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 depth and duration of the current slowdown in the lodging industry and the economy generally; 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

Marriott International, Inc.
Third Quarter 2008 Earnings Conference Call Transcript[1]
October 2, 2008

Operator: Good day and welcome to this Marriott International third quarter 2008 earnings conference call. Today's call is being recorded. At this time, for opening remarks and introductions, I would like to turn the call over to Executive Vice President, Chief Financial Officer and President of Continental European Lodging, Mr. Arne Sorenson. Please go ahead, sir.

Arne Sorenson, Executive Vice President, Chief Financial Officer, and President – Continental European Lodging: Thank you, Jake. Good morning everyone. Welcome to our third 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 we begin, we'd like to express our deep appreciation for the hundreds of messages we've received expressing support following the bombing of our franchised Marriott Hotel in Islamabad, Pakistan. We honor our brave hotel associates and the Pakistani security and aid staff for their incredible efforts to minimize the casualties from this horrible event. The latest information we have is that there were 55 deaths caused by the bombing. While we work hard to maintain security at our hotels around the world and we pray that these events will remain rare, we also firmly believe in the role our hotels play in bringing people across the globe together to bridge cultures and to increase peace and understanding.

As usual, 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, October 2, 2008, 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.

[1] Not a verbatim transcript; extraneous material omitted

So, let's talk about the elephant in the room. We, like all of you, have been closely watching the capital markets and the economy. In recent weeks, we have seen the capital markets dramatically constrict. Like many others, we have a strong sense of frustration about the practices and transactions that created this mess, but without action, the resulting credit squeeze could threaten business in our industry and in many others. There are thousands – maybe tens of thousands -- of jobs at stake in our company alone and we are typical. We urge the ranking members of both parties to work with Secretary Paulson and Chairman Bernanke to develop and enact a comprehensive stabilization plan. While the details are important, it is important that the plan be big…and enacted very, very soon.

Given the extraordinary pace of change and uncertainty, it will come as no surprise that it is extremely difficult to provide much visibility for the balance of 2008, let alone 2009.

But we can start with what we do know, which is that our lodging model is functioning extremely well even in a difficult economic environment, as unit growth offsets comparable hotel RevPAR declines to produce a resilient and substantial base management and franchise fee stream. Our timeshare business, on the other hand, is much more challenged by the financial crisis, impacting our timeshare note sales directly and, indirectly, the appetite of consumers to buy our fractional and whole ownership products in the face of declining real estate values and tight credit. Let's get to the details.

For the third quarter, we reported adjusted, diluted EPS of 34 cents, at the upper end of our guidance, after excluding a non-cash tax item. We were on target with our RevPAR guidance provided a quarter ago, and worldwide company-operated hotels reported RevPAR gains of about 1 percent, or 3.4 percent including the favorable foreign exchange impact.

Limited service hotels were slower due to a mix heavily dependent on weekend consumer travelers and weekday business transient travelers, as well as relatively higher supply growth. As expected, full-service hotels in New York, Orlando and southern Florida benefited from completed renovations and good group business. A few resort markets felt the impact of reduced air lift, such as Hawaii, Las Vegas, and Palm Springs. For our Marriott hotels, group revenue rose 2 percent, despite increased attrition in group meeting attendance as well as slightly higher levels of cancellations.

Outside the United States and Canada, company operated hotels reported 5.7 percent RevPAR growth for the quarter or 13.4 percent including the impact of foreign exchange. Weakening economic conditions, seen in the U.S. since early 2008, are beginning to impact other markets around the world.

In the U.K. and Western Europe, third quarter economic conditions resembled those in the U.S. Russia was better by and large, with our Russian hotels benefiting from the strength of that energy-fueled economy.

On the upside, we continued to see considerable strength in the Middle East, as well as elsewhere in Latin America and the Caribbean, where RevPARs generally increased by double digits. Our South American hotels benefited from strong group and corporate business.

In China, hotels in the Beijing and the nearby Tianjin markets did fine during the quarter, which, of course included the Olympics. But demand in China was impacted by temporary visa restrictions put into effect for the Olympics.

What are we doing to drive business in this environment?

We know we are outperforming our competitors. We've already seen expansion in our RevPAR index. But it's not enough to rely on preference. We need the right tactics to put still more heads in beds.

