Note: This document contains "forward-looking statements" within the meaning of federal securities laws, including RevPAR, profit margin and earnings trends, estimates and assumptions; 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; 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 quarterly report on 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.
Third Quarter 2009 Earnings Conference Call Transcript[1]
October 8, 2009

Operator: Welcome to the Marriott International third quarter 2009 earnings conference call. Today's call is being recorded. At this time I would like to turn the call over to President and Chief Financial Officer, Mr. Arne Sorenson. Please go ahead sir.

Arne Sorenson: Thank you. Good morning, everyone. Welcome to our third quarter 2009 earnings conference call. Joining me again today to discuss the quarter are Carl Berquist, our executive vice president and chief financial officer, Laura Paugh, senior vice president, investor relations and Betsy Dahm, senior director of investor relations.

As always, before we get into the discussion of our results, let me first remind everyone that many of our comments today are not historical facts and are considered forward looking statements under federal securities laws. These statements are subject to numerous risks and uncertainties, as described in our SEC filings, which could cause future results to differ materially from those expressed in or implied by our comments. Forward looking statements in the press release that we issued earlier this morning, along with our comments today, are effective only today, October 8, 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.

As you know, our third quarter results exceeded expectations, both yours and ours. Carl and I will dive into the details of the quarter in a moment but I want to start with our outlook for 2010. We are encouraged by signs of economic recovery in our business. You may recall that in the second quarter earnings call, we noted that occupancy had stabilized in the second quarter. In the third quarter, we were pleased to see occupancy improve from the second quarter levels, albeit still down significantly year over year.

Clearly, most economists are forecasting positive GDP in the second half of 2009 with somewhat greater gains in 2010. Despite this good news, we nevertheless expect RevPAR to continue to decline in 2010, albeit modestly. While occupancy levels will likely increase, negotiated room

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

rates for special corporate and group business, not to mention per diem rates for government business, will likely constrain price improvement. Further, despite improvement, occupancy rates will remain at relatively low absolute levels and pricing will continue to be pressured by a significant amount of price-sensitive leisure transient business. And while supply additions are slowing dramatically, the increase in new hotel supply expected in 2010 will still provide headwinds to near term improvement in business fundamentals, especially in the upscale segment. All in all, RevPAR may turn positive sometime during 2010, but probably not early enough or strong enough to report higher RevPAR numbers for the full year.

We expect to open 25,000 to 30,000 new rooms in 2010. With every new hotel opening, our remaining hotel pipeline is becoming more concentrated with valuable full service hotels in international locations. Private developers of new U.S. full service hotels are having trouble financing even some of the strongest deals. And as for limited service hotels, applications from our existing franchisees have slowed as financing difficulties are reining in development. Those that are approved tend to be smaller hotels in less expensive tertiary markets. Outside the U.S., full service development is generally easier with new construction proceeding in many growth markets in Asia. In fact, as of the end of the third quarter, Asia represented nearly 40 percent of our full service hotel pipeline and virtually the entire Asian pipeline is already under construction.

For existing hotels, we continue to work with those owners most impacted by the economy… deferring FF&E reserves, relaxing brand standards and delaying brand initiatives. Our hotels are paying fees and expenses on time and we are not cutting our fees.

In the past, we've seen in difficult economic times that there is a "flight to quality" as owners and lenders tended to focus more on the competitive value of Marriott's brands and services. We haven't yet seen a significant increase in conversions to our brands as the difficult financing environment has restricted the capital needed for renovations and repositionings, but our developers are working on many opportunities. We expect conversions to accelerate in 2010 as lending opens up a bit more and lenders begin to recognize and deal with problem loans. Many equity investors are already in position to buy hotels from troubled owners or lenders.

So what does this environment mean for Marriott in 2010?

While we aren't giving formal guidance for 2010, our fee outlook assumes 2010 worldwide systemwide RevPAR will be flat to down 5 percent compared to 2009 levels. Even assuming the bottom of our RevPAR range, our 2010 base and franchise fees should at least stabilize as unit growth offsets the RevPAR decline. The addition of new managed hotels in Asia and the Middle East should help incentive fees in 2010. Incidentally, we assume that international RevPAR will be a bit stronger than RevPAR in North America.

For those of you with different RevPAR assumptions in 2010, we believe that 1 point of worldwide RevPAR is worth approximately $10 million to $15 million in total fee revenue.

Our timeshare business looks forward to a stronger economy, but like lodging, the timing is the big question. We've adjusted our pricing strategies for our luxury residential and fractional products to accelerate cash flow, rolled out a portfolio sales program for our Ritz-Carlton Destination Club product and announced discounts and incentives for our core one-week timeshare product. We're working under the assumption that contract sales in 2010 will be at roughly 2009 levels which would imply roughly flat timeshare development profits. We've cut overhead dramatically to right-size the business while delivering a very attractive value proposition to our customers and we continue to look for efficiency improvements.

On the timeshare financing side today, over half of our customers pay cash for their one-week interval so we are securitizing fewer loans. At the same time, securitization market terms have improved significantly. We expect to close another note sale transaction in this year's fourth quarter with proceeds totaling $115 million to $125 million and we expect to continue to sell notes in 2010.

