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 share repurchases and investment spending; and similar statements concerning anticipated future events and expectations that are not historical facts. We caution you that these statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including the present U.S. economic slowdown and the uncertain environment in the lodging industry; supply and demand changes for hotel rooms, vacation ownership, condominiums, and corporate housing, including the impact of recent increases in transportation fuel costs on demand for our products; 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 International, Inc.
2nd Quarter 2008 Earnings Conference Call Transcript[1]
July 10, 2008

Operator: Good day and welcome to this Marriott International second 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 the Continental European Lodging, Mr. Arne Sorenson. Please go ahead, sir.

Arne Sorenson, Executive Vice President, Chief Financial Officer, and President – Continental European Lodging: Thank you Kat. Good morning everyone. Welcome to our second quarter 2008 earnings conference call. Joining me today are Laura Paugh, Senior Vice President Investor Relations, Carl Berquist, Executive Vice President, Financial Information and Enterprise Risk Management, and Betsy Dahm, Senior Director 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 this morning, along with our comments today, are effective only today, July 10, 2008, and will not be updated as actual events unfold. You can find a reconciliation of our non-GAAP financial measures referred to in our remarks at our web site at www.marriott.com/investor.

I know that all of you are interested in the specific results for the quarter and especially our outlook. We'll get to that shortly. I'd like to start, though, by setting the stage for the quarter. No one listening today will be surprised to hear that the slowdown in the U.S. economy has impacted our business.

In early June, general economic conditions in the U.S. led us to ratchet back our North American RevPAR guidance for the second quarter from a range of three to five percent growth to roughly

[1] Not a verbatim transcript. Extraneous material omitted

2 percent for North American company operated hotels. We finished the quarter at 1.4 percent RevPAR growth for these properties. If anything since the first week in June, the economic climate in the U.S. has turned more bearish. Housing prices continue to decline, oil has generally continued its rapid upward march and the airlines are raising fares and cutting flights, and to top it off consumer confidence is at a 28–year low. There are, of course, contradictory data points, but by and large, it appears that economic activity in the U.S. continues to soften.

All is not gloomy, however. Outside of North America RevPAR for company-operated comparable hotels grew over 15 percent in the second quarter including the impact of foreign exchange, or 7.2 percent excluding the foreign exchange impact. Worldwide, our associates are doing an outstanding job given the environment… finding ways to both drive revenue and control costs, both on property and above property. I'll talk more about that in a minute.

Our timeshare business also is seeing the impact of the economy. Relatively speaking, our core weekly timeshare business held the steadiest while fractional and residential projects had the biggest challenges during the quarter.

We demonstrated our access to the credit markets during the quarter. We had planned to raise $150 million from note sales but investors actually bought $246 million. This gave us a bigger gain than expected even though interest rate spreads were a bit wider than we forecasted.

The financing environment for U.S. hotels is getting tighter. As a result, new full-service hotel development may involve several lenders with modest overall leverage. For smaller projects, small banks are still providing loans to franchisees, typically under $15 million, and for relationship customers. Of course, all of this should result in lower U.S. supply growth, particularly in 2010 and beyond. Outside the U.S., the European and Latin American markets also have tougher financing environments than they did, but in Asia and the Middle East financing is not an issue.

Let's turn to some additional details for the quarter.

As you saw earlier this morning, we reported diluted earnings per share from continuing operations of 41 cents which included a 10 cent negative impact of some special non-cash items in our tax line. We took a $24 million reserve related to the treatment of funds received from foreign subsidiaries. While we booked this reserve in the second quarter, we remain in discussions with the IRS regarding the matter and believe we should ultimately prevail. The remaining charge totaled $12 million, and was largely due to a settlement we reached in May with the IRS involving a 1995 leasing transaction. As part of that agreement, we recently received $26 million in cash tax refunds, which unfortunately was somewhat less than we expected. Excluding the impact of these items, our EPS ended the quarter at 51 cents, near the top end of the guidance we provided a quarter ago.

In North America, comparable systemwide properties increased RevPAR 1.2 percent with full-service and luxury properties up 1.9 percent during the quarter. RevPAR for our comparable systemwide limited-service hotels, which do not benefit from significant group business, increased modestly, up 0.5 percent, reflecting continuing soft transient business, particularly on weekends.

As you know, our second quarter includes the 12 weeks ending on June 13. Adjusted to a calendar basis, our North American second quarter RevPAR would have been about another percentage point higher, reflecting this year's Easter timing.

Back in our quarter, group business at the Marriott brand was strong with property-level revenue up over 6 percent during the quarter, although cancellations were a bit higher than last year and group attendance was slightly lower. A significant group issue is new bookings, including those for the current year. A few meeting planners seem to be delaying booking new business.

For the rest of 2008, the group revenue "on the books" for our Marriott brand is running over 5 percent ahead compared to the same time last year. For 2009, group revenue pace is up just shy of 4 percent over 2008 levels. We estimate that we have nearly half of our likely 2009 group business already on the books.

