Note on forward-looking statements: This document contains "forward-looking statements" within the meaning of federal securities laws, including statements concerning the proposed spin-off of our timeshare operations and development business; RevPAR, profit margin and earnings trends, estimates and assumptions; the number of lodging properties we expect to add in the future; our expectations about investment spending and share repurchases; the expected launch, timing and initial number of rooms in the AC Hotels by Marriott joint venture; and similar statements concerning anticipated future events and expectations that are not historical facts. We caution you that these statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those we identify below and other risk factors that we identify in our most recent annual report on Form 10-K or quarterly report on Form 10-Q.

Risks particular to the proposed spin-off include unanticipated developments that delay or otherwise negatively affect the transaction; our ability to obtain financing for the new timeshare company; our ability to obtain regulatory approvals; our receipt of a favorable letter ruling from the Internal Revenue Service; final approval by our board of directors; the impact of the transaction on our relationships with our customers and employees; the ability of the separated businesses to operate independently; and disruption to our operations resulting from the proposed spin-off. Other risks that could affect forward-looking statements in this press release include changes in market conditions; the continuation and pace of the economic recovery; supply and demand changes for hotel rooms, corporate housing and our timeshare products; competitive conditions in the lodging industry; relationships with clients and property owners; the availability of capital to finance hotel growth and refurbishment; and any delay in or failure to obtain any necessary consent for the AC Hotels by Marriott joint venture. Any of these factors could cause actual results to differ materially from the expectations we express or imply in this press release.

We make these forward-looking statements as of February 15, 2011. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Marriott International, Inc.
Fourth Quarter 2010 Earnings Conference Call Transcript[1]
February 15, 2011

Operator: Welcome to the Marriott International fourth quarter and year end 2010 earnings conference call. Today's call is being recorded. At this time for opening remarks and introductions I would like to turn the call over to the president and chief operating officer, Mr. Arne Sorenson. Please go ahead sir.

Arne Sorenson: Good morning, everyone. Welcome to our year end 2010 earnings conference call. Joining me today are Carl Berquist, our executive vice president and chief financial officer, Laura Paugh, senior vice president, investor relations and Betsy Dahm, senior director, investor relations.

We're conducting our call today from the headquarters of Marriott Vacation Club International in sunny, warm Orlando, Florida. We discussed our plans to divide the company with our Vacation Club associates last night in a Town Hall meeting after we issued our press release. There is still a lot to be done, but we're all quite excited by this terrific opportunity.

So on today's call, we also have joining us, our hosts here in Florida, Steve Weisz, president of Marriott Vacation Club International, John Geller, chief financial officer of our current and future timeshare business, as well as Bill Shaw, vice chairman of the company.

As always, before we get into the discussion of our results, let me first remind everyone that many of our comments today are not historical facts and are considered forward looking statements under federal securities laws. These statements are subject to numerous risks and uncertainties, as described in our SEC filings, which could cause future results to differ materially from those

[1] Not a verbatim transcript; extraneous material omitted.

expressed in or implied by our comments. Forward looking statements in the press release that we issued last night, along with our comments today, are effective only today, February 15, 2011, and will not be updated as actual events unfold. You can find definitions of the terms we refer to this morning in our earnings release on page 16. You can find a reconciliation of non-GAAP financial measures referred to in our remarks on our web site at www.marriott.com/investor.

We wanted to have an extended discussion about of major brand initiatives; but we have too much other ground to cover. 2010 was a stellar year for Marriott. RevPAR was outstanding; pricing turned up faster than many expected; and we reached our leverage targets. Now solidly investment grade, we resumed share repurchases in the 2010 fourth quarter. With significant leverage to the improving operating environment, our adjusted earnings per share rose 24 percent in 2010 and 22 percent in the fourth quarter. Fourth quarter adjusted EBITDA increased 8 percent, 11 percent excluding the impact of securitizations.

We made significant progress growing our brands, opening almost 30,000 new rooms in 2010. We opened our first Edition hotel in Waikiki and we announced two new brands, AC Hotels by Marriott, a growth vehicle for Europe and Latin America; and Autograph, a collection of independent and unique 4- and 5-star hotels. Autograph launched in January of 2010 and by year-end already had 13 hotels operating, including the spectacular Cosmopolitan Las Vegas. With nearly 4,000 Autograph rooms added in less than a year, we could not be more pleased with the speed of the launch and the economics of the brand. The first seven Autograph hotels saw their RevPAR index grow by over 20 percentage points in the second half of 2010. These brands already resonate with owners and guests.

Our other brands didn't stand still. Owners and franchisees invested in great rooms in our full service brands, the very successful Refreshing Business public space in Courtyard and new designs for Residence Inn, SpringHill Suites and Fairfield Inn & Suites.

We continued to seize growth opportunities in big emerging markets. In China, we have the best portfolio of luxurious, city-center properties, typically carrying the Ritz-Carlton, JW Marriott, Marriott and Renaissance brands. In gateway markets like Hong Kong, Beijing and Shanghai, our portfolio of hotels are second to none -- in quality or number.

While our growth with these brands will continue, in 2010 we stepped up our efforts by also expanding our moderate tier platforms. In India, we announced the rollout of Fairfield by Marriott, a product specifically designed for that market. And in Brazil, we announced plans to open 50 new Fairfield Hotels with their own environmentally-friendly design.

Our timeshare business had a great 2010, rolling out the Marriott Vacation Club Destinations points program to great success, providing owners with greater flexibility and choice. And the business continued to right-size its overhead as well as its sales and marketing costs.