We expect to implement FAS 166 and 167 at the beginning of 2010 which will impact the way we account for securitized loans. Carl will talk about the details but the end result of the accounting change will be more assets and debt on our balance sheet and 5 to 8 cents per share higher earnings in 2010 as a result of this accounting change, but the cash flow and economics of the outstanding securitizations will not change.

With all that going on, it has never been more challenging to forecast timeshare's P&L. So we're waiting until our budget is complete to outline our 2010 timeshare segment profit outlook for you, we do expect to target our timeshare business to drive at least $75 million in net cash flow in 2009 and at least double that in 2010.

We anticipate that Marriott's general and administrative expenses will decline about 20 percent in 2009 on an adjusted basis but will likely rise a bit in 2010 as we resume investing in our business and our people for the future. Having said that, we believe that a large portion of the savings we've booked in G&A in the past two years are permanent and should position us very well during the upturn. We don't have an investment spending forecast for you today as we're still working on that budget. Regardless, we expect to see meaningful reductions in debt levels in 2010.

There are clearly risks in 2010. The upturn may take longer than we like and hotel bankruptcies and foreclosures could disrupt business and profits at a handful of hotels. The first quarter of 2010 is likely to continue to show meaningful RevPAR declines as any gains in occupancy continue to be more than offset by softness in rates.

But our longer term view is very positive. While painful in many ways, the actions we've taken will benefit us meaningfully going forward. I think the green shoots that emerge in 2010 will be stronger because of our efforts in 2009. I'm very proud to work with the people at Marriott.

Now I'd like to turn it over to Carl to talk about our results for the quarter and our outlook for the fourth quarter. Carl?

Carl Berquist: Thanks, Arne.

Well, as you saw this morning, we reported adjusted diluted earnings per share from continuing operations for the quarter of 15 cents compared to our outlook of 9 to 14 cents. Our profits were about 4 cents better than the midpoint of our outlook, largely due to better than expected RevPAR, solid cost controls that drove house profit margins, base fees, franchise fees, and incentive fees, and some delayed G&A spending.

Domestic systemwide RevPAR declined 19 percent compared to our 20 to 23 percent expectation.

For the Marriott brand, company-operated domestic hotel RevPAR declined 20 percent. Corporate demand at Marriott Hotels & Resorts has been profoundly impacted by the economy. Our corporate business includes rooms sold at premium rates, corporate rates and negotiated special corporate rates. In the third quarter, corporate roomnights year over year were down 11 percent. While down, this was an improvement compared to the second quarter 2009 when roomnights declined 18 percent from 2008 levels. Of course, some of this quarter-to-quarter improvement is just easier comps. But we're also seeing a better trend in the two year roomnight comparison. In the third quarter, corporate roomnights declined 19 percent from 2007 levels while in the second quarter the two-year decline was 23 percent.

The trend on room rates is less encouraging. Travel departments are quite aggressive and today everyone wants a deal. We've renegotiated some special corporate rates during 2009, lowered other corporate rates and we're selling fewer premium rooms. In the third quarter, corporate room rates declined 19 percent from 2008 levels. We expect corporate rates will continue to be weak until we see meaningful occupancy improvement.

While we typically see less business travel in the summer months than at other times of the year, corporate business still represented a quarter of Marriott brand's roomnights in the third quarter.

Group business represented about 35 percent of roomnights in the Marriott brand in the third quarter. Group RevPAR declined 23 percent with room rates down 8 percent. Cancellations and attrition were less of a problem than in the first half of 2009; but last minute in-the-quarter for-the-quarter bookings were relatively few. New product launches and the pharmaceutical industry figured most prominently in our group business in the third quarter, and while we haven't seen a significant uptick in training business or bookings from the financial industry, there are signs that the financial firms are tiptoeing in with small gatherings. Occupancies have moved up in our hotels in New York City, a sign that financial firms and others may be testing the water.

As the economy gains traction, our new sales strategy, Sales Force One, should help us gain more than our fair share of group revenue. In markets where we have already rolled this out, we are contacting 8 to 10 times more potential customers with no additional staff. By the end of 2009, Sales Force One will be rolled out to half of the significant markets in the U.S., including New York City. We look forward to strong results as the economy continues to recover.

Leisure business was the positive surprise in the third quarter. Last winter's fear seemed to abate as the warm summer months enticed travelers to our hotels. For non-corporate transient business, roomnights increased 7 percent. Of course, discounts were deep, with average room rates for non-corporate transient business down 13 percent. We are aggressively pursuing this business, which, while always an important part of the summer months, accounted for 40 percent of roomnights in the third quarter compared to 35 percent a year ago. Further evidence of leisure strength emerges from the weekend occupancy statistics. During the third quarter, Marriott brand weekend occupancy totaled 74 percent, almost 6 points higher than the weekday occupancy rate.

Outside North America, RevPAR continued to be challenging. In the Middle East, the third quarter was constrained by this year's earlier Ramadan holiday and Asia suffered from a tough comparable to last year's summer Olympics. Group business in Latin America and Asia was hurt by the H1N1 virus while Western Europe showed better RevPAR trends. You may recall that European RevPAR began declining in the fourth quarter of 2008, shortly after our North American operations. In the third quarter 2009, while company-operated RevPAR in continental Europe declined 18 percent, occupancy rates in continental Europe exceeded 70 percent while occupancy rates in the U.K. exceeded 77 percent.