Given this RevPAR environment, we've increased our focus on the cost side. Every hotel has a contingency plan and all domestic properties have implemented those plans. Cost savings range from modifying menus and restaurant hours to mandatory vacations and hiring freezes. The savings are not just on-property. We also have cut above-property costs that are allocated to the hotels, scaling back programs to be roughly flat relative to revenue.

Our marketing teams have deployed resources to focus on revenue generation, such as our internet channels, targeting messages to our rich store of email addresses drawn from our nearly 30 million Marriott Rewards members. We've also rolled out a number of promotions offering a range of amenities to entice vacation travelers. For meeting planners, we're enticing them with our "Spirit to Preserve the Rain Forest" promotion which I'll talk about more in a few minutes. We're also just starting a promotion aimed at affinity groups, such as family reunions, kids' sports teams, and sports fans. We're calling it "Champion the Weekends."

Across our system in North America, hotels are focusing on growing the contribution of non-room sales. During the quarter, banquet sales rose 6.4 percent and food and beverage profit margins at our comparable company-operated Marriott hotels rose 90 basis points.

All in all, despite a weak RevPAR environment, house profit dollars per available room rose almost 1 percent in North America during the second quarter.

Of course, it's worth mentioning that demand is not soft everywhere. In our Marriott brand, our downtown hotels' RevPAR rose 4.8 percent and our resort RevPAR rose 5.6 percent, reflecting the relatively greater strength in group business.

In New York, our full service hotels' RevPAR rose just over 7 percent for the second quarter. The market continues to benefit from international inbound guests attracted to the wares of Fifth Avenue at fire sale prices…at least for them.

I wanted to add a quick note about New Orleans. We haven't talked about it much in recent quarters, but we want to celebrate some good news for that city. Demand far outpaces new supply, and the market turned in RevPAR growth of over 11 percent during the second quarter.

The first quarter of 2008 was actually stronger than 2005's first quarter – before Katrina. Air lift to the city is up 14 percent year–over-year through April, and our transient room nights in the Big Easy are up 25 percent year-to-date.

Turning to our international markets, the Middle East is doing spectacularly well. During the second quarter, company-operated RevPAR in the region rose 22 percent, including 20 percent in Dubai and 32 percent in Egypt.

With the Olympics in Beijing just about a month away, we're extremely well-positioned in the market and across China.

Elsewhere in the region, our central and southeastern Asian properties did just great. All but five hotels reported double-digit RevPAR.

The U.K. continues to experience, at some level, similar economic conditions to the U.S., and RevPAR growth was in the low single-digits during the quarter. But we're doing some very important things to position ourselves in the U.K. that we think will pay great dividends. We've taken down our flag from a few properties and our owners are investing about 240 million pounds – or about $475 million – at our remaining properties to remake our brands across the U.K.

In the Caribbean, our resorts did well during the quarter and are seeing an increase from international visitors, particularly Curacao and Grand Cayman. In South and Central America, full–service business hotels in major cities are performing quite well, with some reporting second quarter RevPAR gains of 20 percent or even higher.

While same store performance is an important part of our growth story, adding new units is another. At the end of the second quarter, our worldwide pipeline of hotels totaled over 130,000 rooms; 60,000 of those rooms are already under construction. We opened more than 9,400 rooms during the second quarter, just about a quarter of them outside North America. We closed approximately 2,400 rooms as we refresh our system, and therefore ended the quarter with a portfolio of about 545,000 hotel rooms across the globe.

We opened our first hotel outside the U.S. 33 years ago in Amsterdam, and today, that portfolio has grown to over 400 hotels. In May, Bill Marriott signed development agreements in the Middle East that brought our pipeline to more than double the properties we currently operate in the region. We're also opening our first timeshare product in the region in Dubai Festival City.

In China, we just opened our second Courtyard in the Chinese capital this past quarter and our first Courtyard in Hong Kong, and it is stunning. We also opened a new Marriott in Ningbo, the historic port city that's home to more than five million. Our future continues to look bright in China. During the quarter, we announced nine more development transactions that have increased our pipeline there to 23 properties. When all these projects are completed, the number of our properties in China will have grown from 37 today to 60 in 2011, virtually all of them sizable, full-service and luxury hotels.

As I mentioned earlier, our timeshare business is starting to see the impact of the softer economy. During the quarter, contract sales of our fractional products declined by approximately half; sales of our residential products declined 17 percent; and contract sales at our core timeshare business declined 2 percent. With some residential sales expected to close shortly, we still expect fractional and residential to account for about 20 percent of contract sales in 2008. For our core timeshare product, we increased our marketing incentives during the quarter, offering attractive tour packages and Marriott Rewards points at closing. We are not discounting products. Our Asia Pacific Points program is doing well and we've seen an increase in buyers from Latin America and Asia.

As I discussed a few minutes ago, investors purchased $246 million in timeshare mortgage notes in the quarter, and we booked a $29 million gain. Our loan portfolio is doing fine. U.S. delinquencies were up only slightly in June to 6.6 percent, compared to 6.4 percent at the end of March.

Now let's turn to our outlook.

We are more concerned about U.S. lodging demand today than when we last talked in April. With softer midweek transient demand and weaker near-term group bookings, we are forecasting third quarter comparable North American company-operated RevPAR flat to down 2 percent, yielding full year North American RevPAR ranging from down 1 percent to plus1 percent. Given this environment, we do not expect much improvement until 2009.