And for timeshare, bigger changes are in the offing.

Last night, as you know, we announced a plan to divide the company's lodging and timeshare businesses into two separate, publicly traded companies through a special tax-free dividend to our shareholders. While many of you might first think this is Marriott International exiting the timeshare business, we do not view it that way. We see it as setting up a platform for the timeshare business, still linked to the Marriott and Ritz-Carlton brands, to grow faster, with independent capitalization but still adding loyal Marriott customers as they grow.

We frequently talk about the tremendous growth opportunities in both our lodging and timeshare businesses. So as we roll out this transaction, many may ask, "Why do this"?

Simply put, we believe the two businesses appeal to different types of investors with different investment goals and risk profiles. Finding investors who want to invest in both industries together is more challenging than finding investors for each individually. We faced a similar challenge years ago, as investors in our lodging brand business were much less interested in lodging real estate. In the early 1990s, we resolved it with a spin-off which yielded two separate companies, Marriott International and Host Marriott, which of course is now today's Host Hotels & Resorts. Today, over 99 percent of the hotels in our system are owned by others including a substantial number owned by real estate investment trusts. Many investors have told us that they like to specialize, concentrating on businesses with one core focus that they can understand and can value. Such specialization has largely not occurred in the timeshare business… until now.

So why do this <u>now</u>?

This transaction will create the largest pure-play timeshare company in the world; a platform that will leverage the finest lodging brands around – our Marriott and Ritz-Carlton brands - and allow them to continue to grow in this space.

The past three years were difficult for the timeshare industry. The consumer was hit hard in the recession and our sales felt the impact. During this time, our priorities were to right-size the business and maximize cash flow, while also launching our new points product. In these past three years, there was little need for us to invest incremental capital in the business.

Today, our timeshare points program is off to a great start. The business has proved its ability to drive cash flow even in an extraordinary difficult market. And, while the business is still rich with inventory, as the recovery progresses, opportunities for new investments will emerge. By spinning this business off, we are setting it up to be able to make those new investments and grow.

At the same time, from this transaction, will also emerge a lodging brand company even more focused on its core business of generating management and franchise fees. Marriott International will still create value in the timeshare business, but through its brand equity rather than its balance sheet.

Both companies will have the resources and talent for new growth and profitability; both companies will have outstanding leadership teams and be market leaders. In sum, separating the businesses should generate greater opportunities and allow shareholders to better understand both companies' underlying value, strategy and competitive strengths.

We ask your patience. Work has just begun on this transaction and we have not yet filed a Form 10 SEC registration statement, although we expect to do so sometime in the late second quarter. Until then, we won't be able to provide more financial details.

For more about the business, I've asked Steve Weisz, the future CEO of the new timeshare company, to talk to you a bit about MVCI's prospects. A 37 year Marriott veteran, Steve is a tremendous leader, understands this business very well, and has done an outstanding job in his almost 14 years at the MVCI helm. Steve.

Steve Weisz: Thank you, Arne.

Marriott entered the timeshare business in 1984 with the acquisition of American Resorts, a small Florida company with a handful of resorts on Hilton Head Island. Since then, the business has grown. In 2010 alone, as part of Marriott, segment revenues totaled over $1.5 billion and segment pretax earnings totaled over $120 million. This is a successful, profitable business with an outstanding future.

Today, we have the most resorts in the upscale timeshare business and customers simply love our product. Our 71 resort system offers high-quality, purpose-built resorts in desirable locations and a variety of usage options.

Following this transaction, owners and guests should see no change in the branding or quality of their properties, services, usage options, use of Marriott Rewards points, or access to Marriott International hotels. And following the split, all of us, at both companies, will remain committed to delivering outstanding product and vacation experiences.

While we aren't naming the new company today, we know that when we do, it will include the name "Marriott" because of the tremendous competitive advantage that name conveys. In fact, we will have the exclusive rights to both the Marriott and Ritz-Carlton names as they apply to the timeshare business under a long term agreement for which we will pay a franchise fee to Marriott. At the same time, we will also be able to develop and operate timeshare resorts under other brand names.

All of us here are products of Marriott's deep-rooted corporate culture which recognizes that we take care of the associate, who takes care of the guest, and the guest returns. This will remain at the core of our new company's culture and we believe the transaction will enable even more associate career opportunities in the future.

Bill Shaw, who is retiring as vice chairman of Marriott at the end of March, will become chairman of the board of our new public timeshare company. Bill's strong leadership, business and finance acumen, and core belief in the Marriott culture will serve our public shareholders well. Debbie Marriott Harrison, Mr. Marriott's daughter, will also serve on our board of directors. The timeshare business is highly regulated and Debbie's experience in government affairs at Marriott International makes her a great addition to the board.

We see a bright future for this new company. Our new points product has been very well received by customers. Timeshare demand correlates highly with consumer confidence, which is coming back. New construction starts in the timeshare industry are very low as the industry continues to absorb existing inventory.

In fact, at year end 2010, we had $1.5 billion in timeshare inventory on the books including over $730 million in finished goods, which should help minimize near term cash needs. Looking further ahead, while we don't expect the new company to be investment grade in the near term, we do expect that it will continue to securitize its consumer notes receivables and should require little additional incremental capital. We believe we will have the economic strength and flexibility to weather further economic cycles as well as grow over time.

