Note: This document contains "forward-looking statements" within the meaning of federal securities laws, including RevPAR, profit margin and earnings trends; statements concerning the number of lodging properties we expect to add in the future; our expected cost savings, investment spending and share repurchases; 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 the depth and duration of the current recession in the lodging industry and the economy generally; supply and demand changes for hotel rooms, vacation ownership, condominiums, and corporate housing; competitive conditions in the lodging industry; relationships with clients and property owners; the availability of capital to finance hotel growth and refurbishment; and other risk factors identified in our most recent annual or quarterly report on Form 10-K or Form 10-Q; any of which could cause actual results to differ materially from those expressed in or implied by the statements herein. These statements are made as of the date of this document, and 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

Marriott International, Inc.
Fourth Quarter 2008 Earnings Conference Call Transcript[1]
February 12, 2009

Operator: Good day and welcome to this Marriott International fourth quarter 2008 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 Executive Vice President, Chief Financial Officer and President of Continental European Lodging, Mr. Arne Sorenson. Please go ahead, sir.

Arne Sorenson, Executive Vice President and Chief Financial Officer; President, Continental European Lodging: Thank you. Good morning, everyone. Welcome to our year end 2008 earnings conference call. Joining me today is Carl Berquist, Executive Vice President Financial Information and Enterprise Risk Management, Laura Paugh, Senior Vice President, Investor Relations, and Betsy Dahm, Senior Director of Investor Relations.

Before I get into the discussion of our results, let me first remind everyone that many of our comments today are not historical facts and are considered forward looking statements under federal securities laws. These statements are subject to numerous risks and uncertainties, as described in our SEC filings, which could cause future results to differ materially from those expressed in or implied by our comments. Forward looking statements in the press release that we issued earlier this morning, along with our comments today, are effective only today, February 12, 2009, and will not be updated as actual events unfold. You can find a reconciliation of non-GAAP financial measures referred to in our remarks on our web site at www.marriott.com/investor.

Before getting into the details of our 2008 results, let me pause to reflect a bit on the environment we face and how Marriott's management is responding to that environment. Obviously, economic conditions in the US and now around the globe are difficult. Those conditions are having a profound impact on our business. As far as we can tell, every public company in every industry has acknowledged the difficulty of predicting results for the future in this environment. We certainly share that view.

And, yet, we have to make judgments in the face of uncertainties so that we can run our business. After continued internal dialogue, we have developed essentially two models to guide us in our decision making. In both models, we assume that timeshare demand stays at the levels we experienced in December 2008 and January 2009 for the balance of the year and, therefore, that any

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

improvement in demand will be no sooner than 2010. For lodging, our more pessimistic scenario of minus17 percent US RevPAR takes essentially the same line -- factoring in easing comparisons as the year progresses, we think this RevPAR level is essentially the current run rate. It goes without saying, therefore, that our minus 12 percent US RevPAR scenario is more optimistic -- it contemplates some improvement, whether from the economy generally or, perhaps more likely, from a reduction of the sense of paralysis that seems to be gripping many. Of course, we invite you to consider which of these scenarios -- or another altogether -- you think most appropriate.

For us, we are actively managing Marriott to size our balance sheet and our business to meet the more pessimistic scenario. Our efforts, of course, start with a drive to continue to expand our market share -- in RevPAR and new rooms growth. As we do so, we will continue to reduce our investing activities and our cost structures to reflect this environment of weakened demand. We believe these steps will allow us not only to survive, but to be in a position to seize opportunities and to prosper.

The fourth quarter was one of the most challenging quarters we have ever faced. Adjusted diluted earnings per share declined 45 percent to $0.34. Fourth quarter pre-tax restructuring and other charges totaled $192 million, of which $152 million were non-cash.

Excluding our 53rd week in 2008, fourth quarter systemwide worldwide RevPAR declined 8 percent, or 7 percent on a constant dollar basis. Outside North America, systemwide RevPAR also declined 8 percent in our fiscal fourth quarter, or 5 percent on a constant dollar basis. We saw strength in markets in South America and the Middle East but weakness in Europe and Asia. Month to month, fourth quarter RevPAR progressively weakened in most markets around the world. There are very few places not affected by today's economic climate.

In North America, we began the year with very weak leisure business. In the spring, business travel declined led by a weakening financial sector. By the fourth quarter, the industrial sector was also showing large declines.

Group business also eroded as the year went on. In the fourth quarter, corporate group revenue declined 13 percent at the Marriott brand as meeting planners deferred short term training meetings, staff meetings and the like. We also saw more corporate cancellations impacting meetings that had been planned to occur either in the fourth quarter of 2008 or sometime in 2009. In contrast, fourth quarter association business at the Marriott brand showed some stability with RevPAR flat year over year. All in all, our current 2009 snapshot shows group revenue on the books for the Marriott brand down 12 percent due to expected attrition, cancellations and fewer new group bookings.

Interestingly, we are not seeing trade down from full service to limited service brands at this time. With our broad brand portfolio, we will be able to retain guests' loyalty should that occur. However, with less corporate business, the mix of our occupancy is changing. AAA and government business is up, due to greater available inventory as well as aggressive marketing efforts.