As a housekeeping issue, its worth noting that our RevPAR guidance is based on a typical 52-week year. In fact, Marriott's fiscal year 2008 ends on January 2, 2009 and this year includes 53 weeks. This is a very modest positive for profit comparisons during the year since we are comparing profits to a 52-week 2007. But when actual RevPAR statistics are reported for our fourth quarter, it will be a cosmetic negative since we will be comparing a seasonally slow week to a non-comparable period… so don't be alarmed. The 52-week statistics represent the real operating trend. All our guidance comments are based on a normalized 52-week year. By the way, our last "catch-up" 53-week year was 2002.

On a worldwide basis, we expect systemwide RevPAR to be flat to up 2 percent for the year in constant dollars. Despite softness in demand in North America, we continue to see significant demand growth in many regions of the world.

As we think about our fee forecast, recall that base management and franchise fees are derived from worldwide RevPAR and unit growth; and incentive management fees are derived from worldwide hotel profitability. Today, our international hotels contribute 35 to 40 percent of our incentive fees and in the second quarter, 9 of the top 20 incentive fee paying hotels were outside the U.S. In fact, eight of the nine are located in Asia or the Middle East. As international hotels increase in number, their importance to incentive fees is growing. You may recall that in 2000, only 15 percent of our incentive fees came from international hotels.

With a more than 130,000-room pipeline, we are confident in our 30,000 room gross additions expected in 2008, and we believe we can achieve $1.450 to $1.475 billion in total fee revenue in

2008. Incidentally, we believe we can open 30,000 to 35,000 rooms in 2009. Most of those rooms are already under construction.

With the success of our timeshare note sale transaction, essentially front-loading some of our planned note sales for the rest of year, our note sale gains were higher than expected in the second quarter. This is entirely due to the larger than expected volume of notes sold. At the same time, the spreads were wider than a year ago. For the fourth quarter, we expect to sell about $250 million in timeshare notes. With current spreads, we anticipate the gain to total about $50 million for the full year, which is about $20 million lower than our prior forecast.

Our timeshare sales and services, net, reflects this decline in note sale gains. It also reflects lower expected contract sales from all three of our product lines, timeshare, fractional and residential. While we have considerable product coming to market later this year, we are cautious about our likely sales pace.

All in all, our new full-year forecast lowers our earnings per share outlook to $1.77 to $1.88 per share, excluding the 10 cents of tax items I referred to earlier.

Compared to our prior full year 2008 guidance, this new outlook reflects the impact of our lower RevPAR and property-level margin expectations, reducing expected 2008 total fee revenue by about $40 to $45 million. Our owned, leased and other line comes down by $20 million due to renovation delays, fewer expected branding fees associated with our partners' residential projects and, to a lesser extent, more modest RevPAR assumptions. For our timeshare business, the sales and services, net, line comes down by $30 to $35 million including $20 million in lower note sale gains. We've lowered our joint venture profits by about $15 million reflecting lower timeshare joint venture results as well as the unfavorable $9 million impact associated with the revaluation of assets by two international joint ventures.

Certainly business conditions are challenging, but we have a lot going for us. We have a $2.5 billion bank revolver with a four-year term remaining, modest debt maturities over the next 5 years, and strong expected cash flow in 2008 and beyond. Today our debt is within our target range, so we're appropriately levered.

We remain dedicated to our successful business strategy, to remain the leading hotel management and franchise company. This strategy protects us when times are tough and delivers solid returns when the good times return.

We recognize, however, that the most important competitive advantage is our associates. It's they who make the experiences that keep guests coming back. In a reader poll done by MSNMoney.com a few weeks ago, Marriott International was one of 10 companies recognized as a customer service "Hall of Fame" champion. A lot happens behind-the-scenes to make great customer service happen, but we know that much has to do with hiring, training and retaining the right people. It's about culture - which our competitors can't easily replicate. That's one reason our turnover is substantially lower than the lodging industry overall.

On July first, we launched our "Spirit to Preserve the Rainforest" initiative. Groups booking into select hotels between now and the end of 2009 will be able to help the environment as we donate

5 percent of their group room revenue to help preserve a swath of the Amazon rainforest roughly the size of Delaware. As I'm sure you'll hear me say again, being green is good business.

Along these lines, we decided to try something a bit new this quarter. We plan to post my prepared remarks online a bit later at our investor relations website, Marriott.com/investor, and link my comments on our Spirit to Preserve the Rainforest program to some video content we've prepared. You will also be able to click directly on the video at our website. This is a pilot as we really look for ways to provide information to you about the company through a range of channels. We expect there will be more to come on this down the road.

While no one can predict the future, it's not especially prescient to say that the current business and market storminess will continue for awhile. And of course storms can deliver some hard blows. But as Rafael Nadal showed as he outlasted Roger Federer to win the 5-hour men's Wimbledon title last week, facing down difficult challenges means being tough, smart, and persevering. With our long held view that "success is never final," we believe both that the future is bright and that we can do even better.

