarily reflected increased earnings at one joint venture. The $5 million increase in general, administrative, and other expenses reflected an increase in reserves in the 2012 second quarter primarily associated with guarantees, and to a lesser extent, increased miscellaneous other expenses, including expenses associated with initiatives to enhance and grow our brands globally.

Cost reimbursements revenue and expenses associated with our International Lodging segment properties totaled $151 million in the second quarter of 2012, compared to $145 million in the second quarter of 2011.

Twenty-four Weeks. In the first half of 2012, RevPAR for comparable company-operated international properties increased by 6.8 percent to $111.84, occupancy for these properties increased by 2.7 percentage points to 70.1 percent, and average daily rates increased by 2.7 percent to $159.63. Comparable company-operated RevPAR improved significantly in Thailand, our Caribbean and Latin America region, Japan, and China, while Europe experienced more modest RevPAR increases.

Segment results in the first half of 2012 were unchanged compared to the first half of 2011, primarily reflecting a $5 million increase in general, administrative, and other expenses and a $2 million decrease in owned, leased, and other revenue net of direct expenses, offset by a $5 million increase in incentive management fees and $3 million of decreased joint venture equity losses. The $5 million increase in general, administrative, and other expenses reflected an increase in reserves primarily associated with guarantees and increased miscellaneous other expenses, including expenses associated with initiatives to enhance and grow our brands globally. The $2 million decrease in owned, leased, and other revenue net of direct expenses primarily reflected lower termination fees in the 2012 first half, partially offset by stronger results at several owned and leased properties. The $5 million increase in incentive management fees primarily reflected higher property-level income resulting from higher property-level revenue and margins and, to a lesser extent, new unit growth. The $3 million decrease in joint venture equity losses primarily reflected increased earnings at one joint venture.

Cost reimbursements revenue and expenses associated with our International Lodging segment properties totaled $288 million in the first half of 2012, compared to $273 million in the first half of 2011.

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

($ in millions)	Twelve Weeks Ended				Twenty-Four Weeks Ended			
	June 15, 2012	June 17, 2011	Change 2012/2011		June 15, 2012	June 17, 2011	Change 2012/2011	
Segment revenues	$428	$391	9	%	$827	$776	7	%
Segment results	$25	$20	25	%	$46	$38	21	%

Since the second quarter of 2011, across our Luxury Lodging segment we added 4 properties (925 rooms) and 1 property (353 rooms) left the system. Since the 2011 second quarter, we also added 5 residential products (459 units) and no residential products left the system.

Twelve Weeks. In the second quarter of 2012, RevPAR for comparable company-operated luxury properties increased by 8.7 percent to $240.27, occupancy decreased by 2.2 percentage points to 71.5 percent, and average daily rates increased by 5.3 percent to $335.84.

The $5 million increase in segment results, compared to the second quarter of 2011, primarily reflected $14 million of higher owned, leased, and other revenue net of direct expenses and a $2 million increase in incentive management fees, partially offset by $9 million of increased joint venture equity losses and a $4 million increase in general, administrative, and other expenses. The $14 million increase in owned, leased, and other revenue net of direct expenses primarily reflected a $6 million increase associated with our leased property in Japan (which experienced very low demand in 2011 as a result of the earthquake and tsunami and received a $2 million business interruption payment in the 2012 second quarter from a utility company) and $6 million of increased branding fees associated with the sale of real estate by others. The $2 million increase in incentive management fees primarily reflected higher net property-level income resulting from higher property-level revenue and margins at several properties and, to a lesser extent, new unit growth. The $9 million increase in joint venture equity losses reflected increased losses at one joint venture primarily related to impairment of certain underlying residential properties. The $4 million increase in general, administrative, and other expenses primarily reflected miscellaneous net cost increases in the second quarter of 2012.

Cost reimbursements revenue and expenses associated with our Luxury Lodging segment properties totaled $341 million in the second quarter of 2012, compared to $323 million in the second quarter of 2011.

Twenty-Four Weeks. In the first half of 2012, RevPAR for comparable company-operated luxury properties increased by 7.2 percent to $232.97, occupancy decreased by 0.5 percentage points to 68.2 percent, and average daily rates increased by 6.4 percent to $341.75.