Our special corporate rate negotiations are over 85 percent complete. While our special corporate rates for 2009 seem to be holding roughly flat to last year on a comparable account basis, total special corporate rates are likely to end up about 5 percent lower than 2008 due to an unfavorable mix of special corporate customers. Corporate customers from relatively higher rate-paying financial services firms, for example, are being supplanted by lower rated corporate and government business. While the changing mix of our business should impact our reported average daily rate, we continue to monitor our rate structure and do not intend to lead the way down on corporate rates.

We're gaining market share. Our comparable company-operated U.S. RevPAR index increased about ½ point in 2008 largely due to the quality of our brands and our efforts to drive the top line.

One competitive advantage is Marriott Rewards. With over 30 million members, the Marriott Rewards program accounted for nearly half of our rooms sold last year, producing for our owners what we believe is the greatest number of room nights at the lowest cost in the industry. We launched our No Blackout Date program in January, opening considerably more inventory to our most valuable guests.

Marriott Rewards provides more than just purchase incentives for guests. It provides us with important customer knowledge. We have made significant investments over the past 5 years to better understand our guests and address what is most important to them. This allows us to create more relevant and targeted email and other marketing and to do so very quickly.

We modified our marketing approach in 2008 to focus less on image advertising and more on short-term heads-in-beds. And we focused on speed to market. While we can't motivate a business traveler to take a trip they don't need, we can help stimulate leisure travel and increase share. In just 19 days, we launched an effective leisure travel promotion called Rejuvenation. We currently have seven different leisure travel promotions deployed, focusing on customers who we believe are most likely to respond to them.

Marriott.com is an integral part of this marketing push. This powerful sales channel generated over $6 billion of sales in 2008. But it's not just a booking engine; Marriott.com is selling vacation packages, small group meetings, last minute leisure deals, gift cards and special offers for Marriott Rewards members. In 2008, we also rolled out Marriott.com mobile, so travelers can now plan and book their reservations on virtually all web-enabled handheld devices.

On the group side, we are taking an aggressive position to get business booked. In the fourth quarter, we held a sales closing rally to encourage meeting planners to stop delaying and sign a contract. Our new sales organization, Sales Force One, was introduced in the mid-Atlantic region in 2007, allowing us to call on 10 times more accounts in that region in 2008 with no additional staff. We added another region to Sales Force One in 2008 and will roll out to the rest of the U.S. over the next 2 years. The numbers prove our success. In 2008, compared to the prior year, we called on more accounts and grew our group revenue market share, while also spending less per room on sales and marketing.

We have experienced downturns before and we know cost control is important. As a result, despite RevPAR declines, fourth quarter worldwide house profit margins declined only 210 basis points. Teams throughout our company responded incredibly well, implementing increasingly rigorous cost-containment plans both from the top down and the bottom up, finding new ways for the company and hotels to cut costs and operate more efficiently. Cost savings ranged from modifying menus and restaurant hours, to reviewing room amenities, adjusting work schedules and implementing hiring freezes. We adopted systems that significantly leveraged our size and made operations more efficient.

Turning to our P&L, base and franchise fees declined 6 percent in the fourth quarter reflecting the weak RevPAR environment. Incentive fees also declined as lower hotel profits allowed fewer company-operated hotels to reach their owner priorities. In the 2008 quarter, 39 percent of company-operated hotels booked incentive fees compared to 62 percent in the year ago quarter. For the full year, 56 percent of company-operated hotels booked incentive fees compared to 67 percent in the prior year.

Owned, leased, corporate housing and other revenue, net of direct expenses, declined 31 percent during the quarter. At year end, we owned only 6 hotels but we leased another 35 properties.

Our timeshare business was particularly hard hit by the economic climate. Contract sales of our core timeshare product declined 37 percent during the quarter while sales of our fractional and residential products were negative, reflecting $115 million of sales reversals related to anticipated contract cancellations at three luxury projects.

Tour flow at our core timeshare product declined 7 percent in the fourth quarter as we closed 8 sales offices and one call center. Of the sales tours completed, only 8 percent of touring customers bought timeshare compared to 13 percent in the prior year. Encouragingly, pricing remained firm, increasing about five percent over the prior year's quarter.

Our timeshare business is focused on cash flow and profitability rather than revenue, so we've cut overhead substantially, including about a quarter of the non-operations staff. On an annualized basis, we've reduced costs roughly $65 to $75 million across that business.

In the fourth quarter, we financed approximately 70 percent of our timeshare contracts compared to 80 percent in the prior year quarter. By December, we had ended all financing incentives and were financing only about half of new timeshare contracts. We are optimistic that we'll complete note sales in 2009 but pricing is likely to remain unfavorable so no note sale gain is assumed in our 2009 outlook. By the way, delinquencies for U.S. financed loans rose to 7.9 percent as of December 31 compared to 6.7 percent at year end 2007.

Gross timeshare inventory spending in 2008 totaled $687 million, or $299 million net of cost of goods sold. We expect to spend approximately $400 million in 2009 for gross inventory, or $120 to $140 million net of cost of goods sold. We have cancelled 7 pre-development projects and don't expect to start any new projects in 2009.

Turning to hotel development, we opened 11,000 managed and franchised rooms in the fourth quarter and 33,000 rooms for the full year, consistent with expectations. Our pipeline of hotels under construction, contracted or approved stood at just over 125,000 rooms at the end the fourth quarter, down a bit from our third quarter pipeline but we expect to open over 30,000 rooms again this year.