Thank you, and Kat I'd be happy to take any questions now.

[Operator instructions]

Felicia Kantor Hendrix, Lehman Brothers: Hi, good morning guys. I have a host of questions, but I'll whittle them down to just a few for now.

Arne Sorenson: If you can, why don't you do no more than two, OK, just so we can --.

Felicia Kantor Hendrix: That's fair enough. Just returning back to your discussion on the group business, you gave us some detail for that. I just wanted to get a little bit more granular. Wondering, in the numbers that you gave us, are those inclusive of pricing? So I'm just trying to figure out what you are seeing in terms of pricing. And then also what you're seeing in terms of the number of rooms the groups are wanting to commit to.

Arne Sorenson: The numbers we gave you, the plus 5 percent for the balance of the year and the plus 4 percent for 2009, are revenue numbers; so they include both room nights and rate. I suspect the bulk of that is rate, particularly in the balance of 2009. Room nights are maybe up a point or so of that -- excuse me, for 2008. For 2009, it becomes a bit more even a split.

And then basically it continues to go along. In the prepared remarks you heard that we're seeing probably a few folks defer booking decisions so the near-term group bookings are slower than we would normally have experienced. And we're seeing some cancellations, although they are pretty modest. I think in the second quarter we're talking about a total of 8,500 room nights from group room cancellations, so you're talking about very small amounts, given the size of the portfolio.

Felicia Kantor Hendrix: OK, and then, based on a lot of, most of your negotiations start in the fall. How much do you think these figures will change?

Arne Sorenson: Well, the fall negotiations are really about special corporate pricing, which is corporate transient travel, not group travel.

Felicia Kantor Hendrix: Oh, OK.

Arne Sorenson: And so those are for our biggest corporate customers where we would negotiate rates for their executives and employees on their travel staying in our hotels. That will start late in the fall. Obviously it will be dependent significantly on business conditions that exist then. We won't have as much strength in those negotiations this fall as we've had the last couple of years. That's to be clear. But we'll just have to watch it and see how it develops.

Felicia Kantor Hendrix: OK. Then just on your international, as we're kind of now into the third quarter though still early days, I'm wondering if you are seeing any deterioration in your international markets that have previously been doing well.

Arne Sorenson: No, we really aren't. We talked about the UK. The UK is trading much more like the U.S. than much of the rest of the world. The world is obviously a big place. It won't surprise anybody to hear the Mideast is probably singularly the strongest general market in the world. China is probably, at least in terms of hotel RevPAR statistics, is probably pausing a little bit this year year-to-date. And that's driven probably both by supply growth, which has been significant in China, and by some difficulties around visas. We would expect that that will turn and that the market will continue to grow over the long term with the incredible strength of that economy. But you are seeing broadly across the globe outside the U.S. surprising maybe strength given oil prices are high there, too. But those economies seem to perform well, and travel seems to be pretty robust.

Felicia Kantor Hendrix: OK. Great. Thanks.

Celeste Mellet Brown, Morgan Stanley: Hi; good morning. How have you thought about the airline capacity cuts in your guidance? It's tough to know until the capacity is cut how that will weigh on your numbers. And then both for the fourth quarter and then into '09, do you look at forecasts from different airports or is it working out what's happened historically?

Arne Sorenson: We are mostly just watching it carefully. We didn't pull together a forecast and then overlay against that an impact of what airlines might do in the fall. Obviously, as your question implies, the capacity cuts we suspect are still more to come than already in place. There is considerable debate about the impact of those cuts, and you can think of a few different examples that sort of highlight the potential modest impact or significant impact.

One would be you take a market like, what, Washington to Chicago or Dallas to Chicago or New York to Chicago where many of the major carriers have got flights going, you know, every hour, all day long essentially. And if there's a capacity cut of one or two of those planes over the course of the day, probably doesn't have much impact in travel to those cities. It probably will help the airlines by driving their occupancy in effect up on the flights that do fly and folks will still be able to get to those markets. They'll stay in our hotels.

Contrasting example, I suppose, would be cutting capacity to a long-haul market like Hawaii, which is more leisure than business transient. Obviously the oil impact on a flight of that duration is significant to the airlines. And if they cut capacity such that it's actually difficult to get a flight or that they are able to drive rates significantly higher, it will have some impact to business in those markets.

We are generally dramatically more dependent on business travel and corporate group than we are on leisure travel. So I think generally we think that, if anything, airline capacity cuts might be over-worried as opposed to under-worried at the moment. But clearly, the difficulty the airlines are going through and cutting capacity is net-net not good for us.

Celeste Mellet Brown: When you say over-worried because you are dependent on business travel, because generally business travelers will pay whatever they need to to get to a market?

Arne Sorenson: Well, that, plus the destinations are going to be destinations that the airlines are less likely to cut.

Celeste Mellet Brown: OK. And then your guidance seems somewhat conservative from a G&A perspective. Could we see some cost improvement at the corporate level over the course of the year? Is that something you are considering right now?

Arne Sorenson: We're looking at all G&A spending, of course. And hopefully we'll do better than what we've got in the guidance, but we think this is the right set of expectations.

