Note on forward-looking statements: This document contains "forward-looking statements" within the meaning of federal securities laws, including statements concerning the timing of the planned spin-off of our timeshare operations and development business; RevPAR, profit margin and earnings trends, estimates and assumptions; the number of lodging properties we expect to add in the future; our expectations about investment spending; and similar statements concerning anticipated future events and expectations that are not historical facts. We caution you that these statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those we identify below and other risk factors that we identify in our most recent quarterly report on Form 10-Q. Risks that could affect forward-looking statements in this press release include changes in market conditions; the continuation and pace of the economic recovery; supply and demand changes for hotel rooms, corporate housing and our timeshare products; competitive conditions in the lodging industry; relationships with clients and property owners; the availability of capital to finance hotel growth and refurbishment; and unanticipated developments that prevent, delay or otherwise negatively affect the planned spin-off of our Timeshare segment. Any of these factors could cause actual results to differ materially from the expectations we express or imply in this document. We make these forward-looking statements as of October 6, 2011. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Marriott International, Inc.
Third Quarter 2011 Earnings Conference Call Transcript[1]
October 6, 2011

Operator: Welcome to the Marriott International third quarter 2011 earnings conference call. Today's call is being recorded. At this time for opening remarks and introductions I would like to turn the call over to the executive vice president and chief financial officer, Mr. Carl Berquist. Please go ahead sir.

Carl Berquist: Good morning, everyone. Welcome to our third quarter 2011 earnings conference call. Joining me today are Arne Sorenson, our president and chief operating officer, Laura Paugh, senior vice president, investor relations and Betsy Dahm, senior director, 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 last night, along with our comments today, are effective only today, October 6, 2011, 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.

In the third quarter, we reported adjusted diluted earnings per share of $0.29, a 32 percent increase from the prior year. On an adjusted basis, we were at the upper end of our $0.25 to $0.29 July guidance. Our adjusted operating income was also at the upper end of our guidance excluding spin-off transaction costs. Timeshare sales and services, net, was about a penny lower than expected largely due to reportability. On the plus side, we had stronger than expected RevPAR at our leased hotels, particularly in London and Tokyo, which gave us about a penny upside. We also picked up about a penny each from termination fees, tax rate, and share count.

North American transient demand remained very strong in the third quarter. Systemwide North American RevPAR rose 7 percent, at the high end of our expectations, with most markets showing significant RevPAR improvement including double-digit RevPAR growth in San Francisco, Los Angeles and Miami.

In the Greater Washington, D.C. market, systemwide RevPAR declined 2 percent. Demand continues to be constrained by the shortened Congressional calendar, ongoing budget battles, weak government group demand, and in this quarter, Hurricane Irene. Fortunately, better group bookings in D.C. and an increase in the government per diem should help the fourth quarter.

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[1] Not a verbatim transcript; extraneous material omitted and edited for clarity.

North American systemwide Courtyard RevPAR rose 8 percent in the quarter. We are seeing meaningful impact from the Courtyard Refreshing Business lobby renovation. Over 370 hotels have been renovated to date with another 77 properties planned for 2012. We expect to have substantially all our Courtyard properties offering the new product by year end 2013.

Ritz-Carlton had a terrific third quarter. North American Ritz-Carlton RevPAR rose nearly 14 percent, sales of club level and suites are up, and worldwide luxury incentive fees almost doubled in the quarter. We launched Ritz-Carlton Rewards last year and we've already signed up more than 150,000 members. Today, Ritz-Carlton's worldwide hotel development pipeline stands at nearly 6,000 rooms, largely in international markets. These rooms represent a more than 40 percent increase on the existing Ritz-Carlton international room base.

Company-operated RevPAR for the domestic Marriott brand increased 4 percent in the quarter with group business up 2 percent. Catering sales also rose 2 percent in the quarter. Group business was impacted by weak government group demand in D.C. and the slow return of association group business.

Our sales executives continue to do a great job. For 2012, total revenue bookings for the Marriott brand are running up 7 percent year over year compared to only a 3 percent pace in February. Bookings made in the third quarter for 2 years out, in this case 2013, are up 31 percent year over year.

One of the key benefits of our new sales organization in the U.S. is the "pitching and catching" of meeting prospects between regions. This is possible because we now have the systems, the training, and the incentives for sales executives to sell our system rather than a single hotel. For group business booked in the first three quarters of 2011, nearly 900,000 roomnights were obtained by sales executives selling business going to hotels outside their regions. This represented roughly 7 percent of all group revenue booked. We believe this is largely incremental business and is significantly ahead of our expectations.

The new sales organization is also doing well when we examine more intangible measures. Our "customer response time", "sales quality" and "follow up" performance are closely monitored and continue to improve. In fact, Marriott Sales Office response time is industry-leading in the third quarter according to a third party survey.