This quarter we rolled out a nationwide promotion called RejuveNATION, to drive weekend business to our hotels, offering discounts for advance purchases. The promotion leveraged both our size and the Marriott Rewards database. The first day of that promotion yielded record reservation volume on Marriott.com.

On the group side, we've seen a significant shortening of the booking window as meeting planners are waiting… waiting for rates to drop; waiting for a reliable estimate of their meeting attendance; and waiting for budget approval. We've refocused our sales efforts, rewarding both our sales associates and meeting planner customers with incentives to stop waiting and book. While demand is soft year over year, there is demand out there; it just needs to be realized.

Short term group business, largely corporate business, has been hurt by the cost-cutting business environment. So today, it's a share game. And we believe we're winning here, as well. The reorganization of our sales force that began in early 2008 is helping us drive that market share as our sales force focuses on the most value-added customers.

Many of you are interested in the special rate negotiations just beginning for 2009. Not surprisingly in today's business climate, it's very likely that rates will be up only modestly, if at all, but we'll just have to wait to see.

Not everyone is cutting back. At the Ritz-Carlton Central Park, normally filled with investment bankers and their clients, the entertainment industry and diplomats are filling rooms and restaurants now. Other hotels are opening inventory to airline crews, government travelers, AAA and AARP. This business is typically at lower than corporate rates, but it fills a portion of our hotels, enabling the remainder of each property to sell at better rates.

Turning to margins… For company-operated hotels inside North America, house profit margins declined only 130 basis points despite the one percent decline in RevPAR; netting a 4 percent decline in house profit per available room. For properties outside North America, house profit margins increased 80 basis points.

Every hotel has a contingency plan and virtually all hotels have implemented those plans. Cost savings range from modifying menus and restaurant hours, to reviewing room amenities, to imposing mandatory time off and hiring freezes.

We continue to focus on operating efficiencies, such as food procurement, and were able to lock in cheaper energy supplies during the sharp price downswing a few weeks ago. Energy costs in the third quarter were up 12 percent across our North American hotels. In the quarter, energy costs alone drove a 50 basis point decline in our North American company-operated property-level margins.

We've also cut above-property costs by scaling back systems, processing and support areas that are allocated to the hotels so that they are roughly flat relative to revenue.

We opened about 6,500 new hotel rooms during the third quarter. Our development pipeline remains at 130,000 rooms despite a difficult financing environment. Today, more than half of our pipeline is under construction and we estimate another 10 percent or so has construction financing in place, giving us great confidence that nearly two-thirds of the pipeline will open, almost no matter how weak the economy. The significant number of properties under construction gives us comfort in our 30,000 room estimate for openings in 2008 and the 30,000 to 35,000 rooms expected for 2009.

We are starting to see some slowdown in the pace of new development. For example, in the United States, although the number of year-to-date approvals for limited-service franchise hotels are up, domestic franchise activity has slowed over the past few months.

We anticipate fewer new projects will join the pipeline in the coming months and we are likely to see some portion of the existing projects get cancelled or delayed , so we doubt our pipeline will remain at its current levels for long. Longer term, given the financing environment, we would expect U.S. lodging industry supply growth to slow from today's levels by 2010 and 2011.

We should note that in light of today's financial markets, we continue to evaluate projects where we have invested equity, debt or capitalized development costs, but we cannot yet give you any guidance of the P&L impact, if any, that may result from these reviews.

Although our lodging business is performing as planned, our timeshare business has been significantly impacted by the financial markets including the impact of weak residential markets and constricted credit.

In July we estimated our timeshare results would total $230 to $250 million for 2008. We now expect our full-year results to be about $75 million lower. So what happened?

As we look at the third quarter, contract sales at our fractional projects increased due to a good launch at our Lake Tahoe Ritz-Carlton product. The continued solid growth of our Asia Pacific points program is another bright spot. However, on a net basis, we booked no new residential sales during the quarter and contract sales at our core timeshare business declined 12 percent with declines in just about all U.S. and European markets. Cash marketing and selling costs rose as a percentage of lower sales volume. Reduced airlift to Hawaii has constrained performance of our 2 newer projects in that market and permitting delays have deferred closing of some residential sales.