With weak RevPAR, house profit margins at our company-operated hotels declined 5.2 percentage points in North America and 4.3 percentage points internationally. We're pleased with our margin performance in recent years, and our owners tell us that they are as well. In fact, in the third quarter at our Marriott Hotels & Resorts brand, comparable domestic RevPAR is nominally at roughly 2004 levels. Yet, despite 5 years of inflation and product improvements, our third quarter house profit margins were 30 basis points ahead of those 2004 levels. While some of our hotel operating costs will increase with stronger occupancies, we expect much of our efficiency improvement will be sustainable.

Turning to timeshare…Adjusted contract sales totaled $176 million during the quarter, as the business continued to offer special customer incentives, albeit a bit less rich than in the second quarter. Adjusted timeshare sales and services, net of costs, totaled $13 million and adjusted timeshare segment profits totaled $9 million.

For the core timeshare business, as in lodging, we are beginning to see stabilization as contract sales for one-week intervals modestly exceeded expected levels in the third quarter.

In other good news, we saw encouraging trends in timeshare note delinquencies and defaults. U.S. delinquency rates increased to 10.8 percent in September, but, excluding delinquencies already in the foreclosure process, delinquency rates were flat at 5.5 percent in both June and September.

Default rates have improved, from .65 percent in June to .57 percent in September. You may recall that seven timeshare loan pools had hit default triggers as of the second quarter. Of those, defaults in three loan pools sufficiently improved during the third quarter to cure their default triggers, allowing us to receive our excess spread cash flow. And in fact, subsequent to the quarter close, another loan pool cured as well.

As Arne mentioned earlier, recently released Financial Accounting Standards 166 and 167 will impact the way we account for securitized loans beginning in 2010. Under these new rules, it is likely we will have to consolidate previously sold loans. As we've outlined in the press release, based on the current portfolio of sold loans, our debt balances in 2010 will rise, asset balances would increase, and with the elimination of our residual interest for accounting purposes, our equity would decline. On the P&L, we expect the accounting change will increase pretax income by $30 to $50 million in 2010.

Of course, the underlying economics and cash flow from the deals will not change and the timeshare loan pools will remain non-recourse to us. Our revolver covenant calculation does not include nonrecourse debt, so it remains as is. Further, based on our discussions with rating agencies, we do not expect any changes to how they look at our credit profile as a result of this accounting change.

At of the end of the third quarter, we had $1.4 billion on the balance sheet for timeshare inventory with approximately $650 million of that in finished goods, $280 million in work-in-process and the balance in land and infrastructure. We look forward to monetizing this inventory at attractive prices as the economy strengthens.

For Marriott overall, our adjusted G&A totaled $143 million in the quarter, down 14 percent from the prior year and we intend to keep these costs in check. The quarter included $5 million of litigation charges and an unfavorable swing of approximately $15 million associated with our deferred compensation program from last year. This is offset on the tax line. With changes we've made to the deferred comp program, we expect to reduce this volatility in the G&A line in 2010 and going forward as a result of this program. Excluding the impact of these items, G&A declined 25 percent in the third quarter.

We continue to aggressively manage our balance sheet and we are committed to our investment grade credit rating. As of September 11, net debt is down nearly $450 million from year end 2008 and we continue to expect it to decline by a total of $600 to $650 million for the full year 2009. Excluding the impact of FAS 166 and 167, we expect to be able to continue to reduce debt in 2010, improving our leverage ratios further. We have no meaningful debt maturities until 2012 when roughly $350 million of bonds and our bank revolver matures. We do expect our revolver balance to be minimal at that time.

On the development front, we opened 10,000 rooms during the quarter and closed 500 rooms. On a net basis, the 6.7 percent net year-over-year growth in our lodging system is much to cheer about. We added 8,000 rooms to the pipeline, cancelled 5,000 rooms, and today the pipeline totals nearly 105,000 rooms. Roughly half of the rooms in our pipeline are under construction and another 7 percent are awaiting conversion.

Room openings are running ahead of expectations. We expect to open more than 33,000 rooms in 2009 and another 25,000 to 30,000 rooms in 2010. We just opened our spectacular, newly repositioned Renaissance Hotel 57 in New York and the Renaissance Arc de Triomphe in Paris, and we're growing our international Courtyard brand in Eastern Europe and Asia. Coming up in 2010, we will open the 1,000 room JW Marriott San Antonio Hill Country Resort & Spa in

January; and in February, we'll add a new Ritz-Carlton and a JW Marriott hotel totaling 1,000 rooms at the bold new LA Live complex in downtown L.A.

Let's talk about the fourth quarter.

In the earnings release, we have shared with you a range of top-line assumptions for the fourth quarter that we are using internally to manage our business. It's never been more difficult to forecast our business so we would not characterize this outlook as guidance.

For hotels outside North America, we assume fourth quarter RevPAR declines 16 to 18 percent. International lodging markets have significantly weakened as the economies in many countries have been impacted by the global downturn and the H1N1 virus.