Our customers are delighted. In mid-August, we surveyed 4,500 industry group meeting planners. Two-thirds said that no other lodging company is easier to do business with than Marriott and 80 percent said they are more likely to do business with Marriott brands in 2012 than in 2011.

Our U.S. sales organization is calling on 7 times more U.S. accounts than in the past and with our unique organization structure, we are well positioned to capture more than our fair share of business from key international markets such as China, India and Europe. While we continue to "tweak" the organization, we are gratified by these excellent results.

We just signed a global distribution agreement with Booking.com, the largest Online Travel Agency in Europe, which is expanding its presence within the U.S. market. In contrast to the merchant model, the Booking.com commissionable model arranges for a benefiting hotel to pay a commission <u>after</u> the stay. While OTAs will continue to represent a very small portion of our overall business, we expect this agreement will improve our efficiency and revenue over time. Incidentally, we are also negotiating our Expedia contract which is scheduled for renewal later this year.

Performance outside North America was impressive. Comparable systemwide RevPAR was strong throughout Asia, rising 9 percent on a constant dollar basis and 17 percent reflecting actual exchange rates. Comparable RevPAR in Europe increased 6 percent on a constant dollar basis and 18 percent including currency, with particular strength in London and Paris. The Middle East remains a challenging market but RevPAR in the Caribbean and Latin America increased 12 percent. Finally, RevPAR in Japan is bouncing back ahead of expectations. Local Japanese demand is strengthening and Japanese travel to Korea has resumed.

House profit margins in the third quarter for domestic company-operated properties increased 130 basis points, reflecting higher occupancy, improved room rates and good cost controls. House profit margins for international hotels increased 40 basis points, constrained by weak RevPAR in the Middle East.

Worldwide base and franchise fee revenue rose 12 percent in the third quarter and incentive fees were up 38 percent in the seasonally slow period. Incentive fees were particularly strong in Barcelona, Amsterdam and Hong Kong.

Our owned and leased profits increased dramatically year over year, in part due to $8 million in higher termination fees, $13 million improvement in branding fees from our credit card and residential sales and $7 million from stronger results at our leased hotels, particularly in Anaheim and London.

For our timeshare business, third quarter contract sales were ahead of expectations due to stronger sales at a joint venture project while North America vacation ownership sales were right in line. Timeshare sales and services, net, was lower than we expected largely due to lower revenue reportability, some ADA compliance costs and costs associated with Hurricane Irene in the Bahamas.

Adjusted general and administrative expenses rose 14 percent year over year in the third quarter, reflecting $8 million of expenses associated with the spin-off transaction, higher costs associated with our international expansion and higher incentive compensation. Work-out costs were a bit lower than expected largely due to timing. Adjusting out the $8 million of expenses associated with the spin-off, G&A came in at $162 million, a bit better than the $165 to $170 million guidance.

Turning to our outlook for the fourth quarter, our international RevPAR growth is likely to slow from the third quarter pace. Many of our newer comparable hotels in Asia have benefited from ramp-up in recent quarters and the fourth quarter will reflect tougher comps. RevPAR in Europe will likely moderate in the fourth quarter due to the timing of this year's fairs in Germany as well as tougher comparables. RevPAR in London is expected to remain strong but we anticipate weak performance in the British provinces as a result of government austerity efforts. So for the fourth quarter, we are assuming international systemwide RevPAR growth to increase 3 to 5 percent on a constant dollar basis, or 5 to 7 percent excluding the Middle East and Japan.

In North America, we expect systemwide RevPAR growth of 6 to 8 percent. Across North America, we see little evidence of economic slowdown in our lodging business. Group cancellations and attrition levels are running at normal levels. In fact, group attendance is running a bit higher than meeting planner expectations at many hotels.

For our timeshare business, our guidance assumes the business will spin-off from Marriott at year end 2011. On this basis, we expect fourth quarter contract sales to total $200 to $210 million and

timeshare sales and services, net to total $68 to $73 million. Similarly we would expect timeshare segment results would total $45 to $50 million reflecting continued reductions in interest income as outstanding mortgage balances continue to decline. This places full year 2011 adjusted timeshare segment results at $131 to $136 million. These full year segment results are roughly $10 million below our prior guidance largely due to deferred revenue reportability and the timing impact of the "banking and borrowing" option under our points-based program. As we mentioned last quarter, more owners are choosing to bank their points for a more expansive vacation in 2012.

On this basis, for the fourth quarter, we expect earnings per share to total $0.45 to $0.50 per share, a 15 to 28 percent increase over the prior year adjusted EPS.

For the full year 2011, we expect adjusted EPS will increase 19 to 23 percent to $1.37 to $1.42. We anticipate adjusted EBITDA will climb 7 to 8 percent compared to last year's adjusted amount. Our guidance assumes the spin off will not occur until year end 2011 and again, includes the $13 million pretax we've spent on year-to-date spin-off costs, but excludes future spin-off costs.