Of the rooms in today's pipeline, roughly 60 percent are under construction or conversion and another 10 percent are also financed but haven't yet broken ground. Our pipeline declined a bit as some properties opened and as new hotel developers saw their bank commitments rescinded or had other financing problems. The weaker RevPAR environment also impacted deals in their formative stages, particularly luxury projects. Late in the quarter we saw a decline in U.S. franchise applications for new limited service hotels as franchisees became more cautious. The good news with respect to our hotel development pipeline is that we do not see any erosion in management contract terms. The value of our room additions is holding up.

While the number of our new build projects in our pipeline is likely to shrink somewhat going forward, we expect conversions to pick up as hotel owners look for ways to drive cash flow. During the slowdown earlier this decade, from 2001 to 2003, over 20,000 hotel rooms joined our system from competitor brands.

For Marriott, during the fourth quarter, the major credit rating agencies affirmed our BBB status, while revising their outlooks to negative, noting the challenging RevPAR environment. At year end, we had drawn down only $970 million of our $2.4 billion revolving line of credit, so we continue to have substantial available capital. Our credit facility, which matures in 2012, contains just one financial covenant, and we are well within its limits. More important, our business model provides considerable stability in our cash flow and we have the flexibility to reduce our investment activities further if we choose. As a result, we believe we will reduce our debt levels by approximately $600 to $700 million in 2009.

So let's talk about the first quarter of 2009.

As I mentioned earlier, our 2008 fiscal calendar quarter ended on January 2, placing the seasonally slow Christmas and New Year's period into the 2008 fourth quarter, and reducing the percentage change in reported RevPAR in the fourth quarter by about 2 to 3 percentage points. Conversely, the calendar favorably impacts reported RevPAR in our first quarter of 2009. Given current soft transient and group business, we estimate our first quarter North American comparable company-operated RevPAR will decline by roughly 17 percent, although if we adjust for the shifting week, the real decline is closer to roughly 20 percent. Outside the U.S., we expect comparable company-operated RevPAR to decline roughly 15 percent.

Given these assumptions, total fee revenue is expected to decline 20 to 25 percent in the first quarter. Our fees are helped by unit expansion and by our shifting calendar, but hurt by unfavorable foreign exchange rates.

Owned, leased, corporate housing and other revenue, net of direct expense, is expected to decline to approximately $5 to $10 million. While we own or lease 41 hotels, weak RevPAR at 9 properties account for the bulk of the expected profit weakness in the first quarter including hotels in Anaheim, Berlin, Tokyo, and Frankfurt.

Based on December and January sales trends, timeshare contract sales are expected to total $150 to $160 million in the first quarter. We expect to complete a note sale during the quarter but given the economic climate, no gain on sale is expected. This puts our timeshare sales and services, net of direct cost, at a loss of about $10 million in this seasonally slow quarter.

The G&A line reflects savings we've taken in our timeshare business as well as at corporate headquarters and in our lodging business. We estimate first quarter G&A at $145 to $150 million, a decline of roughly $15 million or 8 to 10 percent from the prior year.

Including a benefit from lower interest rates, we estimate the first quarter EPS at about $0.13 to $0.15 per share.

Looking to the full year, there is obviously considerable uncertainty. In our earnings release, we have shared with you a very broad range of top-line assumptions that we are using internally to manage our business. We are sharing these assumptions to help you model the business and we are not guiding you to any particular RevPAR or timeshare scenario. Unfortunately, the level of uncertainty is simply too high for us to have much confidence in predicting results.

In this exercise, for the full year 2009, our most optimistic assumption is a 12 percent decline in North American company-operated RevPAR and an 8 percent decline in company-operated constant-dollar RevPAR outside North America. This implies improving economic conditions as well as easier comparisons as the year progresses. More conservatively, we have considered a 17 percent decline in North American company-operated RevPAR and a 13 percent decline in company-operated constant-dollar RevPAR outside North America. This scenario assumes that business conditions do not improve through the year but that comparisons ease in the latter part of the year.

Given this wide range of RevPAR assumptions and the more than 30,000 rooms expected to open in 2009, we believe our fee revenue could total $1.075 to $1.175 billion, and owned, leased, corporate housing and other, net of direct expense, could total $65 to $85 million.

For our timeshare business, we assume a continued weak economic climate throughout 2009. If timeshare contract sales total approximately $800 million in 2009, consistent with our December and January seasonally-adjusted run rate, then timeshare sales and services, net of direct costs, could total approximately $70 million in 2009 and the timeshare segment profits could total roughly $45 million. While consumers have slowed their spending and are more cautious, there is still interest in our products. The cost reductions we've already completed should reduce our timeshare 2009 G&A by about 20 to 25 percent versus 2008 levels. Should revenues continue to weaken in 2009, additional cost reductions and investment spending reductions would likely occur.

Among our most important goals in 2009, we expect our timeshare business to be cash flow positive after all investing activities, even if demand doesn't improve.

Overall corporate G&A spending in 2009 should decline by roughly $100 million to roughly $640 to $665 million. The most significant cuts have been in timeshare and hotel development, but every department in the company has reduced spending.

We anticipate paring back investment spending to about $500 to $600 million, $400 million less than we spent in 2008. Compared to 2008, this includes cuts in net timeshare spending, new capital expenditures and other investing activities.