For hotels in North America, we assume systemwide RevPAR will decline 13 to 16 percent. In the fourth quarter of 2009, much of the RevPAR decline will likely come from lower room rates, due to weaker group business, discounting to keep pace with competitors, and the mix shift to lower rated business. Last year's fourth quarter began on September 6, and so included much of the relatively strong month of September. Our fourth quarter systemwide North American RevPAR assumption implies a two year run rate of down 19 to 22 percent, consistent with the 20 percent two year RevPAR decline seen in the third quarter.

Given these assumptions, we would anticipate total fee revenue of $310 to $320 million in the fourth quarter. While unit expansion should help our fees in the fourth quarter, tougher margin comparables will also impact our results, since significant cost cutting for North American hotels ramped up in the second quarter of 2008. Fourth quarter house profit margin declines are likely to be similar to those seen in the third quarter.

We assume owned, leased, corporate housing and other revenue, net of direct expenses, to total approximately $15 to $20 million in the fourth quarter. While we own or lease 43 hotels, seasonally softer performance combined with weak economy, particularly in the international markets, will continue to constrain profits.

For the timeshare business, we expect timeshare contract sales to total about $185 to $195 million in the fourth quarter and anticipate timeshare sales and services, net of direct costs, of roughly $15 million in the quarter. We expect to complete a timeshare note sale in the fourth quarter. With a strong securitization market, we are assuming we'll book a $ 10 to $15 million gain in the fourth quarter in timeshare sales and services.

The G&A line reflects savings we've taken at our corporate headquarters, throughout our lodging organization, as well as in our timeshare business. We estimate G&A will decline to $185 to $190 million in the fourth quarter of 2009, a decline of roughly 20 percent from the prior year adjusted G&A. Quarter-over-quarter comparisons will become increasingly difficult.

Including the benefits from lower interest rates, we estimate adjusted fourth quarter EPS at about $0.20 to $0.23 per share.

We are optimistic about the future. Supply growth in North America is declining and will likely remain modest for some time. Yet new international development and domestic conversions offer opportunities for unit expansion. Worldwide, our hotels are in excellent shape, many of them having had significant renovations over the last 5 years. Guest satisfaction is high with excellent scores for service and value. Across our system the power of our brands is evident, with strong RevPAR premiums in every brand.

Needless to say, the economy has provided considerable headwinds over the last two years. Through it all, Marriott associates have shown their commitment to customers, shareholders and each other. We look forward to the upturn that we believe is ever closer.

We'll take questions now.

Question and Answer Session

Jeffrey Donnelly - Wells Fargo: In your release you mentioned something about expenses rising next year on the G&A front. If I could drill a little deeper, I think you had mentioned when you were in Boston earlier that you saw operating expenses at the hotel level, as well, rising next year, I think around 3 percent to 4 percent. Is that a figure you still is reasonable, and can you give us some detail like where specifically you see costs rising for the hotels next year?

Arne M. Sorenson: It's hard to give you much detail yet since we haven't done our budgets for next year. So this will be the first time of probably many that we warn you all that we're talking a little bit about trends and assumptions and not necessarily giving you a detailed set of forecasts for either the company or for hotel P&Ls.

Having said that, I think obviously the major expense lines at hotel level and for the company are around wages and benefits. We have generally provided slim to no wage increases in 2009. It obviously depends a bit on the level of the associate across the company and across the hotels, but there have been by and large no wage growth, and for bonus-eligible managers, both in hotels and above, it will be a—not surprising to any of you—and very modest year, if there is any payout at all. And for many either structurally the payouts have been waived or based on the formulas that they simply will not be earned.

We think as we go into 2010 we need to set up compensation tools that motivate our associates and give them some upside. So that will put some pressure both on year-over-year reported numbers for bonuses for manager-level folks and some wage growth as well.

You get beyond that and it's things like energy and health care costs and we'll have to see where those go but we would expect that certainly in the health care area there could well be increases going into next year.

And so we guess both for the company's G&A that those are the trends that are going to drive us a bit higher and we use very modest language here. We don't think it's going to be a significant growth in G&A and much of what we baked in and have done in the past we think can stick.

And similarly at the hotel level, there will be a few points of expense growth, which I think you can all translate into we would need RevPAR to be positive modestly before we could keep margins in percentage terms, flat.

Jeffrey Donnelly - Wells Fargo: As you think down the road, not necessarily just for 2010, but what implication does the prospect of a deleveraging consumer balance sheet if you will, have on how you position your brands or think about your brands in the future. Could you see, for example, removal of amenities in coming years or continue to build to where you would opt to cut costs, or it might even provide some insight on where you look for unit or brand growth down the road.

Arne M. Sorenson: If you're talking about deleveraging of the consumer, the consumer is personally carrying less and less debt, is what I assume is what you're talking about.

Jeffrey Donnelly - Wells Fargo: Correct. Or at least spending less money.

Arne M. Sorenson: I don't think that is a huge dynamic for us. Obviously it depends by hotel, by brand and by location of hotel. The leisure business is very important to us, but overwhelmingly it's going to be a question of corporate business, group business, which is often corporate business or has dynamics which are quite different than the consumer dynamics. And so it's going to be GDP growth, and you've looked at a number of different correlations here, you can look at corporate profits, you can look at capacity utilization, but it all comes down to economic activity.