On a cash basis, we estimate the total cash transaction costs related to the spin at $40 to $50 million for the full year 2011. We have already expensed about $13 million of this through the income statement year to date. Not all of the $40 to $50 million will be expensed in 2011 as some will be capitalized.

While our guidance assumes timeshare will remain with Marriott through the fourth quarter, it is actually more likely the business will spin off prior to year end 2011. An updated Form 10 was filed last week. Commitments on the new revolver have been obtained and the agreement is on track to be executed this month. S&P has rated MVW credit at "BB-". In coming days, we expect to receive an IRS Private Letter Ruling confirming that the distribution of MVW shares will be tax free to Marriott and its shareholders. MVW's new receivables warehouse facility has closed and funded. The MVW team will hold their first analyst meeting at the New York Marriott Marquis on October 28, 2011. Invitations will go out soon. Management looks forward to meeting with you and discussing their prospects including their outlook for 2012. They expect to conduct a road show with Deutsche Bank in November. We still need to finish some intercompany agreements, complete the Form 10 and receive final board approval. We expect to complete this necessary work and present the transaction to our board by the end of October, distributing shares to shareholders around the end of November.

With this transaction, Marriott expects to receive approximately $325 to $350 million in cash tax benefits through 2015, including $70 to $80 million in cash tax benefits in 2011 and $120 to $130 million in 2012. Through the third quarter, we've already realized roughly $55 million in cash tax benefits. To be clear, this transaction does not materially change our book tax rate. These are only cash tax benefits, equivalent to about $1 per share in value.

While we aren't completing our typical note securitization this year, we've already received most of the $110 million we expect under the MVW warehouse facility. Combined with the roughly $40 million in proceeds from the sale of the preferred stock of MVW's U.S. holding company, Marriott International should receive approximately $150 million in a cash distribution in the fourth quarter prior to the completion of the transaction. This will have no impact to Marriott's earnings.

With regard to earnings, we estimate the timeshare business, net of the transaction costs, will contribute roughly 10 to 11 cents to our estimated full year 2011 EPS. The calculation is on page A-18 in the earnings release we put out last night.

Once the spin-off is complete, Marriott International will not account for the timeshare business as a "discontinued operations". We expect to provide detailed and more precise proforma income statements for the new Marriott for 2010 and 2011 shortly after the spin-off. By the way, we expect Marriott Vacations Worldwide will file their own 10-Q for the third quarter as a standalone company once the spin is complete.

For 2011, we assume $500 to $600 million in Marriott investment spending, including $50 to $100 million in maintenance spending. Year to date, we repurchased over 36 million shares for over $1.2 billion through the end of the quarter and given our current debt levels, we expect to slow our repurchase pace in the fourth quarter.

Now to provide more details about Marriott International's 2012 outlook, I'd like to turn things over to Arne Sorenson.

Arne Sorenson: Thanks, Carl. This is the time of year where we typically provide our initial view of the upcoming year. The question of greatest interest is "what should we model for RevPAR in 2012". As Carl mentioned, we are clearly not seeing weakening demand in our business. At the same time, we read the same newspapers you do and we can't ignore the risk. As you know, all other things being equal, weaker economic growth results in weaker lodging demand. So today, we are presenting a broad range of RevPAR growth assumptions.

Three percent RevPAR growth correlates with modest GDP growth, perhaps 1 percent or so, and is hopefully too conservative. Seven percent RevPAR growth correlates to 2½ to 3 percent GDP growth and is probably too aggressive to count on. But we present these bookends to allow investors to independently model the business, as we all have different views of the future.

We further estimate that a 1 point change in worldwide RevPAR in 2012 should equate to roughly $18 million pretax of full year fees plus about $5 million pretax of owned and leased profits. These are only rules of thumb of course. Interestingly, even with no GDP growth, we would still expect some modest RevPAR growth in North America. This is largely because of the very favorable supply environment. According to Smith Travel, supply growth is expected to increase a mere 0.5 percent in 2012 on top of only a 0.7 percent growth in 2011. Given this supply environment, we believe it is very unlikely we'll see North American RevPAR decline in the absence of a pronounced downturn in the economy. In fact, in a recent report, Raymond James noted that since January 1988, the earliest data they looked at, there has not been a single month of negative RevPAR when supply growth has been less than 1 percent.

Now, while supply growth is modest, our unit growth continues. Twelve months ago we had a 95,000 room pipeline. Since then 33,000 rooms have opened into our system and the pipeline has risen to 105,000 rooms. Measured by newly signed rooms, 2011 will be one of our largest development years ever.

Our pipeline continues to build and is becoming increasingly international. Ten years ago, our international development pipeline totaled 14,000 rooms. Today, we have over 47,000 rooms in our development pipeline outside the U.S.

In Asia, today we have roughly 100 hotels in our pipeline compared to only 60 hotels 12 months ago. With just the completion of these hotels, we'll have over 230 hotels in our Asia Pacific region.