The $8 million increase in segment results, compared to the first half of 2011, primarily reflected $14 million of higher owned, leased, and other revenue net of direct expenses and a $5 million increase in incentive management fees, partially offset by $9 million of increased joint venture equity losses and a $3 million increase in general, administrative, and other expenses. The $14 million increase in owned, leased, and other revenue net of direct expenses primarily reflected an $8 million increase associated with our leased property in Japan (which experienced very low demand in 2011 as a result of the earthquake and tsunami and received a $2 million business interruption payment in the 2012 second quarter from a utility company) and $5 million of increased branding fees associated with the sale of real estate by others. The increase in incentive management fees primarily reflected higher net property-level income resulting from higher property-level revenue and margins at several properties and, to a lesser extent, new unit growth. The $9 million increase in joint venture equity losses reflected increased losses at one joint venture primarily related to impairment of certain underlying residential properties. The $3 million increase in general, administrative, and other expenses primarily reflected miscellaneous net cost increases in the first half of 2012.

Cost reimbursements revenue and expenses associated with our Luxury Lodging segment properties totaled $668 million in the first half of 2012, compared to $638 million in the first half of 2011.

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SHARE-BASED COMPENSATION

Under our 2002 Comprehensive Stock and Cash Incentive Plan, we award: (1) stock options to purchase our Class A Common Stock (“Stock Option Program”); (2) stock appreciation rights (“SARs”) for our Class A Common Stock (“Stock Appreciation Right Program”); (3) restricted stock units (“RSUs”) of our Class A Common Stock; and (4) deferred stock units. We grant awards at exercise prices or strike prices that equal the market price of our Class A Common Stock on the date of grant.

During the first half of 2012, we granted 2.8 million RSUs, 1.1 million SARs, and 0.3 million stock options. See Footnote No. 4, “Share-Based Compensation,” of the Notes to our Financial Statements in this Form 10-Q for more information.

NEW ACCOUNTING STANDARDS

See Footnote No. 2, “New Accounting Standards,” of the Notes to our Financial Statements in this Form 10-Q for information related to our adoption of new accounting standards in the first half of 2012.

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LIQUIDITY AND CAPITAL RESOURCES

Cash Requirements and Our Credit Facilities

Our Credit Facility provides for $1.750 billion of aggregate effective borrowings. The facility supports general corporate needs, including working capital, capital expenditures, and letters of credit. The availability of the Credit Facility also supports our commercial paper program. Borrowings under the Credit Facility bear interest at LIBOR (the London Interbank Offered Rate) plus a spread, based on our public debt rating. We also pay quarterly fees on the Credit Facility at a rate based on our public debt rating. The term of the facility expires on June 23, 2016.

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

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

We issue commercial paper in the United States. We do not have purchase commitments from buyers for our commercial paper; therefore our issuances are subject to market demand. We classify any outstanding commercial paper and Credit Facility borrowings as long-term debt based on our ability and intent to refinance it on a long-term basis. We reserve unused capacity under our Credit Facility to repay outstanding commercial paper borrowings in the event that the commercial paper market is not available to us for any reason when outstanding borrowings mature. We do not expect fluctuations in the demand for commercial paper to affect our liquidity, given our borrowing capacity under the Credit Facility.

At June 15, 2012, our available borrowing capacity amounted to $1.376 billion and reflected borrowing capacity of $1.271 billion under our Credit Facility and our cash balance of $105 million. We calculated that borrowing capacity by taking $1.750 billion of effective aggregate bank commitments under our Credit Facility and subtracting approximately $1 million of outstanding letters of credit under our Credit Facility and $478 million of outstanding commercial paper. We had no outstanding borrowings under our Credit Facility at the end of the 2012 second quarter.

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

Cash and cash equivalents totaled $105 million at June 15, 2012, an increase of $3 million from year-end 2011, reflecting cash inflows associated with the following: net proceeds of approximately $590 million from the issuance of Series K Notes (see the "Contractual Obligations" caption later in this section for more information), operating cash inflows ($417 million), loan collections and sales, net of loan advances ($104 million), increased borrowings related to the issuance of commercial paper ($147 million), and common stock issuances ($48 million). The following cash outflows partially offset these cash inflows: purchase of treasury stock ($550 million), debt

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repayments ($352 million) primarily related to the maturity of Series F Senior Notes, capital expenditures ($257 million), dividend payments ($67 million), net other investing cash outflows ($35 million), contract acquisition costs ($19 million), equity and cost method investments ($12 million), and other financing cash outflows ($11 million).