Not surprisingly, fractional and residential sales are the weakest relative to our prior expectations, especially with respect to one joint venture product. In the third quarter we booked a $22 million pretax impairment charge, $10 million net of the minority interest benefit. We evaluate each of our projects for impairment at least once a year and more often if we suspect we may not be able to recover the carrying amount. The charge adjusts the carrying value of this real estate to its estimated fair market value.

Today, the securitization market is meaningfully worse than we have ever seen. But remember, we don’t sell our mortgage notes for liquidity. We sell notes to drive return on invested capital and the quality of our notes is good. Delinquency rates on our U.S. financed loans have risen a bit… from 6.4 percent in March to 6.6 percent in June to 6.7 percent in August, but still showing better statistics than the broad marketplace. This reflects the high credit scores of our borrowers.

Based on these conditions, we now expect full year 2008 results for the timeshare segment to be $158 to $168 million. Compared to our outlook for the business last quarter, in rough terms, we have deferred about $25 million in timeshare note sale gains, $20 million in gains on residential sales, and booked a $10 million net charge from the joint venture project impairment I mentioned earlier, leaving our 2008 outlook only $20 million or so lower for the balance of our timeshare business. Our 2008 estimate assumes flat contract sales in the fourth quarter, a continued soft economy, and no mortgage note sales. Obviously these adjustments are driving nearly two-thirds of the decline in guidance for the company as a whole in the fourth quarter.

We recognize however that timeshare is not a perishable product, so the appropriate response to a difficult climate is to slow development, not cut price. Year-to-date, our gross spending to construct timeshare inventory is down 20 percent from budgeted levels. We’ve been very aggressive cutting timeshare overhead. We’ve closed less productive sales offices and cut overhead throughout the business.

My comments earlier about our lodging development pipeline apply to the timeshare business too. We are evaluating timeshare projects under development and we could see a P&L impact in the fourth quarter from delayed, cancelled or restructured construction projects. Here again, our fourth quarter guidance does not reflect any impact from these decisions or related severance expenses.

We’re pleased to be able to report that our balance sheet is in good shape. Since the end of the third quarter, as the financing environment tightened, we decided it was prudent to draw down about $900 million on our bank revolver to supplement the dramatically reduced liquidity in the commercial paper market. This is only the second time we have drawn under our revolver since the early 90’s… the first time shortly after September 11, 2001. As we wait for improved liquidity in the marketplace, we have ample cushion under our $2.4 billion revolver, which is effective until 2012.

Our lodging notes receivable balance at quarter end was about $200 million, while timeshare note receivables totaled about $575 million, and our guarantees where we are the primary obligor totaled only $320 million. We expect our investment spending to total $1 to $1.1 billion in 2008 but decline to $700 million or so in 2009 and additional reductions are possible. We are revisiting the assumptions behind our spending plans.

Long term debt totaled just over $3 billion at quarter end, relatively flat to second quarter levels. We bought back nearly $90 million in stock during the quarter but given today's environment and our current leverage levels, we've discontinued the buyback. We are appropriately levered today, near our 3.25x debt to adjusted EBITDA coverage target and we continue to be rated "BBB."

Now let's turn to the rest of our outlook.

Given soft transient and weak near term group bookings, we believe fourth quarter North American company-operated RevPAR will decline 3 to 5 percent. While our team has done an outstanding job on cost control, we still expect house profit margins to decline 200 to 300 basis points. In the U.S., full service hotels are likely to continue to outperform limited service hotels.

Outside the U.S., we expect RevPAR and property-level margins to be stronger than[2] in the U.S., but noticeably weaker than year-to-date trends.

While the properties have done a good job on cost control, we are also cutting spending at our corporate headquarters. We've consolidated positions, and made cuts in development, system and support areas, with more to come. We will have some severance expenses in the fourth quarter that are not included in the guidance ranges we are presenting today.

As we mentioned last quarter, our RevPAR guidance is based on a typical 52-week year. In fact, Marriott's fiscal year 2008 ends on January 2, 2009 making this year a 53-week year for us. 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 in 2002.

Looking to 2009, we obviously are faced with considerably more uncertainty than normal given the current global economic and financial climate. At a minimum, we expect business conditions to remain challenging for the full year. In the face of this uncertainty, we are not prepared to provide a forecast as such. In fact, given the calendar, we haven't yet prepared property level budgets. Instead, we will share with you the top line assumptions we are using internally to manage our business and our balance sheet.