We're very bullish about the long term opportunities in the Middle East and Africa too. As you saw on Monday, we named a new president and managing director of our Middle East and Africa

division. Alex Kyriakidis, is currently head of Deloitte's travel, tourism and lodging business in Dubai and London. Alex brings a wealth of contacts and insights to the region and will join us on the first of the year. We are excited about the addition of Alex to our team, although we will miss Ed Fuller, who is retiring after 40 years at Marriott, including over 20 years running our international operations

In the U.S., ground up development is very challenging today. In the last 12 months, Smith Travel reports that only 47,000 rooms were added to the U.S. industry supply. In this same time period, Marriott opened roughly 3,000 conversion rooms and 12,000 newly constructed rooms, representing one-quarter of all new hotel supply growth in the U.S. Only strong brands are getting new development deals done in the U.S. today.

Our Autograph brand continues to show strong results and considerable franchise interest. While not included in comparable hotel statistics, RevPAR for our first 14 converted Autograph hotels rose 12 percent for the 3 months ended in August with RevPAR index up over 5 percent. With 24 hotels worldwide today, we expect to have roughly 40 properties open or signed by year end 2011 and 60 to 70 properties by year end 2012. Autograph is off to a stunning start.

We remain very bullish both about the long term prospects for the lodging industry and the near term prospects for Marriott. With strong demand and low supply growth, a return to peak 2007 RevPAR is on the horizon. More importantly, a return to peak fee revenue for Marriott is very near.

Our model implies fee revenue in 2012 of $1.42 to $1.49 billion, which is quite comparable to our fee revenue performance in 2007. Our base and franchise fees hold up well because they are much less susceptible to the economy and they benefit from unit growth.

Since the third quarter of 2007, our rooms have increased from over 525,000 rooms to nearly 640,000 rooms. We expect to open roughly 5,000 rooms in the fourth quarter of this year, 30,000 rooms for the full year 2011 and another 30,000 rooms in 2012.

We expect to achieve growth in rooms with modest net invested capital. We also expect to generate meaningful amounts of free cash flow. In the past 4 years. we have reduced fully diluted shares outstanding by nearly 10 percent as we applied excess cash flow to repurchase 62 million shares. In 2012, we expect to have another $500 million to $1 billion of cash available for share repurchase or opportunistic investing. In fact, even if we only see 3 percent RevPAR growth, we would expect some level of share repurchase activity in 2012.

While we announced the timeshare spin-off in February, we know analyst models included in consensus for 2012 largely do not account for that transaction. So while we've provided a 2012 model today, we've also provided an estimate of 2011 timeshare impact for comparability.

Our prior peak earnings occurred in 2007. Adjusting the entire 2007 income statement for the timeshare spin off, our EPS in 2007 would have totaled about $1.51 per share. Assuming RevPAR grows 3 to 7 percent year over year in 2012 and further assuming we complete our spin-off by year end 2011, diluted EPS for 2012 for Marriott International, excluding timeshare, could total $1.48 to $1.68. This means we should exceed 2007 EPS levels even if we see a modest RevPAR growth environment. Our outlook is also substantially ahead of our modeled 2011 adjusted full year earnings of $1.27 to $1.31 which excludes timeshare and the timeshare transaction costs.

While there is a great deal of uncertainty around the economy, there is much we do know. Group revenue on the books is up 7 percent for 2012 and U.S. government per diems are up 4 to 7

percent depending on the market. We'll have to see how special negotiated corporate rates turn out, but our strong book of group business gives us some negotiating leverage. In the August customer survey that Carl mentioned earlier, we also asked meeting planners about their plans for 2012. Two thirds of respondents indicated that their organization will have the same or greater lodging spend next year. As importantly, we see no sign of resurgence in supply growth in the U.S.

We continue to control costs. Operating margins of our company-operated hotels improved in the third quarter and Marriott International's adjusted pretax margin, excluding the impact of reimbursed costs, increased from 17 percent in the 2010 third quarter to nearly 19 percent in the 2011 quarter.

We are excited about the near term launch of Marriott Vacations Worldwide. As the leading pure-play timeshare company in the world with the finest brands, they will have tremendous opportunity for growth going forward. We are excited about being a focused hotel management and franchise company. And we are excited about our continued unit growth and the substantial worldwide growth opportunities for our brands.

We'd be pleased to take your questions at this time. We ask that you please limit yourself to one question so that we can include as many of you as possible.

Question and Answer Session:

Smedes Rose, Keefe, Bruyette & Woods: Hi, thank you. I was just wondering if you could give maybe a little more color around the group booking trends for 2012, kind of what sort of percent of group nights do you have on the books, relative to where you would have been this time last year, and anything on the revenue side that you're seeing? As part of that, we continue to hear despite your opening remarks about Sales Force One, kind of mixed feedback and specifically some concerns around how the system's working in more regional or suburban markets, versus in central business districts, where maybe it's more effective and I was just wondering if you could comment on that.