Our ratio of current assets to current liabilities was roughly 0.5 to 1.0 at the end of the 2012 second quarter. We minimize working capital through cash management, strict credit-granting policies, and aggressive collection efforts. We also have significant borrowing capacity under our Credit Facility should we need additional working capital.

We made capital expenditures of $257 million in the first half of 2012 and $91 million in the first half of 2011 that included expenditures related to the development and construction of new hotels and acquisitions of hotel properties, as well as improvements to existing properties and systems initiatives. Capital expenditures for the twenty-four week period ended June 15, 2012 increased by $166 million compared to the year ago period, primarily due to the acquisition of land and a building we plan to develop into a hotel. See Footnote No. 14, "Acquisitions and Dispositions" of the Notes to our Financial Statements in this Form 10-Q. We expect investment spending for the 2012 fiscal year will total approximately $850 million to $950 million, including approximately $100 million for maintenance capital spending. Investment spending also includes other capital expenditures (including property acquisitions), loan advances, contract acquisition costs (including the $210 million for our planned acquisition of the Gaylord brand and hotel management company that we describe in this Form 10-Q), and equity and other investments. See our Condensed Consolidated Statements of Cash Flows for information on investment spending for the twenty-four week period ended June 15, 2012.

Over time, we have sold lodging properties under development subject to long-term management agreements. The ability of third-party purchasers to raise the necessary debt and equity capital depends in part on the perceived risks inherent in the lodging industry and other constraints inherent in the capital markets as a whole. We monitor the status of the capital markets and regularly evaluate the potential impact on our business operations of changes in capital market conditions. We expect to continue to make selective and opportunistic investments in connection with adding units to our lodging business. These investments include loans and noncontrolling equity investments.

Fluctuations in the values of hotel real estate generally have little impact on the overall results of our Lodging segment because: (1) we own less than one percent of the total number of hotels that we operate or franchise; (2) management and franchise fees are generally based upon hotel revenues and profits rather than current hotel property values; and (3) our management agreements generally do not terminate upon hotel sale or foreclosure.

Loan collections and sales, net of loan advances, amounted to $104 million in the first half of 2012 and $77 million in the first half of 2011. In the first half of 2012, our notes receivable balance associated with senior, mezzanine, and other loans decreased by $107 million, primarily reflecting collection of a $69 million note receivable for a recoverable guarantee that we previously funded and $33 million of collections on two new notes receivable issued to us in conjunction with the spin-off.

Spin-off Cash Tax Benefits

We expect that the spin-off we completed in 2011 of our timeshare operations and timeshare development business will result in the realization through 2015 of approximately $400 million to $450 million of cash tax benefits to Marriott, relating to the value of the timeshare business, including $76 million of cash tax benefits we realized in 2011 and approximately $127 million of cash tax benefits we expect to realize in 2012. We did not realize any cash tax benefits in the first half of 2012. For more information on the spin-off, please see Footnote No. 16, "Spin-off" of the Notes to our Financial Statements in this Form 10-Q.

Contractual Obligations

There have been no significant changes to our “Contractual Obligations” table in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” of our 2011 Form 10-

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K, other than those resulting from changes in the amount of outstanding debt, including the Series K note issuance and the maturity of Series F Senior Notes discussed below.

At the end of the 2012 second quarter, debt increased by $389 million to $2,560 million, compared to $2,171 million at year-end 2011, and reflected our first quarter 2012 issuance of $594 million (book value) of Series K Senior Notes (described more fully below) and a $147 million increase in commercial paper, partially offset by the $348 million (book value) retirement, at maturity, of our Series F Senior Notes, and decreases of $4 million in other debt (which includes capital leases). At the end of the 2012 second quarter, future debt payments plus interest and not including capital leases totaled $2,950 million and are due as follows: $56 million in 2012; $499 million in 2013; $88 million in 2014; $396 million in 2015; $827 million in 2016; and $1,084 million thereafter.

In the first quarter of 2012, we issued $600 million aggregate principal amount of 3.000 percent Series K Notes due 2019 (the "Notes").We received net proceeds of approximately $590 million from these offerings, after deducting the underwriting discounts and estimated expenses of these offerings. We expect to use the proceeds for general corporate purposes, which may include working capital, capital expenditures, acquisitions, stock repurchases, or repayment of commercial paper borrowings as they become due. For more information on the Notes, see Footnote No. 10, "Long-term Debt" of the Notes to our Financial Statements in this Form 10-Q.