The consumer, what I think is most encouraging I suppose, is what we saw in the third quarter. So even in the midst of an enormously difficult time, leisure business came back and it came back because there was great value in the hotels, and if they come back in the summer of 2009, as they are deleveraging, probably as dramatically as has been the case for decades, that bodes very well I think for as we go forward.

Jeffrey Donnelly - Wells Fargo: And just one last question then, a lot of that, I think, in the summer months certainly was as a result of a lot of promotional activity. What thought have you given that maybe in 2010 increasing that promotional behavior to maybe sort of boost your occupancy and regain pricing power, or at least get as close to that point in time? How do you balance that occupancy versus rate decision at this point?

Arne M. Sorenson: Obviously we're not making decisions about what we're going to do in the summer of 2010 yet, around promotional activity. I think the optimistic side here is that we will cross over the zero line on occupancy sometime in, hopefully, the first half of 2010, though who knows. And once we've crossed over that line, we will start to have inevitably a little less threat around pricing. And in fact, we will find ourselves sometime in 2010 offering less promotional arrangements, or at least less powerful promotional arrangements than what we've had to do in 2009.

David Loeb - Robert W. Baird & Co.: Just to go a little deeper into margins, what are you telling your owners that are gathered today in D.C. about the kind of cost cuts you can do at the operating level? It seems like that must be getting harder for you with the mix shifting towards more rate decline and less occupancy decline. What more can you do at the property level?

Arne M. Sorenson: Well, you never say you're done and I think we just keep focusing on driving as many efficiencies as we can. We're looking at every aspect of the P&L we possibly can. And I think procurement continues to be a bright spot for us. We've managed to improve F&B margins, not withstanding decline in revenue and that's really been around a lot of procurement initiatives.

Carl T. Berquist: Labor productivity continues to improve, despite every month you're saying, gee, can you continue to do this. But hotels continue to find ways through labor productivity to help offset any labor costs in the hourly wage.

Bryan Maher – Collins Stewart: Can you shed a little more color on the timeshare charge you announced a week to ten days ago? The number was a little bigger than we thought might be the case. We weren't surprised there was a charge but can you get behind that $700.0 million a little more?

Carl T. Berquist: Sure. What we did, as we indicated in the release, we made a strategic decision concerning pricing, especially as it related to the luxury end of the business. And once you do that, then you sit back and you look at each project and say based on these new assumptions or this new strategy about how you're going to price this product, you have to look out and say what would the cash flows be generated as a result of that and can you recover the costs that you have on the books related to that.

And as we did that, especially at the luxury residential and fractional side, which shouldn't be a surprise to many here, when you make the decision to adjust your prices to today's market pricing, because we're managing the business for cash flow, the discounted cash flows related to those particular assets was less than the product costs requiring the adjustment. So as you go through the adjustment and you look at the $750 million, a large portion of it relates to that luxury end of the fractional as well as the whole ownership.

The was also part of it that related to Europe and that was our decision there to accelerate sales in Europe and sell out the product that we have because we have decided not to do any further development in that area of the timeshare.

And then finally we had, I think, one product in our typical timeshare North America one-week interval product where we had just bought it at the top of the market and we looked at the cash flows relative to that and it required an impairment.

Bryan Maher – Collins Stewart: Is it safe to say though that kind of in '07 and '08 you went into those years with a little bit more development momentum than you might historically have had over the last decade?

Carl T. Berquist: Sure. We entered into some very big projects during those time periods. We went in in joint ventures and some and ultimately we bought out our joint venture partners. And we got a lot of land; beautiful locations and beautiful resorts, but we did get ahead of ourselves relative to inventory. So now we are sitting with enough inventory, we don't have to do any future development. And the whole strategy here is to accelerate the sell-off of that inventory, given today's market parameters to generate cash relative to the business.

Arne M. Sorenson: I think, just to add to this, the number obviously was big and it's a painful number and its disappointing for us in many respects. I think that most of the dollars, as Carl has mentioned, were in the luxury space. And the projects which drove those reserves and impairments that we took this quarter were really projects that we probably started in 2003, 2004, and 2005, not 2006 or 2007.

And so it wasn't necessarily the case that we bought them at exactly the peak, but nevertheless, we were making investments in a space that by and large we had not been focused on before, and that was luxury fractional by and large. Some of them had a luxury residential, whole residential piece to them as well. And I think the lesson we learned is that is quite a different business than the core one-week timeshare business that we've been in for a long time that has been obviously significantly impacted by this economic environment. But quite interestingly and reassuringly has, with the exception of one project, really not produced any impairments in the charges that we took in the third quarter.

Bryan Maher – Collins Stewart: And just one follow-up question. For those of us who've been traveling, particularly in just the last really week or two or three at the outside, we are seeing a lot fuller planes and we're seeing markets like Boston, you know this week, Tuesday, Wednesday, $300 to $400 room nights in downtown Boston. New York rates are moving back up. Is it possible that the kind of economic growth or activity might be a little bit faster than what you are projecting and you could end up being on the low side in your RevPAR numbers?