Our overhead is in excellent shape. All in all, we believe our operating leverage at this stage of the recovery is a tremendous positive for the business. We expect the company will remain well balanced with income coming from development, timeshare resort management and the consumer financing business.

In 1984, Marriott blazed new trails in the timeshare industry with the introduction of the gold-plated Marriott brand. Today, the company is breaking new ground again by presenting investors with the opportunity to invest in a stand-alone well-branded timeshare company. I'm confident that we'll all look back on this as a defining moment, not only for Marriott Vacation Club International but for the entire timeshare industry as well.

And now to talk about the results for the rest of the company, I would like to introduce Carl Berquist.

Carl Berquist: Thanks, Steve. We had a pretty terrific fourth quarter. We reported diluted earnings per share of $0.39 for the quarter on an adjusted basis, a 22 percent increase from prior year and 4 to 5 cents better than our October guidance.

Our lodging business reported stronger than expected RevPAR and margins which accounted for about 3 cents of the outperformance.

Timeshare's contract sales exceeded the high end of expectations, but profits were depressed by about a penny due to impairments for a few fractional projects due to slow sales pace.

Fourth quarter adjusted G&A was higher than we estimated, with about 2 cents due to higher than expected owner workouts and about a penny in new infrastructure spending to drive growth in our international markets.

Below the line, stronger than expected cash flow saved a penny on net interest expense. And on the tax line we picked up about 3 cents due to certain revisions to prior years' estimated foreign tax expense and about 1 cent due to lower full year tax rates associated with the growth in our international operations.

We adjusted our fourth quarter results for several unusual items including an $84 million impairment charge associated with our Consolidated Inventory/Total Yield system, or CI/TY. CI/TY is a ground-breaking revenue management system that will provide our hotels the tools to yield-manage group demand, including guest rooms, function space and catering. Marriott funded the upfront costs of CI/TY because of its significant potential to enhance our brands, increase competitive advantage, and drive hotel profitability. We made the investment, as we've made systems investments in the past, with the expectation that we would recover our costs over time from participating hotels. But the significant impact of the recent financial crisis and recession on owner and franchisee profitability occurred simultaneously with the scheduled system roll-out and the beginning of the cost-recovery process. Given this, along with the long-term nature of our relationships with our owners and franchisees, we agreed to absorb part of the cost of this system.

Systemwide worldwide RevPAR rose 8 percent in the fourth quarter. In our North American lodging business, corporate transient business was very strong. For the company-managed Marriott Hotels & Resorts brand, RevPAR for our premium "corporate and above" business rose 17 percent with 9 percent coming from average daily rates. We continue to press retail rates higher. In the fourth quarter, nearly 90 percent of company-operated Marriott branded hotels in North America raised retail rates and one-in-four raised rates more than 15 percent.

Our limited service hotels saw the impact of stronger business demand particularly in the urban markets. Limited service systemwide North American RevPAR rose 8 percent in the quarter.

For company-operated Marriott hotels in North America, special corporate roomnights increased 16 percent during the quarter. We're roughly two-thirds of the way done with special corporate rate negotiations for 2011 and the resulting rates for the completed accounts are running up at a high single digit rate over 2010 prices. Special corporate customers also tell us that they expect to be traveling more in 2011.

While still lagging the transient recovery, group business continues to improve with significant short term demand. The booking window has not lengthened but we are already seeing price improvement. For company-managed Marriott Hotels & Resorts, December group room rates rose nearly 5 percent.

New group bookings made in the 2010 fourth quarter for 2011 were up 21 percent including 11 percent higher room rates. In fact, we booked nearly $150 million of 2011 group business in the fourth quarter alone.

Turning to development… We opened over 150 new properties in 2010 with nearly 30,000 rooms. At year end, our pipeline increased to nearly 105,000 rooms worldwide with roughly 45,000 rooms in international markets. Roughly 35 percent of our pipeline rooms are under construction and nearly 20 percent are awaiting conversion.

For 2011, we expect adjusted earnings per share to increase 17 to 26 percent assuming 6 to 8 percent worldwide systemwide RevPAR growth and roughly 35,000 gross room additions. Adjusted EBITDA is expected to climb 12 to 18 percent for the full year.

For the first quarter, we expect earnings per share to total $0.24 to $0.28 per share assuming a 7 to 9 percent worldwide systemwide RevPAR increase. The first quarter reflects slower growth than the full year largely due to timing issues for G&A and timeshare. The first quarter 2011 G&A increase reflects a tough comparison to a $6 million guarantee reserve reversal and unusually low incentive compensation in the prior year quarter. For timeshare, lower interest income and rental profits will likely depress results in the first quarter, but favorable development profit reportability and solid cost controls should yield much stronger earnings in the remainder of the year.

We haven't adjusted our earnings guidance for the pending timeshare transaction and are providing an earnings outlook assuming the businesses remains "as-is", unadjusted for pro forma changes or incremental expenses associated with the split of the company.

We assume about $500 million to $700 million in investment spending in 2011, including $50 to $100 million in maintenance spending. Total investment spending in 2010 was about $400 million. We will be disciplined in our approach to capital investments and repurchases, but expect to return cash to shareholders if attractive investment opportunities do not appear.

2010 was a turning point for Marriott's lodging and timeshare businesses. We are uniquely positioned with the largest portfolio of very strong brands, a sizable unit growth pipeline and significant near term free cash flow. We're all looking forward to an exciting 2011.

We're pleased to take your questions now.