At end of the second quarter of 2012, we made a $356 million cash payment of principal and interest to retire, at maturity, all of our outstanding Series F Senior Notes.

Our financial objectives include diversifying our financing sources, optimizing the mix and maturity of our long-term debt and reducing our working capital. At the end of the 2012 second quarter, our long-term debt had an average interest rate of 4.1 percent and an average maturity of approximately 4.4 years. The ratio of fixed-rate long-term debt to total long-term debt was 0.78 to 1.0 at the end of the 2012 second quarter.

Guarantee Commitments

There have been no significant changes to our “Guarantee Commitments” table in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” of our 2011 Form 10-K, other than those resulting from: (1) changes in the amount of guarantees where we are the primary obligor; and (2) changes in the amount of guarantees where we are secondarily liable.

At the end of the 2012 second quarter, guarantees where we are the primary obligor increased by $14 million to $224 million, compared to $210 million at year-end 2011, and reflected a $33 million increase in debt service guarantees, partially offset by a $17 million decrease in operating profit guarantees and a $2 million decrease in other guarantees. At the end of the 2012 second quarter, future guarantee commitment expirations are as follows: $18 million in 2012; $46 million in 2013; $35 million in 2014; $24 million in 2015; $20 million in 2016; and $81 million thereafter.

As of the end of the 2012 second quarter, guarantees where we are secondarily liable increased by $48 million to $306 million, compared to $258 million at year-end 2011, and primarily reflected a $69 million increase for an operating profit guarantee and an $11 million increase for a guarantee related to one lease, partially offset by an $18 million decrease in guarantees associated with other lease obligations and lifecare bonds, a $9 million decrease in guarantees and commitments related to the spin-off of the timeshare business, and a $5 million decrease in lease obligations for which we became secondarily liable when we acquired the Renaissance Hotel Group N.V. in 1997. At the end of the 2012 second quarter, future guarantee commitment expirations are as follows: $23 million in 2012; $77 million in 2013; $71 million in 2014; $33 million in 2015; $26 million in 2016; and $76 million thereafter. See the "Guarantees" caption in Footnote No. 12 "Contingencies" for additional information on our guarantees.

Share Repurchases

We purchased 14.7 million shares of our Class A Common Stock during the twenty-four weeks ended June 15, 2012, at an average price of $37.40 per share. See Part II, Item 2 of this Form 10-Q for more information on our share repurchases. As of June 15, 2012, 25.8 million shares remained available for repurchase under authorizations

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from our Board of Directors.

Dividends

On February 10, 2012, our board of directors declared a quarterly cash dividend of $0.1000 per share, which we paid on March 30, 2012 to shareholders of record on February 24, 2012. On May 4, 2012, our board of directors declared a quarterly cash dividend of $0.13 per share, which we paid on June 22, 2012 to shareholders of record on May 18, 2012.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts and related disclosures. We have discussed those estimates that we believe are critical and require the use of complex judgment in their application in our 2011 Form 10-K. Since the date of our 2011 Form 10-K, there have been no material changes to our critical accounting policies or the methodologies or assumptions we apply under them.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk has not materially changed since December 30, 2011.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report, we evaluated, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the “Exchange Act”)), and management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which by their nature, can provide only reasonable assurance about management’s control objectives. You should note that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Based upon the foregoing evaluation, our Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective and operating to provide reasonable assurance that we record, process, summarize and report the information we are required to disclose in the reports that we file or submit under the Exchange Act within the time periods specified in the rules and forms of the SEC, and to provide reasonable assurance that we accumulate and communicate such information to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions about required disclosure.

Internal Control Over Financial Reporting

We made no changes in internal control over financial reporting during the second quarter of 2012 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We incorporate by reference the information under "Legal Proceedings" in Footnote No. 12, "Contingencies" of the Notes to our Condensed Consolidated Financial Statements in Part I. Item 1 of this Form 10-Q.

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

Item 1A. Risk Factors

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

Our industry is highly competitive, which may impact our ability to compete successfully with other hotel properties for customers. We generally operate in markets that contain numerous competitors. Each of our hotel brands competes with major hotel chains in national and international venues and with independent companies in regional markets. Our ability to remain competitive and to attract and retain business and leisure travelers depends on our success in distinguishing the quality, value, and efficiency of our lodging products and services from those offered by others. If we cannot compete successfully in these areas, this could limit our operating margins, diminish our market share, and reduce our earnings.