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[2] Edited to correct misstatement.

For internal planning purposes, we are assuming at least a 3 percent decline in North American RevPAR in 2009. Of course, RevPAR declines could be more severe. They are unlikely to be better than minus 3 percent. If we assume a 3 percent decline in North American RevPAR, this would likely yield a 250 to 300 basis point property-level margin decline as well.

Outside the U.S., we are even less certain of the future given a typically lower mix of group business. Still, with the continued relatively stronger international markets today, we are assuming flat constant dollar RevPAR for international hotels in 2009. This would also imply a roughly 125 to 175 basis point margin decline.

For some time, we've used a rule of thumb that 1 point of RevPAR was worth about $20 to $25 million of total fee revenue. Given the RevPAR outlook for 2009, we believe the downside risk is a bit less. In 2009, 1 point of RevPAR should be worth only about $20 million of fee revenue.

Our international incentive fees could account for about 70 percent of total incentive fees in 2009. About half of our international hotels do not have to meet owners' priority hurdles before we earn incentive fees, and international incentive fees tend to be widely dispersed. So while our global fee revenues may decline to just under $1.4 billion in 2009, the further downside risk in fees is lessened.

While our lodging business is relatively predictable and holds up reasonably well even with meaningfully lower demand, our timeshare segment is clearly more sensitive to the financial markets and the resulting impact on consumers' spending.

Timeshare deferred revenue totaled about $160 million at the end of the third quarter compared to about $100 million at the beginning of the year. We expect deferred revenue should total about $130 million at the end of this year which should help us a bit in 2009. For planning purposes, we are assuming only $450 to $500 million of note sales in 2009 and only flat contract sales growth. While far from certain, in this scenario, timeshare segment profits could total $175 to $225 million and timeshare sales and services, net of direct expenses, could total $215 to $265 million.

Across the company, G&A spending is expected to be flat to[3] 2008. Running these assumptions through our model implies 2009 earnings of $1.48 to $1.60 per share.

Like you, we are very concerned with earnings per share but in this environment we are also especially focused on cash flow. We are in a fortunate position in that we can pull back on investing activities and share repurchases. This will allow us to keep our balance sheet strong so that we can take advantage of the unique opportunities that may be presented in this market.

As I noted earlier, in 2008, we anticipate investment spending to total about $1 to $1.1 billion, and $700 million or so in 2009 as we pare back gross timeshare spending, new unit capital expenditures and other investing activities. Our internal model shows debt declining modestly by year-end 2009 from roughly $3 billion today.

[3] Edited to correct misstatement.

We have operated in difficult times in the past. We not only recovered from the 2001 recession, but we thrived and emerged a more powerful company. In 2001, Marriott was a player in distribution services and senior living services; today we are a leaner company focused on lodging and timeshare. In 2001, we operated or franchised 2,400 properties under long term agreements compared to more than 3,100 properties today. Our lodging business generated nearly $800 million in fees in 2001 compared to over $1.4 billion expected in 2008, a relatively consistent growth trajectory based on our business strategy of managing and franchising hotels. Similarly, we reported pre-tax income of less than $400 million in 2001, compared to more than $900 million expected in 2008. Over the 7 years since 2001, we were able to repurchase more than 200 million shares of our stock. When we come out of this rough period, we are confident that our growth will be every bit as exciting as it was in these last 7 years.

The accomplishments in the past 7 years didn't just happen. We recognize that our associates and our long-standing culture of service are our most important competitive advantages. It has been the result of our associates' tremendous efforts that we have performed so well. Going forward, this environment will undoubtedly offer some terrific opportunities and we expect our people will be there to seize them. And despite the sober tone of this quarter's call, we're not standing still. We never do. For example, we continue to reinvent and redefine our brands, such as Courtyard, which celebrates its 25th anniversary this month. We have a short video describing some of these efforts that will be linked to these prepared remarks, which we will post on Marriott.com/investor a bit later. This period of difficulty will abate over time, and we will emerge an even more powerful company.

As I close out this quarter's prepared remarks, there certainly remains a good deal of uncertainty – about the economy and its impact on our business. While we may not know what tomorrow will bring, we are confident – and optimistic – about our future. Thanks very much and I'll be happy to take any questions.