Running these assumptions through our model implies 2009 earnings per share of about $0.86 to $1.04 per share and about $600 to $700 million of lower total debt at year end 2009, an impressive result given the severity of the downside scenario.

Of course, given the macro environment, there are clearly risks to this outlook and we believe investors may have their own RevPAR and timeshare scenarios in mind. So to encourage you do-it-yourselfers, we would like to provide the following sensitivities.

Given the low percentage of hotels that we expect will earn incentive fees in 2009, we believe that today, one point of worldwide RevPAR is worth between $15 and $20 million in total fees. For our roughly 40 owned or leased hotels, one point of RevPAR impacts our owned and leased line by roughly $4 million. Lastly, while modeling timeshare is always fraught with percentage of completion and other complexities, we estimate that for 2009, a $50 million change to our timeshare contract sales could impact timeshare segment earnings by about $5 to $10 million.

Marriott has been in business since 1927 and in the hotel business since 1957. We've seen a lot of business cycles. Bill Marriott himself has seen eight recessions. Every one is different, yet there are similarities – including the experience of seeing recessions end. One of the most significant differences in today's business environment is the extraordinary amount of data that is available to all of us. Investors know more than ever…about companies, business trends, consumer sentiment, industry construction pace and so forth.

This transparency enables investors to better understand risks and opportunities and it enables companies to be more responsive to the marketplace. Unfortunately, it also tends to make many respond to short term fear rather than position for long term opportunity.

We are very fortunate. We have some of the strongest brands in the hotel industry… brands that are in even more demand by owners and lenders in a weak economic climate.

Our leadership team is experienced. The average GM at full service Marriott hotels and our senior officers have been with the company over 20 years. Our culture is well defined. We believe that associate satisfaction and engagement are key to industry leadership and success.

At the same time, we seek out change, adopting the best practices to drive revenue and profitability. With strong knowledge of our customer, we are increasingly adept at dealing with the unexpected as our marketing responsiveness and house profit trends can attest.

And, as we look ahead, beyond 2009, U.S. hotel supply growth is likely to substantially trail demand recovery. This is the reverse of the situation we will encounter this year, but it is clearer than ever that the brakes on new construction are being, and will be, applied more dramatically than ever before. This is not likely to change for some time.

As we move ahead, we believe we're taking the right steps, making the right moves, to ensure that our business thrives in the years to come, so that we can drive opportunity for our shareholders, associates and owners and in all the communities around the globe we call home. As always, keep up the traveling and thanks for listening.

Question & Answer Session

Joe Greff, JP Morgan: Hey guys. Under your 2009 scenario, you mentioned that you expected to complete timeshare note sales. How much -- I know you're not assuming any gains on those, but what proceeds total are you assuming, and is that over the first quarter and third quarter?

Arne Sorenson: Yes, I suspect we'll get a deal done in the first quarter. Probably we would try again in the third quarter, although we have not committed obviously in any respect to precise timing. And I think generally, we would expect net proceeds to us in the $250 to $350 million range.

Joe Greff, JP Morgan: For each, for each...

Arne Sorenson: No, no, total.

Joe Greff, JP Morgan: In total, okay. And then sticking on the subject of timeshare, I now see you're reducing your investment now given the current economic environment, but if you take a step back and you look at timeshare and you think that this is more of a semi-permanent issue in terms of reducing your investment in timeshare, I guess a parochial way of looking at it is that in the best of times, it's maybe high single digit return, low double digit return. And obviously in a down cycle, clearly we're seeing the returns there and the profitability there being impacted, but if you could touch on that a little bit, please.

Arne Sorenson: Yes, as we've talked over the years, we have believed that we can calibrate our timeshare investing to meet the vicissitudes of the demand environment. We are being put to a test of that proposition in this environment like we've never seen it before. So even when you look at the 2001, '02, and '03 timeframe with a much stronger consumer, we did not experience a falloff in demand nearly the way we are today. So we are working mightily to make sure that we can make this business cash flow positive in this year, which really means calibrating our spending to meet an extraordinarily reduced demand level. I think the team headquartered in Orlando that we've got running this business has done a fabulous job responding quickly, both in terms of cost structure as well as reducing the investing space in the business.

Having said all that, I think we've got to see how things develop here over the next year or two. To state the obvious, we believe that there are really strong synergies between the timeshare business and our lodging business. It's why we're in this space. And those synergies really focus on customer loyalty. They focus on synergies around resort development, Marriott Rewards program, some of those powerful tools. I think it also should be reasonably obvious to anyone that in an environment like this one, the best thing we can do is focus on operating the business and making sure we maximize this performance, and that's really what we're focused on doing.

Joe Greff, JP Morgan: Okay. And then one final quick question, if I may, of your fee revenue scenario, the 1.075 billion to 1.175 billion, what's contemplated in terms of the incentive management fee component?

Arne Sorenson: Well, incentive management fees will be down obviously more than – let me find my notes here – more than any of our other fee lines. I suspect -- obviously the difference between the two scenarios are about five points in RevPAR. And there could be $40 or $50 million of incentive fee delta alone between those scenarios. But I would expect that in any event, we're going to be down 50 percent-ish, maybe not quite, 40 to 50 percent.

Joe Greff, JP Morgan: Thank you.

Celeste Brown, Morgan Stanley: Hi, good morning. Coming back to the timeshare note sale in the quarter or later in the year, I assume that is part of your estimate for year-end debt, you need to sell those notes?