Economic uncertainty could continue to impact our financial results and growth. Weak economic conditions in Europe and other parts of the world, the strength or continuation of recovery in countries that have experienced improved economic conditions, political instability in some areas, and the uncertainty over how long any of these conditions will continue, could continue to have a negative impact on the lodging industry. As a result of such current economic conditions and uncertainty, we continue to experience weakened demand for our hotel rooms in some markets. Recent improvements in demand trends in other markets may not continue, and our future financial results and growth could be further harmed or constrained if the recovery stalls or conditions worsen.

Operational Risks

Premature termination of our management or franchise agreements could hurt our financial performance. Our hotel management and franchise agreements may be subject to premature termination in certain circumstances, such as the bankruptcy of a hotel owner or franchisee, or a failure under some agreements to meet specified financial or performance criteria that are subject to the risks described in this section, which the Company fails or elects not to cure. A significant loss of agreements due to premature terminations could hurt our financial performance or our ability to grow our business.

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

The growing significance of our operations outside of the United States also makes us increasingly susceptible

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to the risks of doing business internationally, which could lower our revenues, increase our costs, reduce our profits or disrupt our business. We currently operate or franchise hotels and resorts in 74 countries, and our operations outside the United States represented approximately 17 percent of our revenues in the 2012 second quarter. We expect that the international share of our total revenues will increase in future years. As a result, we are increasingly exposed to a number of challenges and risks associated with doing business outside the United States, including the following, any of which could reduce our revenues or profits, increase our costs, result in significant liabilities or sanctions or otherwise disrupt our business: (1) compliance with complex and changing laws, regulations and policies of governments that may impact our operations, including foreign ownership restrictions, import and export controls, and trade restrictions; (2) compliance with laws that affect the activities of companies abroad including U.S. and other jurisdictions' anti-corruption laws, currency regulations and laws affecting dealings with certain nations; (3) limitations on our ability to repatriate non-U.S. earnings in a tax effective manner; (4) the difficulties involved in managing an organization doing business in many different countries; (5) uncertainties as to the enforceability of contract and intellectual property rights under local laws; (6) rapid changes in government policy, political or civil unrest, including in the Middle East, acts of terrorism or the threat of international boycotts or U.S. anti-boycott legislation; and (7) currency exchange rate fluctuations.

Our new programs and new branded products may not be successful. We cannot assure that our recently launched EDITION, Autograph Collection and AC Hotels by Marriott brands, our recently announced planned acquisition of the Gaylord brand, or any new programs or products we may launch in the future will be accepted by hotel owners, potential franchisees, or the traveling public or other customers. We also cannot be certain that we will recover the costs we incurred in developing the brands or any new programs or products, or that the brands or any new programs or products will be successful. In addition, some of our new brands involve or may involve cooperation and/or consultation with one or more third parties, including some shared control over product design and development, sales and marketing, and brand standards. Disagreements with these third parties could slow the development of these new brands and/or impair our ability to take actions we believe to be advisable for the success and profitability of such brands.

Risks relating to natural or man-made disasters, contagious disease, terrorist activity, and war could reduce the demand for lodging, which may adversely affect our revenues. So called “Acts of God,” such as hurricanes, earthquakes, tsunamis, and other natural disasters, man-made disasters such as the oil spill in the Gulf of Mexico and, more recently, the aftermath of the earthquake and tsunami in Japan, and the spread of contagious diseases, such as H1N1 Flu, Avian Flu, and SARS, in locations where we own, manage or franchise significant properties, and areas of the world from which we draw a large number of customers could cause a decline in the level of business and leisure travel and reduce the demand for lodging. Actual or threatened war, terrorist activity, political unrest or civil strife, such as recent events in Egypt, Libya and Bahrain, and other geopolitical uncertainty could have a similar effect. Any one or more of these events may reduce the overall demand for hotel rooms and corporate apartments or limit the prices that we can obtain for them, both of which could adversely affect our profits.