Carl T. Berquist: I hope so…

Arne M. Sorenson: It's tempting to ask you just to repeat that because we love hearing those statistics.

Bryan Maher – Collins Stewart: We were shocked when we priced rooms Tuesday night in Boston.

Arne M. Sorenson: Exactly. The answer is of course. We have said repeatedly in the past, and I don't mean to beat up on ourselves too much, but we are—we don't have leading indicators in our business so there's not much we can look at and say we've got a particular insight into the direction of the economy. And it is the direction of the economy that ultimately is going to drive results significantly. Obviously we're going to do the best we can to perform better than our competition. We think we're doing that in fact, but we are heavily dependent on economic activity.

And so the assumptions we've laid out today, for both the fourth quarter and for 2010, are a way of helping you understand if results are in this range of RevPAR, then here's what happens with our fees and some other aspects of our financial performance.

If the economy comes back stronger, if business travelers get back on the road, if we start to see some not just improving trends in cancellation and attrition around group, which we've already seen, but trends in actually new bookings and group, this is a business that particularly with the unit growth we've had and with the cross management that we've instilled in the last year, year and a half, will have tremendous upside.

And so we sit here this morning very optimistic about the future and about the recovery and the impact that that recovery will have in our business, but cautious about our ability to tell you when that recovery is going to really start to drive those exciting results. And hopefully what you're seeing out there this week is a sign that it will come sooner rather than later but we've got to watch it. And one week obviously, or a few strong days mid-week in a great destination like Boston, while we would love to be able to say that's proof that it's here, I think we're going to need more evidence of that before we can be real confident.

Steven Kent – Goldman Sachs: A couple of things. One, as you're talking to your sales managers, going out to 2010 and 2011, are you starting to say, especially for meetings, are you starting to tell them to back off on the discounts and say let's hold off for a little bit before we sell at depressed levels?

And the second thing Arne, and I understand why you need to pay your very, very best people at Marriott, given the great performance that they've put in over these past two years, but Arne why would you want to say to the organization that SG&A can go up a few percentage points? Wouldn't you want to say to the organization, we need to keep an eye on expenses and keep reducing them and focus on consolidating things where we can? I just want to make sure that those two messages are not against each other.

Arne M. Sorenson: Yeah, I'll take the second point first, and maybe I'll quote you in some of our internal conversations around managing G&A expenses over the next few months. We are putting enormous pressure on managing these costs, and please don't mistake anything we're telling you about what should be assumed for next year as an indication otherwise.

At the same time, realistically, we have, you know in the third quarter our true run rate, we're down 25 percent in our G&A. It's an enormous decline year-over-year. We are asking a great deal of our associates across the company at every level, and they're performing extremely well. Really proud of what they're accomplishing. We can't maintain that forever. And we can't maintain that forever without making sure that they're being compensated fairly. And so I think there are some pretty significant forces that we will be confronting next year, which could well cause G&A to be up a bit.

But we're not giving up on that. And obviously it's going to vary a little bit market to market and hotel to hotel. We'll see how that goes.

On the discounting of group business, I think your question reveals the way we're pricing it, actually. As you look at the conversations we're having—and again, each hotel is different and they're involved with their revenue management teams and looking at the city-wides in their markets and looking at other patterns in booking, but by and large the pricing will be less and less discounted, if you will, relative to prior pricing, the farther we go out. Because we anticipate that both we'll have transient demand coming along and we'll be able to book group business as transient demand strengthens, later for those same periods at higher rates.

Nevertheless, inevitably, as we're at, hopefully, nearing an inflection point, it's a pretty great time to book business. Because inevitably there will be better rates today available for 2010 and maybe even in 2011, than hopefully the rates that we're going to be offering a year from now. So rush out and book those Goldman Sachs' meetings Steve.

Joseph Greff - J. P. Morgan: Most of my questions or topics have been addressed. Just looking at your 2010 scenario and your commentary, or expectation, that RevPAR international markets will outperform North American markets. Is that just a function of an easier comparison related to the H1N1 this year or is there something from a bookings trend or mix perspective that gives you that expectation?

Arne M. Sorenson: I think part of its comparisons. Obviously you've got—Carl referred to a few of them in his remarks—we've got things like the Olympics in Beijing, which is a significant market. You've got political instability in Thailand, which has been significant.

Cart T. Berquist: Mexico. Mexico had some very bad comps this year.

Arne M. Sorenson: Mexico. You've got the flu - I think more than that, one difference is around group. So group will be—obviously has been hit hard this year. We have not put as much group business on the books for 2010 as; this is obvious right, as we would have hoped a couple of years ago. And as a consequence will be digging out from that a little bit in the U.S. The international world, by and large, has got a much smaller percentage of group business, and so by and large it's going to be a quicker reflection of building in transient demand, if and as we see it.

Joseph Greff - J. P. Morgan: On the topic of worldwide or U.S. group pace, and you sort of addressed it, if you look at group bookings or group revenues now versus a quarter ago, is that sequential change, assuming it's positive, is that much different than that sequential change you would have seen in a more normalized environment?