Arne Sorenson: Yes, that definitely takes it into that model. And just to – I'll take advantage of your question, Celeste, and talk a little bit more about our confidence in this. We have three active discussions going on with very reliable partners in this area; two very specific proposals, one of which has been approved by the Credit Committee, the other of which has been approved at the highest levels of the partner we're having conversations with. And so while the markets are obviously still nothing like they were in 2007 and even in early 2008, we have a pretty specific and concrete basis to be optimistic about our ability to get timeshare note sales deals – timeshare note sale deals done in 2009.

Celeste Brown, Morgan Stanley: Arne, you said no gain. Would you be selling do you think at a discount?

Arne Sorenson: I think what we're looking at now is roughly a push.

Celeste Brown, Morgan Stanley: Okay.

Arne Sorenson: I will not – I can't because there's enough complexity in the discount rates that need to be used for valuing the IO strips and the other default rates and the other things that go into this model. It wouldn't be surprising to me to see a few million dollars of gain or loss in these deals. But roughly what we're looking at is a push.

Celeste Brown, Morgan Stanley: Okay. And then in regards to your cost cuts, I know you're very focused on cash flow this year, getting through this year in as healthy a shape as possible. Besides cutting timeshare investment, were there other cuts that you made to your costs that as things get better you're going to need to ramp up? For example, did you make a significant cut to your development team; and then as the world starts to feel better, you're going to have to hire a lot of those people back?

Arne Sorenson: Yes. As I said in the prepared remarks, every area of the company contributed to this. And obviously, this is not something that's done in the sense that we're still fighting through this weak environment, and I suspect we will continue to be focused on efficiency. I think our timeshare team, which I mentioned, has done a great job. Our lodging group has done spectacularly well. I think the margin performance they posted in the fourth quarter is really very much to their credit, this notwithstanding the fact that I think they're years ahead of our competition in terms of driving margins. And we've worried a little bit that we had done so well the last few years, we were going to find less and less opportunities to respond to this market. And I still think that's the right watchword. But they continue to disprove their own fear by further enhancing efficiency.

I think when you look at how it ultimately rolls up into Marriott's net admin, which is obviously what you're asking about, there are bits of what we've cut that undoubtedly when economic conditions return will reverse. I think to the extent – your example on development staffing is right. As development pace declines a little bit, that has had some impact on the number of developers we've had. And it is certainly likely that at some point when we get back to stronger economic times, we'll see development pace reaccelerate. That could be given the financing markets some ways down the road, and so I don't think that that's necessarily something that needs to get built into a 2010 model.

There are other things that we've done. For many of the salaried, almost all of the salaried people at Marriott, we have frozen wages 2009 versus 2008. That obviously does not lead to a reduction in '09 versus '08. But it keeps things flat and otherwise offsets growth that would be built in that model. You can have a philosophical debate about whether that's permanent or not. In a sense, that new baseline becomes permanent and wages grow off of that. On the other hand, we obviously are about paying people competitively. And if that wage freeze makes us uncompetitive longer term, that's something we'll have to respond to.

To come up with $100 million roughly so far of admin cuts has involved dozens and dozens of different decisions; and again, some of those will reverse when we get back to stronger environments. But we're working very hard to make sure as many of those are permanent as can be or can be converted to permanent through restructuring or efficiency moves that allow us to really use this as a new base to build from.

Celeste Brown, Morgan Stanley: Okay, thank you.

Steven Kent, Goldman Sachs: Hi, good morning, Arne and Laura. Just a couple things; one, again could you just talk a little bit more about the luxury condo and residential and what the expectations there are? I know you took some charges and how we should think about that as a component of the timeshare business? And would you consider, by the way, on the securitizations, would you consider even taking them at a loss, Arne, or would you keep them where they are?

And then finally on timeshare, I think you mentioned that half of the company – half of your customers are financing with you. Where else are they financing? And are there ways for you to affiliate with maybe a regional bank or a bank to take some of this risk away from you? And then one final point, Arne, I just wanted to know whether Bill or you or anybody else within your organization is going to reach out to Washington DC and others to talk about how business travel and employing people is an important part of what we all do.

Arne Sorenson: Yes. Mr. Marriott is on the Hill as we speak I think, having conversations about some of those things. And maybe to talk about that a bit, many of you are commenting on the so-called AIG effect, which I guess derives from AIG's event at the St. Regis in Laguna not long after they were bailed out by the government, and that somehow being the symbol of abject excess I suppose that should be stamped out of our system.

And while we won't sit here today and necessarily say that every luxury meeting that any company was scheduling should be had, even if they're at risk of failing – that would be nonsense – we can sit here and say that there are hundreds of thousands of people employed in this industry today, many of whose lives depend very much on the business of these hotels going forward and people holding their meetings and people doing their business trips and people doing their leisure travel. And as a consequence, there is certainly a risk of overreaction in some of this conversation that's happening on the Hill. And we've got to make sure that there is balance to that, and so we're going to do everything we can to make sure that that voice is heard and that we can make it resonate somehow. We've got to get away from the symbolism of corporate fat cat smoking a big cigar on a golf course and instead think about the symbolism of people meeting and thinking together and creating ideas and building their cultures and those sorts of things, all of which are very constructive that come out of that.