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

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

generally impact the reputation of our brands. If the reputation or perceived quality of our

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brands declines, our market share, reputation, business, financial condition or results of operations could be affected. Actions by our franchisees and licensees could adversely affect our image and reputation. We franchise and license many of our brand names and trademarks to third parties in connection with lodging, timeshare and residential services. Under the terms of their agreements with us, our franchisees and licensees interact directly with customers and other third parties under our brand and trade names. If these franchisees or licensees fail to maintain or act in accordance with applicable brand standards, experience operational problems, or project a brand image inconsistent with ours, our image and reputation could suffer. Although our franchise and license agreements provide us with recourse and remedies in the event of a breach by the franchisee or licensee, including termination of the agreements under certain circumstances, pursuing any such recourse, remedy or termination could be expensive and time consuming. In addition, while we believe that our contractual termination rights are strong, we cannot assure you that a court would ultimately enforce those rights in every instance.

Damage to, or losses involving, properties that we own, manage or franchise may not be covered by insurance. We have comprehensive property and liability insurance policies with coverage features and insured limits that we believe are customary. Market forces beyond our control may nonetheless limit the scope of the insurance coverage we can obtain or our ability to obtain coverage at reasonable rates. Certain types of losses, generally of a catastrophic nature, such as earthquakes, hurricanes and floods, or terrorist acts, or liabilities that result from breaches in the security of our information systems may be uninsurable or too expensive to justify obtaining insurance. As a result, we may not be successful in obtaining insurance without increases in cost or decreases in coverage levels. In addition, in the event of a substantial loss, the insurance coverage we carry may not be sufficient to pay the full market value or replacement cost of our lost investment or that of hotel owners or in some cases could result in certain losses being totally uninsured. As a result, we could lose some or all of the capital we have invested in a property, as well as the anticipated future revenue from the property, and we could remain obligated for guarantees, debt, or other financial obligations related to the property.

Development and Financing Risks

While we are predominantly a manager and franchisor of hotel properties, our hotel owners depend on capital to buy, develop, and improve hotels, and our hotel owners may be unable to access capital when necessary. In order to fund new hotel investments, as well as refurbish and improve existing hotels, both the Company and current and potential hotel owners must periodically spend money. The availability of funds for new investments and improvement of existing hotels by our current and potential hotel owners depends in large measure on capital markets and liquidity factors, over which we can exert little control. The difficulty of obtaining financing on attractive terms, or at all, continues to constrain the capital markets for hotel and real estate investments. In addition, owners of existing hotels that we franchise or manage may have difficulty meeting required debt service payments or refinancing loans at maturity.

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

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

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anticipated room rate structure.

Our development activities expose us to project cost, completion, and resale risks. We develop new hotel and residential properties, and previously developed timeshare interval and fractional ownership properties, both directly and through partnerships, joint ventures, and other business structures with third parties. As demonstrated by the 2009 and 2011 impairment charges associated with our former Timeshare business, our ongoing involvement in the development of properties presents a number of risks, including that: (1) continued weakness in the capital markets may limit our ability, or that of third parties with whom we do business, to raise capital for completion of projects that have commenced or for development of future properties; (2) properties that we develop could become less attractive due to further decreases in demand for residential properties, increases in mortgage rates and/or decreases in mortgage availability, market absorption or oversupply, with the result that we may not be able to sell such properties for a profit or at the prices or selling pace we anticipate, potentially requiring additional changes in our pricing strategy that could result in further charges; (3) construction delays, cost overruns, lender financial defaults, or so called “Acts of God” such as earthquakes, hurricanes, floods or fires may increase overall project costs or result in project cancellations; and (4) we may be unable to recover development costs we incur for these projects that are not pursued to completion.

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

Risks associated with development and sale of residential properties that are associated with our lodging properties or brands may reduce our profits. In certain hotel and timeshare projects we participate, through noncontrolling interests and/or licensing fees, in the development and sale of residential properties associated with our brands, including luxury residences and condominiums under our Ritz-Carlton and Marriott brands. Such projects pose further risks beyond those generally associated with our lodging businesses, which may reduce our profits or compromise our brand equity, including the following:

- The continued weakness in residential real estate and demand generally may continue to reduce our profits and could make it more difficult to convince future hotel development partners of the value added by our brands;
- Increases in interest rates, reductions in mortgage availability, or increases in the costs of residential ownership could prevent potential customers from buying residential products or reduce the prices they are willing to pay; and
- Residential construction may be subject to warranty and liability claims, and the costs of resolving such claims may be significant.