Carl T. Berquist: I think one of the things we're seeing in groups is the cancellations and attrition is less of a problem than it was in the first half of the year. The booking windows are still pretty short, though. The fourth quarter booking pace is down 19 percent and 2010 is down 12 percent. So that will give you a feel for some of the trends.

I think to answer your question specifically, the one item that is different is the cancellations and attritions.

Smedes Rose - Keefe, Bruyette & Wood: I wanted to follow-up on your timeshare commentary. It sounds like you're saying you think timeshare margin will be flat next year. And

I was just curious, if pricing is going down is the flat margin a function of also just writing down the cost of goods sold in order to keep the margin flat?

Carl T. Berquist: Yeah, I think the comment was that if we have approximately the same level of contract sales, we should have approximately the same development profit. And that's a broad assumption in the sense that we did write down the inventory but you do have the pricing changes that will affect that, but what also affects it is pace and also the products that are sold. There are a lot of complications in there.

But by and large, on a very broad level, you would expect that all to kind of wash through with about the same level of development profit.

Smedes Rose - Keefe, Bruyette & Wood: Ok. Thanks.

Carl T. Berquist: Now you also have services profit and financing profit to go into that timeshare sales and services.

Laura E. Paugh: Not to mention the new accounting change…

Carl T. Berquist: And the new accounting change. So it will be complicated next year.

Smedes Rose - Keefe, Bruyette & Wood: Ok. We expect nothing less. On your economic outlook Arne, zero to down five, are you assuming kind of one economic scenario or are they markedly different scenarios to get to zero versus down five?

Arne M. Sorenson: You're giving us too much credit. We don't have a finely articulated GDP sense that goes with zero and minus five. Instead, what we've done is really kind of look at our trend lines and kind of look at what seems logical and try to pick numbers which we obviously think are relevant. They're not guidance, we're not sitting here today saying we have tremendous confidence that the results will end up between zero and five.

On the other hand, we have picked numbers that we think are germane to a question of how the company might perform next year. And so that felt like about the right range. And obviously if we end up at zero rather than minus five, I suspect that also means that the U.S. economy and global economy is performing better than it would at a the minus five.

At the same time, I think this is really more about timing, quarter by quarter, than it is necessarily about full-year numbers. And one of the hazards of even talking about the assumptions and how the business might perform on full-year numbers is that it sort of takes us away from the question about when does it happen and what's the inflection point in 2010 and how powerful does that change take? And you can hear in our prepared remarks and in some of the earlier Q&A, the year is going to start with probably a pretty still rough environment and it's probably going to end with a meaningfully better environment.

And it's just a question of how we transition from the first point to the end point, which is going to tell us what those full-year numbers look like.

Smedes Rose - Keefe, Bruyette & Wood: Yeah, that makes sense. And just the last thing I want to ask you, reading somewhere, it sounds like you were making some efforts to maybe consolidate some of the overhead associated with Ritz-Carlton into your main headquarters. Is that something that's underway and is it a meaningful source of cost saving?

Arne M. Sorenson: We have some organizational efforts underway and generally what we're talking about is building up in-market, continental management teams with our presidents in the Americas and in three regions outside the United States that would—obviously with significant governance from the U.S. and significant sort of centers of expertise in the U.S.—would have a bit more power and therefore a bit more speed to market and the ability to make decisions and pursue growth and do the other things that need to get done on a day-to-day basis in this business.

And as we do that I suspect we'll see that the Ritz-Carlton hotels, in a back-of-the-house sense, I'm using back-of-the-house as an analogy here, really because what we're talking about is Marriott's efforts to oversee this, but so to the extent that we're talking about finance support or HR support or other things, to increasingly allow the Ritz-Carlton team to draw on those continental resources in order to get that support. And not to have either that group or any other group in our company have to build that back-of-the-house support on an independent basis.

Hopefully we'll see some efficiencies in that but this is as much about being global and about speed to market and about setting us up in a way that we can hold our teams accountable as it is about cost savings.

Janet Brashear - Sanford Bernstein: I wanted to ask a little bit about growth if I could. This year you've had 26,000 rooms, year-to-date, 80 percent of them in the U.S. and 80 percent of them select service. Now, I know that's not your long-term ambition but you said also that new supply is a headwind, especially in the full-service segment. I'm wondering if you're not building the full-service segment, who is building there?

Laura E. Paugh: It's in the quality tier.

Carl T. Berquist: Well, just to step back a little bit, as you look at our pipeline, 50 percent of our pipeline is under construction right now. And another 7 percent is conversion. When you look at our full-service portion of that pipeline a large portion of that is outside the United States. It's more in Asia and other areas and that and not in the U.S.

In fact, when you look at full-service development right now, inside the United States, it's very difficult to have full-service round up development in the United States unless you do it with municipality or you're doing it in some type of mixed use facility. And a big driver there is the financing. No one can get the financing to do it, even if they can get a project to work. I don't know if that answered your question.

Janet Brashear - Sanford Bernstein: Well, I guess I'm wondering the difference between sort of what's going on now and what you anticipate going on. Obviously you anticipate a lot more full-service development in the future based on your pipeline and based on a greater percent of non-U.S. development, but right now it seems like you're mostly building select service because of the difficult financing environment and you are more U.S.-focused.