Celeste Mellet Brown: OK. Thank you.

Joseph Greff, JPMorgan: Good morning, guys. Arne and Laura, I was hoping you could help us break out the fee revenue guidance between base, franchise and incentive management fee.

Arne Sorenson: Well, let's see. You obviously have got the numbers on the year-to-date basis. I won't give you numbers, but I'll give you a couple of rules of thumb that you can use here. Obviously, the 40 to $45 million full-year decline in our guidance for 2008 from a quarter ago to this quarter is a mix between base management fees, franchise fees and incentive fees. Base management fees and franchise fees are the easiest to predict, and it's pretty easy to take the RevPAR guidance we've given you and the unit growth assumptions that we've given you, and you will come up within a point or shouldn't be more than two points certainly to our year-over-year performance on those two lines. And I'd start with that, and the balance you're going to see is probably an incentive fee impact.

You look at our Q2 results as an example. Our base management fees and franchise fees were up about 9 percent year-over-year, purely a function of about 5 percent RevPAR growth in actual dollars and about 4 percent unit growth in terms of number of rooms in our system. Our incentive fees were up about 5 percent when you back out last year's one-time items. And that's really reflecting the lower profitability in some of the U.S. hotels, particularly some of the hotels which are under renovation and are therefore not in our concept. And generally that kind of performance is what you'll see in the next couple of quarters.

Joseph Greff: OK; helpful. And then with respect to what's implied for your fourth-quarter '08 guidance in U.S. group bookings, I presume if the pace is up 5 percent for the second half of '08, that the majority of that is in the fourth quarter. Where do you see group booking trends in the fourth quarter? Is it up or is it down versus last year's 4Q?

Arne Sorenson: You mean what we will actually put in the books at the end of the year?

Joseph Greff: Yeah, that's contemplated in your numbers.

Arne Sorenson: Well, the 5 percent is what we have on the books. I suspect that if we see present conditions continue, we will have a little bit lower near-term bookings than we had last year. And so we'll end up giving some of that back. But group business still ought to be positive for both those quarters.

Joseph Greff: Great. Thank you.

C. Patrick Scholes, FBR Capital Markets: Hi; good morning. In your February Timeshare Day, you provided a segment result outlook that implied approximately 17 percent growth for the timeshare segment in '09 at 14 percent in 2010. Since then, can we still expect these rates of year-over-year rates of growth for '09 and '10?

Arne Sorenson: I don't know that I want to go specifically there, Patrick. We're not ready with anything for 2009 that's more current than what we shared with you in February at the timeshare day. We have just started our internal process here which starts with a three-year long-range plan which obviously includes 2009 and it will be a lot of focus on 2009 as we go through that process. And then we get to the budgeting process later in the fall. So we're going to have to watch that.

I suspect that we will see some of the things that were driving growth in the numbers we shared with you at February remain constant in terms of resorts coming online, both timeshare resorts and some higher end resorts that include fractional and residential. And so that ought to bode well. At the same time, the weak residential market and weak consumer confidence will put some pressure on 2009 results as long as those factors continue. So net-net, you know, we'll have to see how those trends settle out.

I guess the last thing would be note sale gains. You know, we're down -- when you look at our guidance now compared to our guidance essentially for full year 2008 at the beginning of the year, note sale gains are down probably $40 million and that's a fairly big shift. We're going to have to watch what that business looks like for next year. It could be that if markets, finance markets strengthen and we get back towards more of a historical average spread, there is meaningful upside from that segment alone, but that's going to be entirely dependent on the financing market.

C. Patrick Scholes: OK, thanks. Then it looks like this last quarter you opted to pay down debt instead of repurchasing shares. In the past, you have mentioned your target leverage of debt to EBITDAR 3 to 3.25. Is that still your target? You also mentioned in your comments you are near

your target. In that case, can we expect use of free cash flow more towards share repurchases going forward?

Arne Sorenson: Well, we included in our prepared remarks and press release the assumption that our share repurchase activity in the full year 2008 would be about $500 to $600 million. That's obviously a meaningful reduction from the roughly billion dollars that we started with as an assumption for full year 2008 at the beginning of the year. "Why" goes really to the ratios you've talked about. We do target about a 3 to 3.25 debt to EBITDAR ratio, factoring in guarantees and leases and all the other things that you've got to do to do this right. We are within that range today. It's a bit frustrating not to have dramatic resources available from being under-levered that we could use to buy stock back at these prices, which we believe to be compelling. And so we'd like to be much more aggressive.

So it's not that we are sitting here diverting funds that could be used to buy back stock into debt reduction. It's simply that we find ourselves appropriately levered. And obviously, as we see EBITDA come under some pressure, which our EBITDA forecasts for the year are down a bit since the beginning of the year, that has some impact on capacity. And certainly, when we look at asset sales or we look at, for example, the timeshare note sale in the second quarter, we were not confident until that deal got done that it would get done, which made us probably a bit more conservative than we'd be even under the normal scenario in the second quarter itself.