Question and Answer Session:

Joe Greff, JP Morgan: Good morning, everybody. On the Timeshare news, I'm hoping you can you give us a sense of the franchise royalty fees that the Timeshare business would pay Marriott? Can you give us a sense there how those economics might work?

Arne Sorenson: You're going to have to wait for the Form 10 that we file with the SEC. So we -- obviously, this is a first announcement of something that we are aggressively pursuing. Our Board approved the decision to go forward with it at its meeting on Friday -- last week. There's a lot of work yet to be done. Obviously, we also want to make sure that we disclose the details of this transaction in a way that is consistent with the SEC approach. We get the whole story out at one-time. So it will be the Form 10 which we file late in the second quarter which will disclose that kind of detail, many others that will be associated with new stand-alone Company and the relationship between the two companies.

Joe Greff, JP Morgan: Okay, I'll hold off on asking other related questions then. Carl, looking at your 2011 guidance, there's not much in there for buybacks. I know in the past going back a number of years, you had assumed some level of buyback to get to an EPS guidance. Can you just talk about that change, and how you're thinking of buyback versus other alternatives? What seems to be a nice growing level of free cash flow?

Carl Berquist: Sure. As you look at 2010, as the business came back, we started generating significant cash, especially in the latter half of the year. We used that to pay down debt, get back to our BBB investment grade rating which now all three rating agencies are rating us investment grade. And we actually ended the year with about $500 million of cash on the balance sheet which is because of that cash flow.

Obviously, we're not changing our philosophy. We continue to first and foremost invest in the business. You saw, Joe, we have about $500 million to $700 million in our guidance for '11 for capital expenditures which is up from 2010, but that will leave us with cash besides that, because we will continue to generate significant cash. And that excess cash will be available for opportunistic reinvestment, or we will return it to the shareholders as we've done in the past, probably through share repurchase rather than dividends.

Joe Greff, JP Morgan: And then my final one, Carl. With respect to your 2011 investment spend outside of maintenance, how much of that is committed at this point? Thank you.

Carl Berquist: That amount is mostly committed at this point in time.

Joe Greff, JP Morgan: Great. Thank you.

Joshua Attie, Citigroup: I think Steve mentioned this in his prepared remarks, but can you just confirm will the base management fees related to the Timeshare business move to the spinoff Company?

John Geller: Yes, the base management fees for the Timeshare business will come over. We will continue to manage those properties. On the Ritz-Carlton side, Ritz-Carlton will still continue to manage the on-site just as it does today, and we'll split fees with Ritz-Carlton.

Joshua Attie, Citigroup: And having a separate Timeshare Company that will be using Marriott's brands and interacting with customers, and I understand there will be a franchise arrangement. But are you going to put specific brand standards in place for the Timeshare business? Similar to what you've done for lodging?

Arne Sorenson: Well again, this is a place where we continue to focus our efforts. But essentially, Marriott will continue to own the Marriott and Ritz-Carlton brands. It will have the power as brand owner to set brand standards clearly for the lodging space and to the extent applicable in the timeshare space, and we expect that through the regular surveying of guests and their views about the property as well as brand standards, that we'll have strong alignment around brand issues and brand quality.

Joshua Attie, Citigroup: Okay, thank you.

Smedes Rose, Keefe, Bruyette & Woods: Hello, thanks. I just wanted to ask you -- it seemed like last year you got a little more active using your balance sheet to really lock in some distribution growth -- either through buying hotels to kind of push out the EDITION brand or on a bigger scale forming this JV with AC by Marriott. And I'm wondering if you look at either within Europe or some of the emerging markets -- China and India or Brazil -- are there opportunities there where you can really jump start your distribution more quickly? Or is it going to be a slower rollout of some of your existing brands? I think you mentioned Fairfield expanding in those markets.

Arne Sorenson: Yes, it's a good question. A little bit hard to predict in some ways. So the two biggest investments we made in 2010, and they will probably be the two biggest that are in Carl's $500 million to $700 million of forecasted investment spending, are the acquisitions we made of the Seville Hotel in Miami Beach and the Berners in London. Both of which will be converted to EDITION hotels after substantial reconstruction of those assets. At the beginning of 2010, we didn't know about either of those and wouldn't have forecasted either of them. So we found them to be pretty compelling options for us, and we jumped at them.

As we look into 2011, particularly as it relates to your question about international growth. I think the places where it's most likely that we might invest would be things like the Fairfield rollout in India or the Fairfield rollout in Brazil where we are in discussions with a number of equity partners about possibly taking a minority equity stake in some of those. But if we could do that to rollout a few dozen hotels, we might put some tens of millions of dollars, I suppose, anyway to work over time. How much of that actually goes out the door in 2011 is still an open question. Because if we were to ink definitive deals today, it might still be a number of months before construction actually started which is where the spending is mostly going to happen.

And then I think as you'll recall from our Analyst Day in October, we had assumptions in the multi-year model that we might find a couple of full service hotels per year to acquire with the notion of converting to our brand and reselling. That is obviously going to be driven by the market and both availability of deals but attractiveness of pricing, and whether or not, in fact, our partners are stepping in to buy those assets, saving us the need to take a position on them at any time.

Smedes Rose, Keefe, Bruyette & Woods: Thanks, and could I just ask you on the -- I don't know if you can answer this. But for the Timeshare spinoff, would your retained interest in the securitized notes also go to that new Company? Or would you hold that -- would that still be interest income coming into Marriott?

Arne Sorenson: No, the securitizations would go with the new Timeshare Company.