Technology, Information Protection, and Privacy Risks

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

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An increase in the use of third-party Internet services to book online hotel reservations could adversely impact our business. Some of our hotel rooms are booked through Internet travel intermediaries such as Expedia.com®, Travelocity.com®, and Orbitz.com®, as well as lesser-known online travel service providers. These intermediaries initially focused on leisure travel, but now also provide offerings for corporate travel and group meetings. Although Marriott's Look No Further® Best Rate Guarantee has greatly reduced the ability of intermediaries to undercut the published rates at our hotels, intermediaries continue to use a variety of aggressive online marketing methods to attract customers, including the purchase, by certain companies, of trademarked online keywords such as "Marriott" from Internet search engines such as Google®, Bing® and Yahoo® to steer customers toward their websites (a practice that has been challenged by various trademark owners in federal court). Although Marriott has successfully limited these practices through contracts with key online intermediaries, the number of intermediaries and related companies that drive traffic to intermediaries' websites is too large to permit us to eliminate this risk entirely. Our business and profitability could be harmed if online intermediaries succeed in significantly shifting loyalties from our lodging brands to their travel services, diverting bookings away from Marriott.com, or through their fees increasing the overall cost of Internet bookings for our hotels.

Failure to maintain the integrity of internal or customer data could result in faulty business decisions, operational inefficiencies, damage of reputation and/or subject us to costs, fines, or lawsuits. Our businesses require collection and retention of large volumes of internal and customer data, including credit card numbers and other personally identifiable information of our customers in various information systems that we maintain and in those maintained by third parties with whom we contract to provide services, including in areas such as human resources outsourcing, website hosting, and email marketing. We also maintain personally identifiable information about our employees. The integrity and protection of that customer, employee, and company data is critical to us. If that data is inaccurate or incomplete, we could make faulty decisions. Our customers and employees also have a high expectation that we and our service providers will adequately protect their personal information. The regulatory environment as well as the requirements imposed on us by the payment card industry surrounding information, security and privacy is also increasingly demanding, in both the United States and other jurisdictions in which we operate. Our systems may be unable to satisfy changing regulatory and payment card industry requirements and employee and customer expectations, or may require significant additional investments or time in order to do so. Our information systems and records, including those we maintain with our service providers, may be subject to security breaches, system failures, viruses, operator error or inadvertent releases of data. A significant theft, loss, or fraudulent use of customer, employee, or company data maintained by us or by a service provider could adversely impact our reputation and could result in remedial and other expenses, fines, or litigation. A breach in the security of our information systems or those of our service providers could lead to an interruption in the operation of our systems, resulting in operational inefficiencies and a loss of profits.

Changes in privacy law could adversely affect our ability to market our products effectively. We rely on a variety of direct marketing techniques, including email marketing, online advertising, and postal mailings. Any further restrictions in laws such as the CANSPAM Act, and various U.S. state laws, or new federal laws on marketing and solicitation or international data protection laws that govern these activities could adversely affect the continuing effectiveness of email, online advertising, and postal mailing techniques and could force further changes in our marketing strategy. If this occurs, we may not be able to develop adequate alternative marketing strategies, which could impact the amount and timing of our sales of certain products. We also obtain access to potential customers from travel service providers or other companies with whom we have substantial relationships and market to some individuals on these lists directly or by including our marketing message in the other company's marketing materials. If access to these lists was prohibited or otherwise restricted, our ability to develop new customers and introduce them to our products could be impaired.

Other Risks

Changes in tax and other laws and regulations could reduce our profits or increase our costs. Our businesses are subject to regulation under a wide variety of laws, regulations and policies in jurisdictions around the world. In response to the recent economic crisis and recession, we anticipate that many of the jurisdictions in which we do business will continue to review tax and other revenue raising laws, regulations and policies, and any resulting

changes could impose new restrictions, costs or prohibitions on our current practices and reduce our profits. In

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particular, governments may revise tax laws, regulations or official interpretations in ways that could have a significant impact on us, including modifications that could reduce the profits that we can effectively realize from our non-U.S. operations, or that could require costly changes to those operations, or the way in which they are structured. For example, most U.S. company effective tax rates reflect the fact that income earned and reinvested outside the United States is generally taxed at local rates, which are often much lower than U.S. tax rates. If changes in tax laws, regulations or interpretations significantly increase the tax rates on non-U.S. income, our effective tax rate could increase and our profits could be reduced. If such increases resulted from our status as a U.S. company, those changes could place us at a disadvantage to our non-U.S. competitors if those competitors remain subject to lower local tax rates.