C. Patrick Scholes: Great. Thanks for the update.

Steven Kent, Goldman Sachs: Hi, good morning. Maybe you can talk a little bit about mezzanine financing and some mortgage loans for hotel development. Looks like that in your guidance is increasing a little bit. And does that mean that the owners or the franchisees are not finding financing? And what does that mean for returns for MAR if that number gets bigger over time?

Arne Sorenson: Yeah. I think the number we included in our press release for mezz financing and mortgage loans was 40 to $50 million for full-year 2008 which is up, I don't know, $20 million maybe from the last quarter's guidance. These are in historical terms and in light of the size of Marriott, very modest changes in our expectations. And hardly an indication that we are participating broadly or actively in filling gaps in the debt structures for our owners hotels.

We do anticipate that over the course of this year and maybe into next year that we will find in a tight credit market that an ability to provide some financing may give us an advantage, a value-creating advantage that some of our competitors don't have. And we'd obviously structure that mezz debt to be as close to market as we possibly can so we would get not just the return from mezzanine interest but we would get the management fees associated with the hotel itself. And we will do that if we can do it to be a value-creating transaction. We are not anticipating at the moment that there's going to be a significant amount of that activity, but, you know, it's something that we'll watch.

Our owners certainly, our developers are certainly finding the financing markets much more difficult today than they were a year ago. Available leverage levels have come down. Spreads have come up. It means much more likely than our participation filling that gap with mezz debt,

it will mean that the projects which are least baked are probably going to take longer to get baked and some of them won't happen. The stronger projects with the stronger sponsorship probably still will happen. They may take a little bit longer to get there. But we will not on a wholesale basis step in and provide whatever gaps are necessary in order to make deals that would have worked a year ago work now if they don't make substantial sense.

Steven Kent: OK. Thank you.

Bill Crow, Raymond James: Good morning. Arne, in your prepared remarks, you talked about RevPAR growth guidance and you said you did not expect any improvement until 2009. Does that imply you do anticipate improvement in 2009? Or is that just a statement? Maybe you should say at least 2009. How are you looking at that?

Arne Sorenson: [Laughter]. We certainly hope it improves in 2009. You know, a couple of obvious facts. Lodging demand is heavily correlated to economic activity. We would not pretend to have a unique insight into the way the economy is going to perform in 2009. And so you won't hear from us in this call an economic forecast about when in 2009, whether in 2009, or how fast in 2009 and with what sort of robustness the economy begins to recover. We obviously read all the same financial pages and data that everybody else on this call does. There's plenty to look at and be anxious about the future.

There is also plenty of reason for optimism. I think we feel like the things that we can control best we feel great about. We know we're getting the unit growth. We know with that unit growth and with the increasingly global nature of our business that we're going to produce tremendous fee growth going forward. We can't tell you precisely when that – when and how that kicks in in 2009, but we know with almost total confidence that over the next couple of years we're going to have really accelerating fee growth and that's going to be great for our business, both because of RevPAR and because of that unit growth, which will be great.

When we think about the economy generally, while there are reasons to be anxious, there's also reasons to be optimistic. I think the economy can often turn faster than any of us think when we're at the weakest economic times. And you think about the prospect for a correction in oil prices, none of us can predict whether or when that will happen, but it wouldn't be at all surprising to see a meaningful correction in oil prices at some point in time. And when that happens, it would have a dramatic impact on consumer confidence and with it maybe a sort of nearer term impact to our business.

One of the things we have all talked about in the lodging business for the last number of years is whether our correlation to economic activity lags by a couple of quarters or by a quarter or whether it's coincidence. And I think one of the reasons that debate continues is it's a little bit of both. Where you've got hotels which tend to be more full-service and more group oriented there's more of a lag associated with our business and the economic activity because that group business both protects us a little bit on the downturn and slows us a little bit on the upturn. But where you're looking at transient business and transient weakness, that probably is much more coincidentally correlated to the economy and so when we start to see the economy strengthen, we ought to see a fairly real-time strengthening in transient business, both business transient and leisure transient.

All of which tells us that – again, a much longer answer to a question that ultimately I'm not answering. I realize that. But that there are reasons to think that, you know, in 2009 we could well see some building of strengthened demand for the lodging business. But we'll have to watch it and see.

Bill Crow: Thank you. One final question. Timeshare, I heard what you said about 2009. If we were just to assume, you know, in order to help us understand what the accounting impact will be next year, if we were to assume that contract sales stayed flat with this year and timeshare note sale gains were flat, would we have a pickup from the recognition of revenues next year because of the scheduled openings? Or not so much?

Arne Sorenson: I think generally both deferred revenues and some maturing of projects, which are getting into sales which have not been in sales -- those are going to be powerfully positive forces for 2009. We're optimistic that those may carry the day in terms of year-over-year growth rates, but you really ought to stay tuned until we can be more thorough in giving you guidance later this year.

Bill Crow: Fair enough. Thank you.

Smedes Rose, KBW: Good morning. Just a couple of quick questions. I think you've answered most of mine. But on the incentive management fees, can you break out what percent of hotels are paying fees now relative to last year? And then could you repeat what you said international fees were or as a percentage?