Smedes Rose, Keefe, Bruyette & Woods: Everything goes away. Okay.

Arne Sorenson: Yes.

Smedes Rose, Keefe, Bruyette & Woods: Thanks.

Felicia Hendrix, Barclays Capital: Good morning. Carl, on the cost side. You have mentioned that you're seeing cost pressures in international markets that's impacting SG&A. I was just wondering if you could elaborate on what some of those cost pressures are?

Carl Berquist: Well, it's -- as we expand overseas, we've set up on each continent across the world a President in each continent. I think we've talked to you in the past about our reorganization there. And as we expand and more hotels are opened in Asia and Europe and things like AC happen, we invest in that infrastructure in order to provide all the, in effect, efficiencies to the hotels. Whether it be shared service centers, or whether it be just overhead in regional offices. So that's the kind of investments I'm talking about from the international standpoint, investing back into the business.

Felicia Hendrix, Barclays Capital: Okay, helpful. Thank you. And Arne, regarding the tax-free spin. Do you have to wait for IRS approval? Or are you confident that the structure is as you said?

Arne Sorenson: Yes and yes. We will need an IRS letter ruling, but we're confident that we should get it.

Felicia Hendrix, Barclays Capital: Okay, and can you -- what is the historical SG&A split between Timeshare and corporate? And is it fair to assume that you might see at the corporate level benefits through SG&A if perhaps Timeshare people move to the new Company?

Laura Paugh: Felicia, it's actually in the press release. If you look back in the schedules, we provide the background on Timeshare segment results, and included in that is a disclosure of the Timeshare G&A.

Felicia Hendrix, Barclays Capital: Okay, and that won't change?

Arne Sorenson: I think philosophically you should assume that the total dollars that are spent today by Marriott International in G&A will be spent by one or the other of the two companies going forward. We don't see this transaction as being the cause of a reduction in GSA. There could be a modest increase, obviously, for the Timeshare Company to make sure they've got the incremental things they will need as a stand-alone public Company. Think of that as Board and governance costs, independent audits -- .

Laura Paugh: Treasury.

Arne Sorenson: Somebody to deal with you -- Investor Relations. Those functions have not, obviously, been present in our Orlando operations in the past, but we wouldn't expect that to be a material difference to the total G&A spend that's happening today.

Felicia Hendrix, Barclays Capital: Okay, and then also in the schedules on A21, you break out your cash and cash equivalents at the Timeshare level. You have about $505 million. I'm hoping this isn't something you'll make me refer back to Form 10, and I'm wondering if that will stay at the Timeshare level?

Arne Sorenson: A21 is not a Timeshare segment schedule. That's a Marriott International schedule.

Felicia Hendrix, Barclays Capital: Oh, I'm sorry. Misleading.

Carl Berquist: Yes, that's consolidated everything.

Felicia Hendrix, Barclays Capital: Okay. That's it. Thank you.

David Katz, Jefferies & Company: Good morning. Congratulations on your announcement. I wanted to just ask about capital structure of the new entity, and my guess is a portion of the answer is going to be we're going to have to wait. But just thinking through a growth year entity is how I read your commentary. Should we be thinking about an entity that has a bit more leverage than the aggregate of Marriott? And thinking about Marriott as I can get to pretty much debt-free, depending on what kind of cash flow assumptions I make out for a couple of years. And just looking at the balance sheet today, which pieces wind up where? If you can help us venture a guess?

Arne Sorenson: Go ahead, Carl.

Carl Berquist: Yes, I think -- this is Carl. One thing you're right in that we really are -- you got to wait until the Form 10 before we do this. And we're just starting out as we go through that process and look at it. But as you look at the balance sheet, I think the one thing you can focus on is one, the business does throw off very healthy cash flow. This year generating close to $250 million of cash flow. The other thing is that the segment has over $1.5 billion worth of inventory as Steve mentioned, of which about $730 million of that is finished units. So you have got a long runway of inventory, so to speak, that you can sell off to get a couple years going there. The long-term view though is I think you would be right -- as the Company grows, they would approach the capital markets. How that approach occurs probably waits to be seen, but clearly it's going to be a growth vehicle and as a growth vehicle we'll approach the capital markets to grow.

Arne Sorenson: Let me add in a couple of things here, and then I'll ask John Geller to talk about the kinds of financing arrangements that he and his team will be working on here which we will get disclosed in the Form 10. Philosophically, we know some things already. We know that the securitization debt will go with the Timeshare Company. As your question suggests, it's absolutely right. We would expect the Timeshare Company to be adequately capitalized but not investment grade. In all likelihood, it will have a lower credit rating than Marriott International would. When you talk about Marriott International over time, it is certainly possible to run this model to get us debt-free in a relatively short period of time. That's not the way we will manage the business. We have long had a debt to EBITDA target around three times. We ended 2010 with adjusted debt to EBITDA -- or net debt to EBITDA of about 2.5 times. And in a sense, that shows your question at work. If we don't put much money out the door, the debt goes down quickly. We would anticipate over time though that we would continue to put investment grade -- solidly investment grade leverage on the Company and use those resources, as Carl talked about before, either to invest in our business or to return to shareholders. And with that, maybe John, you could just talk about the kinds of facilities you anticipate?

John Geller: Yes, a couple. Just on the investment grade, as Arne said, we will not be investment grade. We don't anticipate that out of the box. However, when we look at our longer term model, that doesn't necessarily preclude us from going or deciding. Obviously, we'll look at that longer term.