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

The spin-off might not produce the cash tax benefits we anticipate. In connection with the spin-off, we completed an internal reorganization, which included transactions that were structured in a manner intended to result, for U.S. federal income tax purposes, in our recognition of built-in losses in properties used in the North American and Luxury segments of the Timeshare division. Our recognition of these built-in losses and corresponding tax deductions has generated and we expect will continue to generate significant cash tax benefits for us. Although we received a private letter ruling from the IRS and an opinion from our tax counsel confirming that these built-in losses may be recognized and deducted by us, the private letter ruling and opinion that we received are subject to the continuing validity of any assumptions and representations reflected therein. Accordingly, the IRS could determine that the built-in losses should not have been recognized or deductions for such losses should be disallowed and a court could agree with the IRS. If we were unable to deduct these losses for U.S. federal income tax purposes, and, instead, the tax basis of the properties attributable to the built-in losses were available to MVW and its subsidiaries, MVW has agreed, pursuant to the tax sharing and indemnification agreement, to indemnify us for certain tax benefits that we otherwise have recognized or would have recognized if we were able to deduct such losses. For more information on the cash tax benefits we anticipate, see the "Liquidity and Capital Resources" caption within Part I Item 2. "Management’s Discussion and Analysis of Financial Condition and Results of Operations" of this report.

If we cannot attract and retain talented associates, our business could suffer. We compete with other companies both within and outside of our industry for talented personnel. If we cannot recruit, train, develop, and retain sufficient numbers of talented associates, we could experience increased associate turnover, decreased guest satisfaction, low

morale, inefficiency, or internal control failures. Insufficient numbers of talented associates could

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

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

(a) Unregistered Sale of Securities

None.

(b) Use of Proceeds

None.

(c) Issuer Purchases of Equity Securities

(in millions, except per share amounts)

Period	Total Number of Shares Purchased	Average Price per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [1]	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs [1]
March 24, 2012 - April 20, 2012	2.5	$37.48	2.5	33.8
April 21, 2012 - May 18, 2012	4.5	38.59	4.5	29.3
May 19, 2012 - June 15, 2012	3.5	37.40	3.5	25.8

(1) On February 10, 2012, we announced that our Board of Directors increased, by 35 million shares, the authorization to repurchase our Class A Common Stock. As of June 15, 2012, 25.8 million shares remained available for repurchase under Board approved authorizations. We repurchase shares in the open market and in privately negotiated transactions.

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Item 6. Exhibits

Exhibit No.	Description	Incorporation by Reference (where a report is indicated below, that document has been previously filed with the SEC and the applicable exhibit is incorporated by reference thereto)
3.1	Restated Certificate of Incorporation of the Company.	Exhibit No. 3.(i) to our Form 8-K filed August 22, 2006 (File No. 001-13881).
3.2	Amended and Restated Bylaws.	Exhibit No. 3.(i) to our Form 8-K filed November 12, 2008 (File No. 001-13881).
12	Statement of Computation of Ratio of Earnings to Fixed Charges.	Filed with this report.
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).	Filed with this report.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).	Filed with this report.
32	Section 1350 Certifications.	Furnished with this report.
101.INS	XBRL Instance Document.	Submitted electronically with this report.
101.SCH	XBRL Taxonomy Extension Schema Document.	Submitted electronically with this report.
101.CAL	XBRL Taxonomy Calculation Linkbase Document.	Submitted electronically with this report.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Submitted electronically with this report.
101.LAB	XBRL Taxonomy Label Linkbase Document.	Submitted electronically with this report.
101.PRE	XBRL Taxonomy Presentation Linkbase Document.	Submitted electronically with this report.

We have attached the following documents formatted in XBRL (Extensible Business Reporting Language) as Exhibit 101 to this report: (i) the Condensed Consolidated Statements of Income for the twelve and twenty-four weeks ended June 15, 2012, and June 17, 2011, respectively; (ii) the Condensed Consolidated Statements of Comprehensive Income for the twelve and twenty-four weeks ended June 15, 2012, and June 17, 2011, respectively; (iii) the Condensed Consolidated Balance Sheets at June 15, 2012, and December 30, 2011; and (iv) the Condensed Consolidated Statements of Cash Flows for the twenty-four weeks ended June 15, 2012, and June 17, 2011, respectively.

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SIGNATURES

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

MARRIOTT INTERNATIONAL, INC.
12th day of July, 2012

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

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