Arne Sorenson: International fees are about 40 percent, I think now and growing. And I suspect they will continue to grow as both we grow the portfolio of international hotels and as they perform better. I think the second quarter numbers, 58 percent of hotel, managed hotels paid incentive fees in Q2 versus 63 last year. And that decline year-over-year is mostly associated with some of the limited service hotels in the U.S. We've got a couple of smaller portfolios of Courtyards, for example, which are being significantly renovated right now. And so in addition to some weaker demand environment, we've got some renovation impact that's having an impact there.

Smedes Rose: OK. And then if I could just ask you, year-to-date contract sales on timeshare, it looks like it's down about over 2.5 percent and your revised guidance is from 0 to up 5 percent for contract sales. And then at the beginning of the call, you said it looks like, if anything, the economic environment has worsened. I'm wondering, what gives you confidence in the back half that, you know, it's just not down another 2 percent or 3 percent? Are there easier comps?

Arne Sorenson: It's more about resorts reaching a point of getting into sales, getting farther into sales.

Smedes Rose: So more inventory available?

Arne Sorenson: Essentially, yeah. That's a good way of thinking about it. It's not necessarily that a resort that was in sales last year and also this year has more inventory available. But that

you've got some resorts that essentially weren't in sales last year or were not in sales in a way that allowed them to actually complete the contract sales.

Smedes Rose: OK. So even adjusting for a weak economy, to some degree, inventory drives demand?

Arne Sorenson: Absolutely.

Smedes Rose: OK. Thank you.

William Truelove, UBS: Hi, good morning, guys. When you look back to 2000 through 2003, those dire disaster years, Marriott had incentive fees that declined on a cumulative basis about 65 percent. And now, I don't know what the percentage of international portion of the incentive fees were back then, but could you tell us in prior cycles other than that particular one, what was cumulative average decline in incentive fees as you went through the downturn, Arne?

Arne Sorenson: That's a good one, Will. I can't tell you what the 1991, 1992 number was. In fact, we were such a different company then in terms of our size that I'm not sure it would be terribly meaningful.

Laura Paugh: In fact there were a lot of hotels that didn't pay incentive fees in those years. So it's just not meaningful.

Arne Sorenson: Yeah.

William Truelove: Help us think about what the cumulative declines would be then.

Arne Sorenson: Let me babble a bit at this. The statistics that we had in 2001 through 2003, obviously, that's a three-year decline. It was heavily focused on the U.S. hotels. In U.S. hotels, we had top-line revenue declines of up to 20 percent. Often we had profitability at the hotels down by 1/3, accentuated by not just a tech bubble popping and the weak economic environment which was business driven not consumer driven but also by the impact of 9/11 and significant security concerns. And probably a piece which is clearly different today, an involvement of some online intermediaries in sales in a distressed environment which gave the industry much less control over pricing than it had before.

And I suppose with it, as long as we're making the comparisons, a dramatically different supply environment than we have today. We had going into 2000, three or four years of high single digit or at least mid single digit supply growth. And we have had in this recent run very modest supply when you look at the last five years. And even when you look at the supply we're experiencing today.

For Marriott, we obviously have a big shift from U.S. to international incentive fee contribution. I think even when you look at 2001, 2002 and 2003, the incentive fees from our international units were growing. And if they continue to grow now, when you start at 40 percent -- and again, I suspect that number next year is going to be 40 to 45 percent, something like that, which will be international fees, incentive fees as a percentage of total fees, that ought to continue to

perform quite well. The best measure we can still give you, if you want to fiddle with your models, would be a point of RevPAR is $20 to $25 million pre-tax. And that's the impact both on the revenue based fees, base management fees and franchise fees and on the incentive fees. And we don't think we should see those numbers be materially different per point, whether we give up one point or three, four or five points.

William Truelove: OK. Thanks so much.

William Marks, JMP Securities: Good morning. Just a follow-up question on timeshare. I don't think you've done any kind of geographic spread. Do you have any comments regarding the strong performing markets and weak performing markets?

Arne Sorenson: The West we've been -- probably have seen the weakness the longest. I think really back almost a year now we've seen relatively weaker demand out of the West than we have elsewhere. I think today we would say that we're seeing more modest consumer demand generally. And again, on the core timeshare project, it's not disastrous by any means with sales down just 2 percent from a year ago. But we're seeing more cautious consumers and as a consequence, we're doing a bit more on the marketing side and doing everything we can to make sure we're helping them understand the compelling value associated with buying timeshare.

There are some good bright spots in the timeshare business. I think the Latin American interest in buying timeshare in the United States continues to strengthen. And I think as their economies are stronger, they also have more wherewithal to do it. So we're seeing volumes from Latin America grow. We are really pleased with our Asia Pacific points-based timeshare program. This is an essentially new business that we've been in now about a year. It is core timeshare rather than fractional. Obviously, it is nominated in points as opposed to weeks. And it makes it somewhat more flexible. And that business continues to grow quite well and we're really pleased with the way that's going. And we expect that will continue to go for many years to come.

William Marks: Great. Thank you. One other unrelated question. On the fall corporate rate negotiating period, can you remind us what last time around, let's say in 2002 or maybe in 2003, what you were doing with pricing then? Do you have pricing power in an environment like this? Can you go to our clients and say, you know, there is inflation, we should have the ability to raise prices?