Arne Sorenson: That's your one question with two parts, Smedes. Let me start with I think the most powerful statistic on group bookings is the one that included in the prepared remarks which is group business on the books for 2012, this is for the Marriott hotels and resorts managed comp hotels, is up 7 percent in revenue compared to the same time last year and that reflects really continued strong bookings. We thought it was very interesting that in period nine, which is largely the month of August for us, group bookings that were made for the next 12 months were up 14 percent from the same period last year. As we all know, August was the month where probably the anxiety in the marketplace turned the most intense. And so we were quite comforted by that activity.

And even as we closed that period nine and closed our third quarter, when we look at the bookings that we're working on that have not yet been made, so we're really talking about the funnel there, the funnel was up over 17 percent from the same period last year. So all of that gives us at least the basis to say that there's no sign that the weakness has shown up yet, and the way companies are acting today, they still seem to be prepared to make commitments for their business going forward.

Carl had some statistics about sales transformation and the pitching and catching. We'll do $150 million to $200 million this year, easily, in business that is pitched from one sales office to a very different market across the country. That's the kind of activity that's made possible by the sales transformation program that we've got. We obviously have just completed on roughly July 1st the roll-out of this program to all of the markets in the United States. There's nothing dramatic that we

can report to you, other than we feel like we're continuing to make progress and obviously it's a big enough change that we continue to talk to our owners about it and we do make some adjustments as we go forward but we're feeling reasonably good about the progress of that program today.

Smedes Rose, Keefe, Bruyette & Woods: Thank you.

Felicia Kantor Hendrix, Barclays Capital: Hi, good morning. Just to stay on this subject, I just wanted to get some more color because your group business was encouragingly better than what STR would have indicated, or did indicate. Your trends are actually robust as well. Would you attribute that all to your sales force transformation, or are there other things that you would attribute that to as well?

Arne Sorenson: Yes, I guess, Felicia, I would say that we feel really good about the bookings going forward, both for Q4 and for 2012, and we think sales transformation is a piece of that. I think it's one of the reasons we feel positive about the way that program is developing. When you talk about Smith Travel numbers for a group, that tends to be more of a paid and stayed measure. I think we're continuing to see that group business in Q3 was weaker than transient business. We think most of that is economic cyclicality. Group business tends to come back a little more slowly, and some of that is the impact of the DC market, where we've got a number of big boxes and obviously that's a little weaker.

Felicia Kantor Hendrix, Barclays Capital: I guess my comment is will you, just on a go forward basis, would you expect you to kind outpace the STR data?

Arne Sorenson: Well, I think there are a couple of things. We would expect that sales transformation will help us take incremental market share, as it gets further and further established and delivers more and more results. I think to some extent, the economic cycle and impact on transient and group business will be a factor we continue to deal with. So in a growing economic environment, transient will tend to grow faster than group. Now, do we have a growing economic environment, and how fast is it growing? You can make that call.

Felicia Kantor Hendrix, Barclays Capital: Thank you.

Jeffrey Donnelly, Wells Fargo Securities: Good morning. I'll try a two-part question in one. On Europe, I was curious what trends you're seeing in intra-Europe travel demand over the course of Q2 and Q3. And in China, related to demand but of a different type, what concern do you have, that there's talk of a bubble in China's development pipeline could cut short your ability to deliver units to that market. Maybe you could tell us how many of the projects in your pipeline actually have a shovel in the ground?

Arne Sorenson: Carl's comments talked about the UK provinces, which I think is the one meaningful market for us, where we've seen some slowdown and we think that's by and large driven by UK government belt tightening. We have only one hotel in Greece, and so that hotel in Athens is not very material to our results. To tell you the truth, I can't really tell you exactly what's happening in Greece, in terms of demand trends in that market. But when we look across the rest of Europe, we actually see a surprisingly strong performance; notwithstanding the incredible newspaper stories we seem to read every day and the rounds of crisis that we've got really coming out of Greece and Spain and Italy at this point.

I think we'll continue to watch Europe carefully as we go forward. I think implicit in the numbers we've got within that 3 percent to 7 percent range next year is relatively more modest growth in

Europe than in other parts of the world. I think a bit of that is their fair schedule which is relevant -- a bit more relevant to the way our business reports there than it is in other parts of the world. I think part of that is just a bit more modest expectations for those economies generally.

China and Asia continue to move spectacularly well. Obviously, they are looking at a residential bubble, particularly in the property space and trying to discern whether they have one and if they do, what to do about it. It by and large is not impacting the pace by which we're taking new hotels into our pipeline in China. The hotels that are in our pipeline of 105,000 rooms are 90 percent under construction in China, some number like that, and will represent the bulk of what we open into mid-2012.