Question and Answer Session

Patrick Scholes, Friedman, Billings, Ramsey: Hi; good morning. I know certainly with your limited visibility, my question may be difficult to answer. But can you just give us a little bit of breakdown how your bookings are looking for groups, as far as RevPAR? And what – if that's about 40 percent of your business – what have the RevPARs been for the other part, the transient business, especially in the fourth quarter coming up and the first quarter of next year?

Arne Sorenson: Yeah. Probably the best indication on group business is bookings for 2009. We've got, for the MHR – Marriott Hotels and Resorts brand – we think about 40 percent of that brand's business is group. You'll recall a quarter ago we talked about group RevPAR for that brand being up about 4 percent and change, 4 to 5 percent, someplace in that range. When we look at it now at the end of the third quarter, it's flat. So you can see there an impact of declining strength in the group business, as we look forward for 2009 from quarter to quarter.

About half of that decline is the pace of new bookings. And about half of that decline is attrition. Now by attrition what we mean is, that's our hotels reducing the estimated size of the groups that are already on the books to show up for next year.

C. Patrick Scholes: Okay.

Arne Sorenson: So group is clearly trending down. What we're seeing is our group customers, we think, still committed to holding their events but deferring final commitment to booking it. Not terribly surprising in the sense that there's a bit more uncertainty for everybody going around. And they think – there's probably less reason for them to have to rush than they might have thought a year ago certainly. Net-net, we think a bit over half of our group business for next year is fully on the books.

When you look at transient and leisure, you see the kinds of trends you'd expect. I don't think there's a category of business that we can look at and say is strong at the moment. I think we see weakness in corporate transient. We've seen weakness all year in leisure transient. We are seeing some mix shift in our hotels, which is helping us – talked about that in the prepared remarks, where we're going after some contract business or some discount business, which in effect allows us to shrink a hotel and preserve stronger rates in the balance of the hotel through our corporate business and the like.

C. Patrick Scholes: Thank you. Just one question on timeshare. Just trying to get a better understanding of how quickly the underlying demand is slowing down. One metric that we've used is tour flow, the number of tours given. How has that holding up, and what are your expectations for '09 on the number of timeshare tours?

Arne Sorenson: Yeah, tour flow, actually, has maybe been the brightest spot – flat, maybe even up a little bit. Closing percentages, so the number of those visitors that we convert, is probably down about a point and a half. And, in percentage terms, that's 7, 8, 9 percent decline in closing from a year ago. And so that's really what driving the – it's probably the best indication of the weaker demand.

C. Patrick Scholes: Okay. And is there more marketing spend to get that tour flow there?

Arne Sorenson: There are fewer dollars being spent, but because the volume is down in percentage terms, it's up.

C. Patrick Scholes: Okay. Thank you.

Joe Greff, J.P. Morgan: Good morning, guys. You talked about some decisions from your owners and franchisees to delay or cancel might lead to write-offs of investments. At the end of the third quarter, what was your aggregate, all-in investment, in the pipeline?

Arne Sorenson: Oh, that's a good question. I don't think I can give you that. The categories of investing we have run the gamut, right? So we have a few places where we probably own a piece of land that our intention would be not to proceed with a hotel until we've got an owner and financing for it so we can really do it in a way that's consistent with our model.

The most dramatic example of that, which we've talked about over the last year or two, is the assemblage of land we put together in Las Vegas. And so we've got a quarter of a billion dollars or so invested in that project alone on our balance sheet. There are three operating hotels on that assemblage of land, and they're providing a cash return to us that's relatively equal to our cost of carry. So in a sense, that could be a whole lot worse if we didn't have those performing hotels.

But it goes from there to some cash investments we've made in some of our partners' projects where we maybe don't own the land or don't have anything sort of consolidated, if you will, on the balance sheet, but we might have some key money or a loan that we funded with respect to one of our partners' projects. Those are relatively few in number. And then we do have some capitalized development costs for projects that are developers, and we spend money on lawyers and designers, and other things – where we may not own a piece of land, we may not own anything, but we've got some capitalized development costs on the balance sheet.