You asked four questions. Let me see if I can remember all of them. That was one; two, would we consider selling notes at a loss, sure. Obviously, we would prefer to sell at a gain and we're optimistic that we can meet what we've described in our assumptions, which is essentially a push compared to what we've got invested. But given RevPAR performance, given the amount of capital we've got involved, given what we want very much to do on the balance sheet side which is to make sure we remain investment grade and we remain positioned to be able to seize opportunities, we're not going to keep hundreds of millions of dollars tied up in timeshare notes if there's a reasonable deal that's available to us.

Three, luxury fractional, that sort of thing, how does that fit into the business. I think there we would say that it's – I guess we have the least optimism around that product class. That that product class is more like whole residential. As a consequence, it is more likely to be sticky in a weakened demand environment and will take some time to come back. And therefore, of all the possibilities in the future, we think the likelihood of starting new luxury projects anytime soon is very, very slim. We don't expect that we will start many core timeshare projects either in the near term, but we're hopeful that we'll see demand come back to the point where returns have improved significantly and that that business can go forward. And that certainly is much more possible to happen sooner than the luxury fractional does.

Having said that, in January, where we have some Ritz-Carlton product, we were pleasantly surprised by some of the fractional volume that we saw, and I think it gives us some optimism for the year. Partly that's a function of these resorts reaching opening so that the product is very tangible and these are beautiful places. They're easier to sell obviously when they are right there before you and you're not trying to sell them off of plans. And so that will to some extent counteract the tough environment that we're in.

I think your last question was financing and who finances this stuff. We financed about 50 percent of the core timeshare product in the last – really the tail end of 2008. The likelihood of having another lender step in and finance core timeshare is something we'll continue to look at, but I wouldn't view as particularly high. These are average purchases in the 20-plus thousand dollar range. If they're not financed with us, people tend to finance them – either not finance them and simply use cash or they finance them through other vehicles they have to finance their lifestyle. And they're small enough purchases that that seems to work for many. Did I miss anything, Steve?

Steven Kent, Goldman Sachs: No, you got it all. Thanks, Arne.

Jeffrey Donnelly, Wachovia Securities: Good morning, Arne. Just a couple of questions; I was trying to get a handle on the risk of future impairments. I'm not sure that's forecastable, but I'm curious. Did the impairments you recognized in the fourth quarter effectively contemplate the guidance you gave in 2009, or could the realization of your '09 guidance eventually give rise to further impairments?

Arne Sorenson: That's a good question. I think it's primarily the former. Obviously we have a detailed process we go through to assess whatever impairments in whatever product class is on the balance sheet. And we have done that at year end, and we believe what we've done is all-inclusive at the moment.

Now when we talk about minus 12 or minus 17 percent RevPAR, when we talk about maybe $800 million of total timeshare sales, those are average figures which beneath them have assumptions for individual hotels and individual timeshare resorts. We know almost for a certainty that we'll be wrong on the averages. We know for a total certainty that the averages won't work on every individual property, and so that's what ultimately will drive that risk. We've done the best job we can to make sure that any of those risks we have, have been properly dealt with so far. But certainly in this environment, you won't hear any of us say that there's no risk of decline greater than anticipated in some asset on our balance sheet that has an impact.

Jeffrey Donnelly, Wachovia Securities: I guess in sticking with timeshare, are you able to break out for us within the timeshare business either I guess as cash flow or EBITDA, I guess I'd say you break it out in three distinct areas. I'll call it the recurring fee revenues and expenses associated with the management of the units, the interest you collect from the receivables portfolio, and then I guess lastly the development and active sales, revenue and costs. I guess I'm trying to isolate what's maybe the more stable recurring cash flow aspect of that business versus the more volatile or transaction aspect.

Arne Sorenson: Yes, you ought to probably look at the 10-K. I'm not sure whether we break it out, how well we break it out in the 10-K. We did it quite a bit at our timeshare conference, which is obviously extremely dated now a year later. We can certainly have some more dialogue. I'd hesitate to do that off the top of my head.

Carl Berquist: We gave in the press release the segment detail.

Arne Sorenson: Yes, you might look on page 12 of the press release schedules. A-12.

Jeffrey Donnelly, Wachovia Securities: Just another question or two; what was the balance of the loans to timeshare owners at year end 2008? And I guess as a follow-up to that, can you also share with us what series or what issue you repurchased on some of the debt repurchases you've done?

Arne Sorenson: Yes, the balance was a bit over $500 million on timeshare notes at year end. You may ask, as I said before, 250 to 350 of net proceeds in 2009, and we will generate some more paper. So you could say how do those numbers relate to each other, why isn't it more. It's possible it could be more but we've got a couple of things going on. Some of those notes are notes generated in Europe or with our Asia points program, which are relatively less marketable, though we've certainly not given up on that. And two, in this environment, we will be probably advanced someplace between 70 and 75 percent of the gross amount of the notes sold at the initial note sale, the balance being essentially held back as further security to protect the buyers of those notes. It looks like maybe the number is 600[2] million in 2008.

Jeffrey Donnelly, Wachovia Securities: I'm sorry, actually I meant what was the series of the senior notes, I'm sorry, that you agreed...

Arne Sorenson: No, I understand.

Jeffrey Donnelly, Wachovia Securities: Oh, sorry.

Arne Sorenson: This is the timeshare. I thought you asked both about the timeshare and the senior notes.