It is the case, though, that often we sign management contracts for hotels which have been put under construction before we have signed that contract. And we are working on dozens of hotels in China alone that we're still optimistic we'll be able to sign here over the next few quarters. At this point it's all systems go for us. I think one of the really positive things about China is notwithstanding the difficulty of the World Expo comparisons which started to hit in Q3, the demand trends in China and much of the rest of Asia are surprising to the upside and don't show any signs of losing momentum.

Jeffrey Donnelly, Wells Fargo Securities: Thank you.

William Marks, JMP Securities: Thank you, and good morning. Hello. I wanted to learn a little bit more about CapEx spending over the next year or so. It sounds as if you are continuing to buy back stock, or use of capital, I should say. Do you expect that to continue, and also, are you interested, or are you going to be purchasing any assets for renovation conversion, et cetera?

Carl Berquist: Sure, this is Carl. I think when you look at our CapEx for next year, the levels of spend, I think we're looking at probably free cash flow or excess cash flow available for stock repurchase, or opportunistic investment of about $500 million to $1 billion. I think if you take into consideration investment activities in 2012 that probably will be up, compared to the levels that we experience in 2011. Some of that is already identified, some of that hasn't been identified yet, but based on our historical trends, we would expect, this year, we're saying $500 million to $600 million. Next year, that number may be moderately higher, leaving us, like I said $500 million to $1 billion of discretionary cash available for share repurchase or opportunistic investment, which may include the acquisition of a hotel or repositioning, or investments in a small acquisition of several hotels, or something like that. Nothing on the table right now, but it's in there, a bit.

William Marks, JMP Securities: Okay, great. Thank you.

Josh Attie, Citigroup: Thanks. It seems like there is some share repurchase included in your fourth-quarter and your 2012 guidance. I know you just talked a little bit about this, but can you explain the funding assumptions? Is it fair to assume that it's all funded with free cash flow, or are you also increasing debt levels to get there?

Carl Berquist: Sure. Well, as we said before, we'll keep our debt levels at a 3 times coverage ratio. We obviously want to stay BBB, that keeps us in the commercial paper markets, we think that's an efficient debt structure, so we'll maintain that 3 times, but with growing EBITDA, obviously, that gives us debt capacity that we can draw upon, but at the same time, maintaining debt 3 times.

Arne Sorenson: Josh, if I can, I think one important point, I've seen this in a couple of the early analyst reports that have come out, but generally, our EPS range that corresponds to that 3 percent

to 7 percent RevPAR growth that we've used is not driven by a material impact from future share repurchases. We have obviously been really active in the market year-to-date with about 36 million shares purchased, and as you all know, the way that math works, we will get increasing benefit from that as we get the full-year impact of those shares being retired. In the quarter, for the quarter, you only get a certain amount of it, and on a year-to-date basis, you don't really get that much impact, so the EPS numbers are really not driven for 2012 by share repurchase activity that has not been done today. Our model tends to assume that we're going to buy stock at valuations which would be significantly above where the market values us today, in part because you don't get the full-year benefit of that. There really isn't much EPS contribution from future purchases.

Josh Attie, Citigroup: Thank you.

Robin Farley, UBS: Thanks, I'll try to get a two-part question in here as well. I wonder if you could talk about what your international margins are, excluding the Middle East, and then also, your group bookings, you mentioned up 14 percent, in basically the year period nine. I'm just trying to square that with some of the year-to-date and previous figures you've given. I wonder if you can say what the full Q3 group bookings that came in during Q3 for forward periods. How much they are?

Arne Sorenson: So let's see, excluding the Middle East and Japan, global margins about…

Laura Paugh: International margins.

Arne Sorenson: …international margins up about 70 basis points compared to that 40. And I think the business booked in Q3 as a whole, group business compared to Q3 of last year was about in that same range of that 14 percent. That 14 percent figure though I used was bookings in our ninth period compared to the bookings in the ninth period a year ago.

Robin Farley, UBS: You're saying all of Q3 was similar to that?

Arne Sorenson: All of Q3 was 14 percent as well.

Robin Farley, UBS: Great, thank you.

Joseph Greff, JPMorgan Chase & Co.: Good morning, everybody. Within your 2012 scenario range, what are your assumptions for incentive management fee growth? What is it that 3 percent RevPAR growth, what is it at 7 percent, and maybe you can help us just think about that geographically, as well.

Arne Sorenson: It's lower at 3 percent and higher at 7 percent. We don't have percentages to give you yet, we're not that far advanced in our model, but I think one of the things, which is, actually stunning, I used some comparisons of 2012, and what it might look like, compared to 2007. I think the likelihood is that we will see total fee performance for Marriott International at or maybe modestly above 2007 levels, but what's happening under that band total is a dramatic increase in the stability of that fee bucket. So if you look back at 2007, I'll have to go check the records to be sure, but I think it was like $369 million of incentive fees, which were a majority in the United States, which obviously have a risk profile which was different from incentive fees outside the United States. And incentive fees had a risk profile which was different from base and franchise fees.