In terms of the types of facilities we're looking at right now, we expect we'll have a warehouse facility to fund our notes in between securitizations as well as access to a corporate bank facility to provide liquidity. The other thing I'd point out when you look at our new Timeshare Points program is the fact from a capital needs perspective, we feel like this Points platform will much better allow us to match our CapEx spend with our sales growth. And we won't be as development-intensive in terms of cash flow. And in fact, we expect for the foreseeable future to have positive net resort development cash flow, if you will, as we look out.

David Katz, Jefferies & Company: Okay, and if I can just follow up with one more quick one. Just in listening to the commentary and reading the comments in the release, am I correct in assuming that the Timeshare business, as it sits, is part of the whole of Marriott was being managed a bit more conservatively than it would be as its own entity? And therefore, just thinking through what kinds of growth rates we would be comfortable with modeling between now and the end of the second quarter, as it remains part of the business, we -- you wouldn't dissuade us from rethinking those growth rates.

Steve Weisz: Hello, this is Steve Weisz. Let me just suggest that what we've tried to do over the last several years as the economy has gone through a few bumps is to make sure that we have been prudent in the way in which we deploy capital in terms of fueling growth, as has already been mentioned. Obviously, we have a surplus of inventory at this point in time. But we hope that will start to come down quite nicely as the economy picks up some steam. I think as you start to look forward as an independent Company, we'll clearly be trying to develop a strategy that will reflect what we think is going to be happening in the future. And if that would dictate higher levels of growth, we would certainly try to take advantage of that.

David Katz, Jefferies & Company: Okay. That should get me there. Thank you.

Shaun Kelley, BofA Merrill Lynch: Good morning. Just one more to follow up on the whole Timeshare idea. Wondering as you think about the difference in credit ratings here, how should we think about how that impacts the spread that you collect on the difference between the securitized balances? I know it will depend somewhat on what that rating -- what that credit rating at the new entity is? But is that the right way to think about it? Will it impact that income coming forward?

John Geller: Yes, obviously, we're still early on. We haven't gone to the credit agencies in terms of getting a rating, but we don't expect that to be a material impact.

Shaun Kelley, BofA Merrill Lynch: Okay, so you wouldn't expect it to impact that cash flow too much?

John Geller: No.

Shaun Kelley, BofA Merrill Lynch: And then secondarily, a big portion of the inventory there I think has to do with land value. I assume that all of the land will go with the new entity as well? And any thoughts around -- strategically is the plan with the new entity still to keep that as a captive asset and develop that? Or any chance to maybe monetize that sooner rather than later? Thanks.

Steve Weisz: Hello, this is Steve again. Clearly -- to answer the first part of your question is yes, the land will go with the new entity. And obviously in resorts where we have phased development and the opportunity to continue to build out additional units on that land, we'll certainly seize that as the need presents itself. In addition, we'll also continue to look and see if there are opportunistic ways to do some bulk sales of sort if that creates more value for the Company.

Shaun Kelley, BofA Merrill Lynch: Great. Thanks.

Harry Curtis, Nomura Securities: Good morning. Just a quick question going back to the lodging segment. Let's dig a little bit deeper into the group side. At what percentage of your 2011 mix target are you currently sitting for the group business?

Arne Sorenson: As of the end of 2010, our group business on the books for '11 is up in the low single digits. We expect group revenue full-year to be up something like 10 percent.

Harry Curtis, Nomura Securities: Okay.

Arne Sorenson: And so that's in the year for the year 2011 group bookings which will make up that difference. When we look back at the way group business built in 2010, and we look at bookings in both the fourth quarter and January, we think that is -- those are very reasonable assumptions.

Harry Curtis, Nomura Securities: And is your -- and what's the target mix of group versus transient?

Arne Sorenson: Group for the Marriott Hotels & Resorts brand which is obviously the biggest full service brand we've got in the US would be, I think, just shy of about 40 percent for full-year 2011.

Harry Curtis, Nomura Securities: Okay. And then maybe going back to my first question. How close are you to achieving that mix target at this stage in the year?

Arne Sorenson: Well, I think probably my answer about the difference between low single digits as of the end of 2010, and plus 10 percent for the full year of 2010 is probably the best way of giving you that. It varies, obviously dramatically, by hotel given group size and the like. Probably two thirds or so of our group business was on the books as of the end of 2010 for '11, and the balance will be booked over the course of the year.

Harry Curtis, Nomura Securities: Okay, and I guess my last question is, based on the level of current bookings that you're getting, is it reasonable to think that you actually might in 2011 book more group rooms and move some inventory away from some of the discount channels?

Arne Sorenson: Well, I think the upside potential -- obviously, when you talk about 6 percent to 8 percent RevPAR growth in our guidance, I think we all should recognize that those are historically pretty high numbers. And so I don't think that we should go away from this call thinking that they are lowball sorts of numbers, and that there's a prospect that we will exceed the 2011 numbers the way we exceeded 2010. 2010, as everybody recalls, we started the year closer to zero or down a little bit and ended up plus 6 percent or in that frame, and I don't think that kind of upside potential realistically, is available in '11. Having said that, I think transient volume -- business transient volume would probably be the place that we would look to see whether or not there's any kind of upside. I wouldn't think that group is going to be substantially higher than what we've got in those numbers.

Harry Curtis, Nomura Securities: Okay, that's helpful. Thank you.