Jeffrey Donnelly, Wachovia Securities: I did.

Arne Sorenson: The senior notes we bought were a bit each of our longest three terms, so they're the '15s, '16s, and '17s, I think.

Jeffrey Donnelly, Wachovia Securities: One last question is more of a conceptual question is, I guess. Relatively speaking, Marriott's balance sheet condition is much better than some of your most obvious competitors out there, public or private. It's a positive for you, but are you seeing at this point any of your competitors take steps on pricing concessions, et cetera, whether it's in the operation of the hotels or securing new management contracts that are very aggressive given their decidedly more stressed balance sheet position?

Arne Sorenson: We're really not seeing that. We did have in the prepared remarks that we really haven't seen any threat around management contract terms. I think our principal competitors have gotten over the last number of years longer term in focus, and I think they appreciate value in the context of the new agreements they enter into. It's hard to work yourself out of a near-term balance

[2] Actual amount is $688 million.

sheet issue by adding a low-fee hotel, low-fee terminable hotel. It takes a while. So while there will be pressure and that's something we'll be watching, we don't see a lot of threat of that so far.

Around pricing, I think the pricing pressure in the market is not likely to lead with our major competitors. It's likely to lead with independents and franchisees across the various systems. Where any of them have severe financial pressure, they're going to be more tempted to do something on pricing that we might question, but that's inevitable. And that probably is already underway and probably already put some pressure on pricing across the industry.

Jeffrey Donnelly, Wachovia Securities: All right, thank you.

C. Patrick Scholes, Friedman Billings: Hi, good morning. Can you just – you mentioned sales reversals in your timeshare business. Can you give a little more color on exactly what that is? Is that something that was prepaid by customers and they decided to back out? And are there any sales reversals expectations in your timeshare guidance?

Arne Sorenson: Yes, we essentially made an allowance for 113 million I think the number was of previously reported contract sales that we now expect not to close. Generally, 100 percent or nearly 100 percent of that was Ritz-Carlton product. Most would have had – we would be holding deposits in the 10 to 20 percent range. I suspect it would never be less than 10; and in some instances, it might be more than 20, but overwhelmingly it would be in the 10 to 20 percent range.

And while we have not given up on trying to close those sales, I think as we've reached out to those kinds of customers, which we do currently, to see their intentions about whether or not they close or whether they'll just walk away from that deposit and go on, we thought this was about the level of cancellation activity that we would see. And so we posted that reserve.

C. Patrick Scholes, Friedman Billings: Okay. As far as just a little more color on the product that those deposits were made on, was that more of – closer to the higher end fractional?

Arne Sorenson: Yes.

C. Patrick Scholes, Friedman Billings: Okay, so people were basically walking away from something comparable like a real estate investment as opposed to like a timeshare.

Laura Paugh: We also break that out in the table in the back on the timeshare segment. We show you it by brand.

C. Patrick Scholes, Friedman Billings: Okay, great, thank you.

Smedes Rose, KBW: Hi, thanks. You've answered most of our questions, but I just had a couple follow-ups. You did talk about, it sounds like 30 percent of your development pipeline is not under construction or financed, which I guess would equate to around 35,000 rooms. Do you have a sense of what amount of those might end up being cancelled?

Arne Sorenson: No, not really, that's the short answer. Obviously there's more risk in those rooms than the rooms that are under construction. There's obviously more risk in the rooms that are financed but not under construction yet than there are in the rooms under construction. And then the most risk in projects that maybe have been – we've received a franchise fee; it has been approved. We've got signed contracts but they haven't either financed it or started construction. And basically, our partners have got flexibility to decide whether or not to proceed with that.

The 125,000-room total we've given you hedges back our total by a significant amount in order to deal with some of that risk. But clearly, the risk over the next few quarters until conditions change is that we will see both that pipeline shrink as we open hotels out of the pipeline faster than we add them to the pipeline, and as we see our partners decide maybe to abandon some projects or simply to continue to delay construction starts.

Smedes Rose, KBW: Okay.

Arne Sorenson: And only time is going to give us the answers to those questions.

Smedes Rose, KBW: Okay. The other thing I wanted to ask you, on your timeshare segment breakout, the base fee revenue, which maybe we were wrong on this. I thought this was just the fees paid by the current owners of units. It declined to 7 million, and it has been very consistent at more like 12 to 13 million a quarter. Is there something going on there that caused it to decline that much?

Arne Sorenson: Yes, we had – I guess we had a bit of a reclass on a base fee issue on a couple of resorts, which net-net – which was a non-comparable, which could be a few million of that. I don't remember precisely the amount.

Smedes Rose, KBW: Okay, and --

Arne Sorenson: Nothing – nothing beyond that.

Smedes Rose, KBW: Okay. And then just you mentioned some of your things going on in Washington. One of the things that President Obama embraced was the – I think it's called the Employee Freedom Choice Act, which basically allows, as you know, for much faster and easier unionization. Do you have any sense of where the current administration's commitment is to that and what you guys maybe are doing? I guess it's the least unionized brand, so you have the most to lose on that front; any thoughts on that?

Arne Sorenson: Yes, I think the good news around this issue, the Employee Free Choice Act, is that the level of awareness has increased significantly such that I'm sure many of you have seen stories in The New York Times or The Wall Street Journal or elsewhere reflecting the intensity of the debate between the unions who support this mightily and the employer base that almost uniformly opposes it.