When we look at 2007, we'll see total fees for the Company much higher -- not much higher, excuse me, but roughly the same level as 2007. We'll see the total incentive fee bucket lower in nominal dollars, therefore you've got more stability in the base and franchise fees, and a much higher

portion of the incentive fees that we do have being internationally driven, which are also lower risk. I think you can come up with some assumptions here which shouldn't put you too far off, if you look at base revenue, rooms revenue growth and unit growth, you can make some assumptions about what's happening to the incentive fee line based on those 3 percent to 7 percent scenarios.

Joseph Greff, JPMorgan Chase & Co.: Thank you.

Janet Brashear, Sanford Bernstein: Thank you. Arne, I wonder if you could tell us a little bit about expectations for the corporate rate process. Obviously, it's time to start doing that, and I know you've probably been in discussions, and could you also comment on whether you're pursuing dynamic pricing with some section of your accounts?

Arne Sorenson: Yes, we're very early in the process of our conversations with our special corporate accounts. I think we can say with confidence, rates will be up. I think, among the things that are interesting, I had a look made at September occupancies, and I think basically, what we're seeing is that for the Marriott Hotel and Resorts brand, as an example, September occupancies in 2011 were essentially exactly the same as September occupancies in 2007. That's domestic, that's not global. And I think you can see, when you look at Smith Travel data, and some of the other data which is out there in the marketplace, in many recent months, the U.S. lodging industry is seeing record demand.

What do we mean by that? We mean that our customers for the industry as a whole are buying more total rooms than they purchased in 2007, and I think that occupancy is one of the positive attributes of this round of negotiations with our special corporate accounts. Obviously, pricing will vary by a little bit market-to-market, and where occupancy is higher, we'll have a bit more leverage. To some extent, that will allow us to drive rates within the accounts, and at the same time, beyond that, it will allow us to yield some accounts, where we're bringing in higher-rated special corporate accounts, and probably, in effect, yielding away some special corporate accounts which are not quite as strong.

In terms of dynamic pricing, I think generally, that is not material for us. I wouldn't pretend to be an expert in that. There are a number of different tools obviously, that are used in special corporate negotiations that include such powerful things as last room availability and to what extent that's being provided to accounts, and that's probably a bigger factor in what we're doing now than dynamic pricing is.

Janet Brashear, Sanford Bernstein: Thank you.

David Katz, Jefferies & Company: Good morning. Can we just -- I missed the beginning of Joe Greff's question, but I wanted to ask about incentive fees and specifically, as it relates to some of the resetting of Courtyard's owners priorities, and hopefully that hasn't been asked about. But could you give us just a little more detail on the progress, as to how those are evolving. I know that that has certainly played an important role in how we're modeling your incentive fee recovery over the next couple of years?

Carl Berquist: Sure. This is Carl. I think as you step back, and you look at the incentive fees from the select service brands, primarily the Courtyard brand, a lot of those incentive fees are computed on a pool basis, rather than a property-by-property basis, so you have some large portfolios that computation for incentive fees is done, like I said, on that pool basis. So I think you can assume that it will take a little while for those incentive fees to come back into the money.

In addition, some of the owner priorities were adjusted as a result of the Courtyard refreshing businesses, and therefore, the priority would be increased as a result of that, but probably the bigger effect is the fact that they're pooled with large groups of them. So that's why as you look at the number of hotels paying incentive fees, you have to kind of adjust for these big pools, because one portfolio could start paying, and that could represent 25, 50 hotels.

Arne Sorenson: Or more.

Carl Berquist: …or more.

Arne Sorenson: We haven't done budgets yet for 2012, but I don't think I'm sticking my neck out too far to say that at least some of the largest portfolios of these few first hotels are not paying incentive fees in 2011 and we're not anticipating that they'll pay incentive fees in 2012.

David Katz, Jefferies & Company: Okay, perfect, thank you.

Harry Curtis, Nomura Securities: Good morning. More of a philosophical question on the share repurchases. To the extent that the markets are worried about recession, and your stock has gone down further, do you think about saving more of your dry powder for share repurchases?

Arne Sorenson: Well, it's the ultimate question obviously, Harry. I think when we look at the model we've laid out today, with this obviously fairly broad range for RevPAR, but how the earnings relate to that, $1.48 to $1.68, and you look at a stock which is valued at less than $30 a share today, that strikes us as a pretty compelling valuation, and not one that gives us enormous fear. I think, if we sat here and thought there is a meaningful chance of a significant RevPAR decline, might cause us to feel differently about it, but I think when you look at the absence of any supply growth in the United States, the group business on the books, the modest improvement in government rates which will be a tailwind, as opposed to a headwind, as it has been this year.

I think all of those things give us comfort that we are really still in an early stage of what should be a longer recovery. We'll still a long way from per-room rates that we had in 2007 for many business travelers, and as a consequence, net-net, we think it's a pretty good time to use the capacity that we have, this is -- we're not reaching beyond that, to step out and return some capital to our shareholders and reduce our share count.