Robin Farley, UBS: Great, thanks. In the fourth quarter, you wrote down -- I think it was $27 million, bringing down the value of land parcel on a golf course. Was that property -- it would be under the Timeshare or under the core business? And just want to think about whether there may be other write-downs as land parcels are transferred to Timeshare.

Carl Berquist: Sure, this is Carl. Those two particular items, one was some land that we held that we're in negotiations to sell. The buyer of that land will build hotels on that land down the road. So that was about $14 million of that impairment. The other $13 million was a golf course that we're in negotiations to sell. That happened to be a Timeshare asset. It was part of a Timeshare project, and that -- it's now time to sell that golf course. And based on the negotiations, we took a $13 million impairment. So to answer your question specifically about the $27 million, one related to our hotel business, one related to our Timeshare business. We wouldn't expect to have any type of unique write-downs relative to the spinoff transaction, although we'll know more as we get closer.

Robin Farley, UBS: And then a question also on the hotel business. In the quarter, it looked like limited service RevPAR growth was better than upscale RevPAR growth for the first time in a couple quarters. Is that a particular trend? Or was it partly maybe an easier comp versus the prior year's fourth quarter? But I'm just wondering if you see a trend there.

Arne Sorenson: Yes, I don't think that necessarily is a trend that we'll see going forward. The limited service brands have been hit harder than the full service brands. So when we look at a three-year RevPAR impact, the full service hotels are down something like 15 percent after this growth that has happened, and the limited service hotels are still down plus 20 percent. And so I think that it's more a function of clawing back from that deeper hole for the limited service hotels.

Robin Farley, UBS: Great. Thank you.

Arne Sorenson: Obviously, the other thing we've got going on in the limited service areas, that's where the supply growth was most significant. And that really -- that supply, by and large, completed opening in the early part of 2010. And so I think we're starting to see the benefit from a supply side of much less limited service product coming on.

Robin Farley, UBS: Great. Thank you.

Steven Kent, Goldman Sachs: Good morning. Could you just talk about some of the levers that you have to show better than expected property level margins? And also, corporate level margins, as RevPAR continues to do a little bit better than expected, what can we look for to see better than expected profit growth? And maybe you could just address mix change, keeping costs contained, et cetera.

Arne Sorenson: Yes, we're going to be focused on every part of the equation, Steve. So the easiest dollars to run through from the top line to the bottom is obviously dollars that are coming through in rate. And so we have been very aggressive in driving rate all year 2010. We talked about this, I think, a month ago, but in our series of town halls that we've done with our leadership teams across the globe. And we've done a few dozen of them this year. We have made a point to give them the cover to drive rate and risk driving rate almost a little bit too high. And so we've pushed that aggressively and deliberately. That's where we're going to continue to make sure we've got significant efforts focused. So that's what the corporate negotiations have been about. Carl had some statistics about rate growth in the group bookings that were put on the books in the fourth quarter, and we'll stay as keenly focused on that as we possibly can.

Beyond that, it's going to be every element of the expense line, and that's true from the property level all the way up through corporate to make sure that we're driving as much of that through as we possibly can. While we have already started to experience substantial recovery, we've got owners who remain under significant pressure, and we've got to make sure that we're driving as much of that incremental revenue through to the bottom line as we can. Obviously, the more we can drive margins the more we're going to see improvement in incentive fee performance and our owned and leased portfolio, small as it is. But we'll just stay focused on all of this stuff.

Steven Kent, Goldman Sachs: Thank you.

Bill Crow, Raymond James: Good morning. Two quick questions. First of all, Carl any prohibition on buybacks prior to the filing of the S-10?

Carl Berquist: No, now that we've announced the spin to the public, I don't believe so, Bill.

Bill Crow, Raymond James: Okay, and then Arne, the other great way to drive flow through other than boosting rates is to cut the distribution expenses. Could you talk about now that we're kind of in the early innings of the cycle, how the relationship is with the OTAs? It seems like a commission rate of 12 percent, given the credit card savings, would be fair. But we still have a ways to go on that. Do you think we would get to that sort of level during the next four or five years?

Arne Sorenson: Well, maybe we'll ask you to come and help us negotiate our contracts with the OTAs when they come up.

Bill Crow, Raymond James: Well, American had a pretty interesting strategy.

Arne Sorenson: Well, yes, and let me start at it this way. The most powerful channel we have for reservations and the fastest growing one is Marriott.com. The reservations are nearly free. Now that's a bit of an overstatement, but often they are 1 percent or so of the revenues that are associated with those reservations. And it is one of the top ten websites in the world. Any kind of product type -- we are committed to making it as powerful an engine as we can. So we are continually investing in it and revising it and using it as a way to not just sell rooms passively and responsively to customers, but find a way to reach out to them with offers and other things that we think will continue to drive that channel. And as that channel grows, it will obviously reduce our average expense associated with bookings.

Beyond that, we have long had the view -- we still have the view that we are eager to sell rooms the way our customers want to buy them. And so if they want to use online travel party, or if they want to use a traditional travel agent, if they want to use a group intermediary -- we've got relationships with all those folks that we value and that we try and make sure that we manage to get as big a share of the business that we can get out of those channels as is reasonable. And our approach going forward, obviously, we would love to pay less on any of the channels that we're looking at, but we're going to look at the value associated with those channels to make sure that we're capturing the business that we think is not only our fair share but above that.

Bill Crow, Raymond James: And when is the next negotiation with the OTAs?

Arne Sorenson: I can't tell you by OTA. But they are, I suspect, later this year at least with some of them -- or one of them -- we may be in negotiations.