I'm sure in the aggregate, the total of that is a few hundred million dollars. Most of those projects are quite well baked and will proceed. And every quarter we look at those projects – not just in this coming quarter, but every quarter we look at those projects to have some view about whether or not they're going to continue to proceed.

The warning here, and obviously the financing markets have deteriorated dramatically very recently – and there will be some impact of these financial markets on those projects. And our partners will decide, maybe they will have some hope that they will continue some of these projects, but we know of at least a couple where draws on existing debt facilities have not been forthcoming and construction has stopped. And there are others undoubtedly that are less prominent, that will deteriorate over the quarter. And some of that will lead to some cancellations, and with it, whatever we've got on the balance sheet for them.

Joseph Greff: Okay. Great. And then, you talk about new room openings on a gross basis. As you look out, do you think the gross and the net numbers approximate each other a little bit better today than the relationship from the last couple of years? So you have a lot less attrition and stuff coming out, whether it's by design for quality assurance reasons or for other reasons?

Arne Sorenson: Yeah, I think maybe a bit. I mean, I think the right assumption – we talked about 30,000 to 35,000 rooms opening for next year, that's up a bit obviously from 2008. And that's really a function of that pipeline that's under construction. I think the right assumption is about 5,000 rooms or so of deletions from our system. And I would use that as a sort of multi-year expectation. We could have a bit less than that in some years; we could have a bit more than that in some years.

Our experience certainly over the last number of years is that the overwhelming majority of our deletions are hotels that are not only towards the bottom end of our quality, within their brands, but probably at the very bottom end of their contribution to our economics. And occasionally you'll have a story which is an exception to that. But I suspect that that will continue. They will be hotels that need more capital than maybe can be justified based on their own performance. And that causes us, and/or the owner, hopefully working together, to say it probably ought to have some form of different branding.

Joseph Greff: And then one final quick question. As you look to next year domestically or in North America, is your expectation that that full service continues to outperform limited service, or do you see the comparisons as such that limited service outperforms full service?

Arne Sorenson: No. We would expect, at least until we get to an inflection point, that full service will outperform limited service.

Joseph Greff: Great. Thank you, gentlemen. Thank you, Betsy.

Sule Laypan, Barclays Capital: Hi there. Just wondering – good morning. At what point of RevPAR decline does that sensitivity to fees you provided no longer apply?

Arne Sorenson: Well, the only good news about these negative numbers is the farther negative you go, the fewer dollars there are per point. And that's why we've gone from about 25 or so, probably even a little bit more than 25, in 2008 to something more like 20. And maybe it's a hair under 20, based on a minus 3 percent RevPAR base scenario in 2009. We think that $20 million is the right rule of thumb for sort of the foreseeable sensitivities you might want to run on that. But again, you can at least theoretically say if you went a lot south of that, you would see that that number begins to approach about $10 million.

Sule Laypan: Okay. Thank you.

Chris Woronka, Deutsche Bank: Hey; good morning. Can you guys maybe talk a little bit about how you're – as an operating company – how you're approaching the room rates? Because – I guess the shorter question is, how do you look at room rates for '09, and why might it be different this time around? Do you have better control of your inventory? Just how you're thinking about that, and maybe what you're seeing from some of your less rational competitors on the pricing front. Thanks.

Arne Sorenson: Yeah, those are good questions. I think there are some very important differences now versus heading into really the first and second quarter of 2001, when we started to see weaker economic demand. One, we are probably a bit more oligopolistic of an industry, and therefore the number of players in our industry are – that are longer term in focus probably control more rooms. And as a consequence they're probably by temperament less inclined to chase occupancy by dramatically moving rates.

The second thing is I think our relationship vis-à-vis the various channels that sell rooms has changed meaningfully. In 2001, we had a number of new online intermediaries particularly, who had good marketing teams out there and managed to go and convince many participants in the industry to give up effective control of the pricing of their rooms. And they did that by essentially taking rooms on consignment and reserving for themselves the ability to price it at whatever level they wanted to, and to do so in a transparent way. So suddenly you had somebody out there who really just wanted to sell it and didn't care about the long-term consequences on rates, which had an impact on the pricing integrity for the balance of the hotel.