We obviously think that it is a bad policy. There are a few aspects of the deal that are of particular concern to us, including the one that essentially allows a workgroup to be organized without a private ballot that our associates or employees generally would be permitted to participate in. And we are doing everything within our power, both as Marriott and I think there are groups of lodging companies and groups of other employers that are trying to make sure that we end up with something which is not the way this thing has been drafted upfront. I wouldn't pretend to be able to tell you where President Obama is personally on this or really what the administration is. I think so far they have not taken any overt steps to move this forward. We'll just have to see how that develops.

Smedes Rose, KBW: Thank you.

William Truelove, UBS: Hey guys. Two questions, could you remind us what your most difficult corporate covenants are from a debt perspective?

Arne Sorenson: We don't really have anything that gives us significant concern. There is a debt-to-EBITDA covenant in our revolver. And that covenant looks at basically simple debt. It does not look at debt equivalents from leases or guarantees or the like which go into our calculation with S&P and Moody's, and we've got lots of room under that covenant. I think the covenant is a four times covenant. I don't have the year-end ratio, but I think at the end of the third quarter, we were at 2.1 times or something on that test, so you can see we've got tremendous room. That's all that's out there.

William Truelove, UBS: Right. The second thing then is, God forbid I ask another timeshare question, but in terms of – I know you said you were going to cancel I think seven projects that were in predevelopment. How much would you have to spend, what's the total spend buildout of the remaining projects that you have if you did nothing else new? And then how – and how many years do you think that would probably take, so you just built out what you have actually under development?

Arne Sorenson: I don't know, and I'm not sure it's terribly germane in the sense that we've got resorts here that would have phases that on a piece of paper might be a construction start in 2014 or 2015 or 2016. And to answer your question would include the costs associated with that, but we will never start those phases unless there's a demand environment that has returned that says the customer is there to do it. And so probably the right question is how much does it cost to complete the phases presently under construction. And while that's a germane question, I'll confess I don't know the answer to it. The less germane question where you say all right, if you built everything that you already own, I'm sure it's billions of dollars.

William Truelove, UBS: Right, yes, I guess I was trying to figure out the things that you absolutely – because you don't want to leave things half done, right?

Arne Sorenson: Well, that's right. That's where you've got considerable economic loss probably by abandoning construction that's well underway.

William Truelove, UBS: But you would probably imagine that given that you do build in phases though that it's probably one to two years of buildout probably, so your additional spending this year plus maybe another 50 or 70 million in 2010 might be an approximation maybe?

Arne Sorenson: Yes, I hesitate, Will. I suspect it's in the hundreds of millions, not the billions. But beyond giving you that range, that's something we probably ought to make sure we're more thoughtful about giving to you.

William Truelove, UBS: Wonderful, thank you so much.

Bill Crow, Raymond James: Good morning, guys. Two quick questions; first of all, given your comments about the calendar, is it fair to assume that second quarter RevPAR could be worse than first quarter?

Arne Sorenson: Second quarter...

Bill Crow, Raymond James: Simply because of the calendar shift.

Arne Sorenson: Yeah, what I would encourage you to do is go back and look at two or three-year comparison and essentially that's what we've done to come up with that minus 17 percent RevPAR scenario. So we've said if this is the experience we expect to have in the first quarter, and now let's look at what the impact of the comparisons are quarter by quarter as you look back, what does that imply for RevPAR for the succeeding quarters. I think second quarter would be close, but I can't tell you whether it's a point higher or a point lower.

Bill Crow, Raymond James: Fair enough.

Arne Sorenson: Same order of magnitude, though.

Bill Crow, Raymond James: Nobody has a real clear looking glass these days, but I'm going to ask one last timeshare question, which is more theoretical in nature I guess. It's a business that I think thrives on momentum and it's a product that's sold, not bought. So by winding down some of the new developments and given the lower visitations and sales rates, I mean don't you risk losing your top salespeople to other opportunities if ever there are other opportunities out there, and couldn't the business wind down by itself because of that?

Arne Sorenson: I don't think so. I'm so glad you asked one more timeshare question at the end of the call. We sold 50 to $60 million of this product in the month of January. And this is a product which sells for a reason. It appeals to an awful lot of folks. It's a way they can own their vacation forever. It's a product which really appeals to their desire for happiness in the best way, experiences with their families and lots of years looking down the pike and seeing what happens.

And as a consequence, even though we are in an extraordinarily difficult market, we can overreact to this and say there's nobody to buy this stuff and that's simply not true. There are folks who will continue to look at this albeit at meaningfully lower levels than what we thought before. And with that, our salespeople and our associates who are involved in this business are delivering services and experiences to people which are a pleasure to deliver. And that doesn't mean they aren't concerned. Some of them have already lost their jobs because of the reduced level but if we can right-size this to meet the demand which we're about today, we think those jobs will be and should be fulfilling, and people can continue to build their careers. And so if we can get those balances right, we think that this business can survive this environment and hopefully live to see a better day.

Bill Crow, Raymond James: Great, I appreciate it.

Arne Sorenson, Executive Vice President and Chief Financial Officer; President, Continental European Lodging: We thank you all for your interest and participation this morning, and as always encourage you to get on the road and rest your head on the pillow at a Marriott hotel. See you.

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