Bill Crow, Raymond James: Great. Thank you.

David Loeb, Robert W. Baird & Company: Good morning. I want to come back to an issue that Joe Greff asked, the very first question on the call. And I wanted to pull back and ask for a more philosophical perspective. Marriott has a great deal of experience in licensing its brands and franchising and using its name on residential developments and credit cards and things like that. Can you give us a philosophical approach to how you determine what an appropriate brand fee is? And how you make up what basis you generally measure that?

Arne Sorenson: That’s very clever, David.

David Loeb, Robert W. Baird & Company: I like to look at the big picture.

Arne Sorenson: Yes, I think there are a couple of things that are important to us as we go forward. One, and the most fundamental, is that the Marriott timeshare company must be economically viable and be structured in a way that it can withstand cycles. It can have access to capital markets, and in no way that is it in peril. Obviously, it's in not just in that Company's interest, but Marriott International's interest to make sure that it is a growth partner and a healthy one. So that's going to be an important litmus test for setting those fees.

The second is, we'll want a fee structure that is an appropriate incentive for this business to grow with us. And obviously if we put a fee that is too high on their sales that will potentially cause them to say we're giving up too big a share of our profits for those, we're going to tend to run that business away from us sooner rather than later. And we basically never want to run that business away from us, and those will be important philosophical guideposts in the way we structure it.

You're still going to have to wait for that Form 10 though to see what the levels of those fees are. I apologize for that, but thank you for being patient on it.

David Loeb, Robert W. Baird & Company: That's okay, and I appreciate your candor on the other side. But just to kind of flip it around, you talked about what's important to you relative to the Timeshare business perspective, but how about from the brand perspective? Is there a level at which you sell your brand too cheap? How do you look at it from that perspective?

Arne Sorenson: Well, we want to make sure we get fair compensation, and obviously, the fee stream is -- if it's structured to be relatively low risk to Marriott and to be like our franchise fees, there's a real arbitrage in multiples that applies there. And we'll obviously be looking at maximizing combined shareholder value by the way -- for the way we structure this transaction.

David Loeb, Robert W. Baird & Company: Great, thanks.

Jeffrey Donnelly, Wells Fargo Securities: Good morning. Just a quick question on capital allocation. Most of your share repurchase activity historically coincided with periods where unit growth is a bit easier out there. Today, development is scarcer, particularly here in the US. How does that condition influence your decision to allocate capital to stimulate distribution versus share repurchase activity? Or do you see it not as directly related?

Arne Sorenson: No, it's an interesting observation you make -- you've made, and I guess I haven't thought about it that way before. As we've talked before though, we would invest all of our available capacity in our business if we could do so in a way which we thought was value-enhancing and value-creating. It's not about putting capital out to solve a rooms target growth rate. It's about whether or not there are investment opportunities that exceed our cost of capital comfortably so that we can create value.

I think through the fullness of cycles, it has been more often the case than not that we have failed to find enough opportunities to invest in our business and create value -- enough that would consume all of our investment capacity. And I think that's the way we'll continue to look at it. So as Carl talked about with $500 million to $700 million of investment spending in our guidance, we think with appropriate leverage that leaves us $1 billion or so of additional capital that can be invested or returned to shareholders. We would expect a substantial amount of that probably will end up going back to shareholders.

Jeffrey Donnelly, Wells Fargo Securities: And then this next question might be for Carl, but I was curious what the status was of your negotiations with HPT around some of the arrangements that you have there? And could a resolution there bring recognition of some fee income that you're not presently incorporating into your guidance?

Carl Berquist: Well, we are in discussions with HPT. As you know, they are the owners of several portfolios of our brands. The negotiations are going well, and they are very positive and productive. But it would be premature for me now to comment on the outcome involved. We don't have a definitive agreement yet at this time.

Jeffrey Donnelly, Wells Fargo Securities: Is it fair to ask if your guidance incorporates some degree of resolution this year? Or change in that structure?

Carl Berquist: Well, we are hoping that we do bring it to resolution this year. But like I said, we're still in discussions with them, and there's nothing in the guidance relative to how that's ultimately going to be resolved.

Jeffrey Donnelly, Wells Fargo Securities: One last question, actually for Laura. Maybe just a point of clarification. Am I correct in assuming that the G&A associated with Timeshare in your supplemental schedules flows through the corporate SG&A line on the income statement and not Timeshare direct expenses?

Laura Paugh: That is correct.

Jeffrey Donnelly, Wells Fargo Securities: Great. Thank you.

Rochan Raichura, JMP Securities: Good morning. Just had a quick question, I know that the RevPAR recovery was discussed quite a bit. But just in terms of with the shift from occupancy to ADR being more dominant in the primary markets, when do you expect those shifts to occur in secondary and tertiary markets?

Arne Sorenson: Oh, goodness. Rates -- the potential for driving rate obviously is heavily related to occupancy. So as occupancy builds in markets, rate ought to follow whether they are primary, secondary or tertiary markets. And I think we ought to just keep watching the way that occupancy grows. We do think that we've got occupancy growth in most markets in the United States, including secondary and tertiary markets. So we're starting to see rate growth in most, albeit a bit more modest in the secondary markets than it is in the primary markets at the moment. But it will come.

All right, I think we have reached the bewitching hour. It's 11.00. Thank you all very much for your attention this morning. We appreciate your time, and we wish you safe travels and look forward to welcoming you into our hotels and timeshare facilities on your next trip. See you soon.

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