So I guess I'm wondering what's the transition time there and when you say new supply in the full-service segment is a headwind are you talking about out in the future or are you talking sort of closer in and are you talking U.S. or are you talking international.

Arne M. Sorenson: Janet, just to be clear, the headwind we talked about in 2010 is upscale, not upper upscale, so think Courtyard, Residence Inn, SpringHill Suites, would be our brands, not full-service.

Janet Brashear - Sanford Bernstein: Oh, ok. Gotcha.

Arne M. Sorenson: And basically what's happening here is we are—this is obviously much more the case for the U.S. and to some extent Europe is more like the U.S. than other parts of the world, Asia and the Middle East have a different dynamic, but generally the trends we're seeing is we're moving away from new build, particularly new build full-service, towards conversions.

It takes longer for the upper upscale and luxury hotels to get completed. Those that were started before and so it will take longer for our pipeline and our openings to work its way through that. And as we do, inevitably—it depends a bit on the transactions market which depends on the banks probably more than anything else today—we will hopefully see conversion activity step up.

Janet Brashear - Sanford Bernstein: Now Arne, you mentioned that transaction environment, that's obviously changing over the next year and probably getting a lot more active. How do you envision Marriott participating in that?

Arne M. Sorenson: As actively as we can. The question that I think we all have is when and how the transaction volume will start to step up. It has not been significant to date. There are obviously a significant number of hotels out there of all varieties that have debt loads which put some pressure on their structure. In the world we're in, in which banks are still wrestling with their balance sheet and also thinking about whether or not this is the right time to try and sell an asset, right now they're probably generally kicking the can down the street and not forcing transactions to happen.

I think as we get closer to maturity of debt or we get closer towards an environment in which there are buyers out there with pricing that seems to make sense, we could well see transaction volume step up.

There is a lot of equity out there ready to do these deals, a lot of our good partners are out there ready to do these deals. Our druthers, of course, would be to do the deals with our partners and take management or franchise contracts along the lines of our model, but still participate actively in converting hotels to our system.

And we could also look at doing some of those deals on our own. If we did, it would be based on valuations and I have a strong confidence that we would be able to turn around and sell those assets in the relatively near term and retain the management contracts going forward.

Janet Brashear - Sanford Bernstein: If I could ask one more question on the topic of growth, when talking about timeshare you said in your earlier release that you're not focused on the residence side of the business anymore. You said you weren't focused on Europe. And I wondered if you could tell us a little bit about why Europe wasn't working.

And then finally, it was a little dubious in my mind on luxury, whether you were saying you were, you know, in the Ritz Carlton segment of the business, if you were just dialing that down or if you truly wanted to exit that portion of the business.

And maybe you could also just mention what you think the outlook for Horizons is in this environment, as well.

Carl T. Berquist: Sure. Let me take a shot at that. I think as you look at Europe, what we concluded there was that we have enough inventory, we're going to sell out over the x number of years, and sell those projects out. We just don't think future development, given the development costs and the returns in Europe, make sense relative to the one-week prepaid vacation, for that market.

As it relates to the luxury side of it, your question was, are we tooling that back. I think clearly on the residential side, luxury residential, we are tooling that back. We probably won't do any more of that after we sell out what we have.

The fractional side of luxury, however, we have inventory that we won't have to do new development into the future in the next couple of years as we sell out the inventory and build out the inventory we have.

Horizons, we have a couple of projects in Horizons and we have inventory there, we'll sell that out and then we'll re-look at that. That's a lower price point and we will decide whether or not we have an adequate market there to sell into that, but we have enough inventory in Horizon for the next year or two with those projects.

And just to clarify one thing, when I talk about residential, luxury residential, I'm talking about the luxury residential we developed and not necessarily the residential that we may license for others under the Ritz Carlton brand.

Patrick Scholes - Friedman, Billings, Ramsey: You have guided international RevPAR down 16 to 18 percent on constant dollar for the fourth quarter. With foreign exchange likely being a tailwind in the fourth quarter what do you think, with foreign exchange, those numbers could be?

Carl T. Berquist: It's hard to tell. Our foreign exchange in the third quarter, the effect on our third quarter numbers after our hedges, was about $3.5 million of expense. So it's hard for us to kind of predict the currency rates going into the fourth quarter and how that's going to affect those.

Arne M. Sorenson: As is implicit in Carl's answer, we have with, at least the Euro and the pound, some hedges that will remain in place through the end of the year and they insulate us. Now ultimately, we'll still report an FX adjusted RevPAR but the fees in effect are coming in on a constant dollar basis through our P&L. At least with respect to those currencies. Now, that's not the case when you get to currencies that are harder to hedge. They tend also to be more often heavily influenced by government rate conversion settings so we will have to see how that ultimately comes through. Not a big dollar impact to us in the fourth quarter.

Patrick Scholes - Friedman, Billings, Ramsey: Ok. Thank you.

Arne M. Sorenson: Ok. I think we've come to our allotted time. Thank you all very much for participating in our third quarter earnings call this morning and we thank you all for traveling and for staying at our hotels. We're happy to welcome you there and encourage you to get on the road. Thanks very much.

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