Harry Curtis, Nomura Securities: So as a follow-up, you've got another 12 million to 13 million shares in your authorization. Is it simply a matter of collecting the Board to increase that authorization?

Arne Sorenson: Well, yes. We'll increase that authorization when it's time to. The authorization, to some extent, gets a little bit more attention than it deserves because it's a disposable event and it is sort of a specific matter, and so when that happens, we'll of course issue a press release

I think, as we go forward, Carl's talked about this, we will be mindful of the risks that we sense out there, but generally, we'll use the capacity that we have either to invest in our business, or if we haven't done that, to return it to our shareholders. And I suspect we'll see that continue.

Our expectation would be, we will not buy as much in the fourth quarter as we bought in the third quarter. A bit of that is because we're a little bit more levered now at the end of the third quarter than we were at the end of the second quarter, but we'll continue to watch this over time, and we think, even at GDP levels, which are roughly flat in the United States, we could be posting positive

RevPAR growth and positive cash flow, and enough cash flow that probably we'll have the ability to do some share repurchase activity, even in that environment.

Harry Curtis, Nomura Securities: That's great. Thank you.

Bill Crow, Raymond James: Thanks, good morning, everybody. Arne, a question for you on the corporate rate negotiations. I know it's early, and I know you've counted a little bit on it already thus far on the call, but a year ago, you were very vocal about the opportunity to push rates with these corporate negotiations. I'm just wondering if you've gotten feedback thus far from a number of customers that they're looking for rate rollbacks this year. What is the possibility that corporate rates could be flattish or even negative, by the time these negotiations are over?

Arne Sorenson: I think we'll end up positive, but to be sure, our corporate customers read the same newspapers that we all read, and these are negotiated processes, so they will use the risk of slow down in whatever way they can, in order to do the best job they can negotiating rates for their folks, but again, when you look at the occupancy levels, and you look at where rates are compared to where they were before, I think, still net-net, very high probability they'll end up.

Bill Crow, Raymond James: Okay, and then, my follow-up is that, you did mention that you're in the middle of negotiations with Expedia. Could you remind us what the commission rate is today on average with that contract, and if it was 200 basis points lower, what sort of impact would that have?

Arne Sorenson: We will not publish what the commission rate is with Expedia. Our contract with them comes to term at the end of this year. We are in discussions with them about terms of a renewal. I think generally what we can tell you is that some place between 2 percent and 3 percent, maybe about 3 percent of our total business comes from online travel providers including Expedia, but that would include the Pricelines and Orbitzes and Travelocities and others. Expedia probably is in the 1 percent, 1.5 percent, maybe range of our system. All of the OTAs will be more significant in hotels which are more leisure-dominated.

Bill Crow, Raymond James: All right, thanks.

Arne Sorenson: Generally, it's not a huge part of our business anywhere.

Bill Crow, Raymond James: So it's not going to -- the negotiations are interesting, but not going to have a significant impact on your financials next year.

Arne Sorenson: Agreed.

Bill Crow, Raymond James: Okay. Thank you.

Ryan Meliker, Morgan Stanley: Hello. Most of my questions have been answered but I was just, as you think about corporate negotiated rates, I'm wondering, and you talked a little bit about the fact that obviously, you're going to have more pricing power with companies in markets where you have higher occupancy than markets where you have lower and all this makes sense. I think what we're seeing across the industry is that we're seeing a lot more occupancy in primary sub markets, markets like midtown Manhattan versus overall New York, or Center City Philadelphia versus the entire MSA, downtown DC, the District, versus the entire area. Are you seeing companies come back to you and try to push you a little bit differently between the primary markets, primary sub markets and secondary sub markets when it comes to negotiated rates?

Arne Sorenson: I don't know if I know enough to answer it exactly the way you've asked it, Ryan, but certainly, the way the pricing works in these negotiations is there are different rates of growth, year-over-year by market. And so our negotiation with a big special corporate account will talk about how many dozens or hundreds of hotels we might put in the book for their employees, and the rates are going to vary significantly from hotel-to-hotel, based on the strength in that market, and we end up then with an average of those things which we talk about as the increase in special corporate rates.

Ryan Meliker, Morgan Stanley: Okay, great. And then I know you talked about trends kind of holding off and groups doing really well. Are you seeing corporate transient trends hold up through 3Q and through period 9 and period 10?

Arne Sorenson: So far, September has been consistent with our general thematic comment here, which is, we're really not seeing a sign of weakness show up in our business yet.

Carl Berquist: And meeting planners have told us that they expect to spend more in 2012 than they're spending in 2011.

Ryan Meliker, Morgan Stanley: Great, thanks so much.

Carl Berquist: Okay, well thanks everybody, and thanks for the interest in the stock.

Arne Sorenson: Travel safely.

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