Arne Sorenson: Yeah. I don't think -- I don't think there's any reason necessarily to assume that pricing will be down, if that's what your question gets at. I can't tell you sitting here what we experienced in the fall of 2001 or the fall of 2002 off the top of my head. I think it has been noted by some accurately that in periods of extreme uncertainty -- which certainly the fall of 2001 would have been, I suspect we finalized many fewer of those negotiations than we would in normal circumstances because both we and customers adopted a bit more of a wait-and-see attitude. There's no reason to believe that the fall of 2008 is going to be anything like the fall of 2001. I think instead, we'll get together and we will be stressing not just inflation factors and, therefore, why it's appropriate that rates ought to go up. But we'll be stressing value and room availability and service and negotiating around some of those points to see if we can't optimize the rate that ultimately results from those negotiations. We'll just have to see how they develop.

William Marks: Great. Thank you very much.

Chris Woronka, Deutsche Bank: Good morning. Appreciate the data points on those top-20 paying incentive management fee hotels. Can you tell us what percentage of total IMF those 20 hotels contribute?

Arne Sorenson: In theory we could. I can't do it off the top of my head. I would guess it's well under half. But I really can't tell you. So stay tuned with us.

Chris Woronka: OK. And second question was what percentage of your reportable timeshare sales or maybe profits this year are from international markets? And then how does that compare to what percentage of inventory you are selling is in international markets?

Arne Sorenson: It's relatively low. We've got a few resorts in Europe. We've got the Asia Pacific points program. And those are really the only places where we've got inventory that's really non-U.S. inventory, if you will. And that -- maybe it's 10 to 15 percent max, something like that, of our total sales volume. How many foreign buyers we have of U.S. inventory I can't tell you. Undoubtedly that is growing as we speak, both because of Latin American buyers and probably European buyers for product in the U.S. The U.S. is obviously on sale in all things, including timeshare, to folks who have the benefit of stronger Euro or Pound or other foreign currencies.

Chris Woronka: Right. Great. And one final one, if I could. Were you able to buy shares the entire quarter? You didn't black yourself out beyond any normal period?

Arne Sorenson: No, the most significant factor on our timing during the quarter was our desire to get this timeshare note sale deal closed.

Chris Woronka: OK; very good. Thanks.

Michael Millman, Soleil Securities: Thank you. Following up on the core timeshare business where you're seeing cautiousness, could you give us some color as to how much of that cautiousness or maybe slower sales you might attribute to having a week, much less flexibility than points compared to some others in the U.S.? How much maybe of that is inventory availability? And then, what are you seeing in terms of core tours and yield on those tours?

Arne Sorenson: I think those are all good questions. When we talk about a bit more cautiousness from the consumer in terms of buying timeshare, none of that is driven by the difference between points and weeks. We're really talking about a comparison of demand for our product against demand for our product. And so we've seen a little bit more cautiousness from the consumer.

If you think about our full-year timeshare guidance -- I mentioned this before -- our timeshare note sale gains are probably down $40 million from what we expected at the beginning of the year. The balance of our timeshare business is probably down about 30 million of that. So we're down about a total of 70. That 30 is probably about a point decline in closing efficiency and about a point increase in marketing and sales effort. Now those are rough numbers. In a sense,

because they are a point of gross revenues in both instances, that's an indication of the higher expense we need to incur to close deals with customers and a relatively less probable close -- the number of customers that we see.

Michael Millman: Thank you. And switching to international, clearly UK as you have indicated is following the U.S. economically. And you show occupancy down 50 basis points. But also continental Europe down 50 basis points and Asia Pacific down 40. Is there something unusual there? Are those markets weakening as well?

Arne Sorenson: You know, I don't think there's much unusual there. We talked about supply in China. I suspect that's probably the biggest reason for the Asian occupancy numbers. If you look at the continent, European continent, it's obviously a big place. The East is extremely strong: Russia, Kazakhstan, Poland, some of those markets move along very, very well. Germany had a fairly unusual holiday schedule in May which had an impact in May but continues actually to perform pretty well. It's possible that something like that may have had a bit of an occupancy impact. But generally, those markets are continuing along strong. We wouldn't view – go ahead.

Michael Millman: And also, given what's happening in the economy, I would think that some of your lower-end product going into lodging would show some pickup. And yet the weakest in RevPAR were your lowest price products, Fairfield and TownePlace.

Arne Sorenson: Yeah. The most important and simplest way to understand that is that those limited service hotels have no group. And group is basically a positive fact right now for any hotel that has group. The second thing we do watch what we call trade-down to see whether customers are trading down from full-service hotels to limited-service hotels. And generally, we have not seen that at least so far. Could we see it in the future? Certainly. If we do, that would be a net help to some of the more limited service hotels, but we haven't really seen that yet at all.

Michael Millman: Great. Thank you.

Arne Sorenson: Yeah, you bet. All right. Well, thank you all very much for your interest this morning and for your time. And we both encourage you and thank you for getting on the road and traveling and staying at our hotels.

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