That's changed too, dramatically. You look at the Marriott system. Essentially we are philosophically committed to selling rooms however our customers would like to buy them, including on third-party intermediary Internet channels, but with our Best Rate Guarantee, which applies to all rooms sold no, matter what the channel. We've got integrity across those pricing areas and have the ability to in essence make sure that those channels are not dumping our rooms at prices which compromise the pricing on the balance.

Having said that, we are still an industry that has thousands of players who are involved in pricing room product. There will always be some number of those players who have relatively shorter-term focus or relatively more pressure on their financing, and as a consequence, it will be more expensive for them to let rooms go down dark on a night. And so they will cut prices. It's the simplest way to chase business.

And just as we've seen in the industry statistics that have come out this year, the longer demand works, the more pressure there will be on rate. And so we've gone even – you can plot it pretty steadily from basically December of 2007 until today, with demand year-over-year either growing at lower rates than supply or declining in absolute terms. And as that has built and – it's sort of maintained over time, you see rate performance year-over-year more and more modest and approaching flat as we speak.

Chris Woronka: Great. That's helpful. And just a follow-up. We were relatively impressed by the margin performance given the RevPAR decline. What inning are we in on the cost cuts, and is it something that's sustainable? Or is this quarter more of kind of the low-hanging fruit quarter, as we look forward to 2009?

Arne Sorenson: Maybe we should go away from the baseball metaphor since it's what we talked about for RevPAR for the last number of years. Well, thank you for the comment on the third quarter margins. We think they were impressive too, particularly when you think about 130 basis point negative impact on margins in the U.S. 50 basis points of that was energy alone. So if you back out energy, you end up with a pretty powerful story, we think.

We're not going to give up, and we'll keep pushing every idea we can to get further efficiencies around procurement, around staffing, around every idea we can come up with. But it's going to get harder and harder. We have talked about this before. But we think we managed through focus to drive margins back to nearly the levels they were at in 2000, by the year 2007.

We don't think our competitors are anywhere close to that. And we've done it through every tool that we can use, but having used those tools, they get harder and harder to use going forward. That's baked into the guidance that we've – or the internal forecasts, planning purposes, that we use for next year and for the fourth quarter with those margin sensitivities. We think that's achievable, but we think it's going to be hard to do much better than that.

Chris Woronka: Okay, great. Thanks.

Will Truelove, UBS: Hey, I've got three questions. The first question is, you talked about the slight increase in default rates on the timeshare side. Are you increasing your provision for losses, which would be a contra-revenue item for your revenues in timeshare?

Arne Sorenson: Every quarter we look at marking to market the residual value of the notes that we've sold. And there's some complexity to this because we're looking not only at delinquency rates, but we're looking at average tenure of loans, forecasted tenure of loans. Generally the longer a loan is outstanding, all other things being equal, the more valuable it is to us. So while we have maybe some increase in delinquency in this market, we also have some expectation that we would see the loans be outstanding a bit longer and therefore our residual interest more. The short answer is, those and many other factors go into our quarter-to-quarter, mark to market of those residual interests, and they are coming through our reported results.

William Truelove: So are those mark to markets getting worse or better for you from a GAAP perspective?

Arne Sorenson: They're not very dramatic.

William Truelove: Okay.

Arne Sorenson: This year they've not been very significant.

William Truelove: Okay. The second question then is, you talked about the deferred revenues being 160 million at the end of the third quarter versus 100 million at the end of last year -

Arne Sorenson: Yeah.

William Truelove: – and 130 this year. When you were giving that top-down kind of outlook for timeshare next year, are you moving around your deferred revenue amounts throughout the year, or are you assuming a constant amount of about 130 million?

Arne Sorenson: I think we're agnostic on that point. I don't think any part of our 2009 forecast is focused yet on what kind of deferred revenue we'll see over the course of that year. We give you that statistic only because while 130 is a bit better than 100 million, it's not dramatic. It's not as if we're sitting on hundreds of millions of dollars of deferred revenue as we head into 2009.

William Truelove: Yeah, I was just wanting to make sure when we're talking about the timeshare outlook, it's not because of a major increase in deferred revenues, right?

Arne Sorenson: Correct.

William Truelove: It's just – okay. A slight one. And then my third question is, you mentioned about how things were a little bit different this time around in lodging versus last time. And you mentioned that you're a leaner company without MDS and senior housing, but obviously now you've got the timeshare. So can you talk to investors today about why timeshare fits your company much better than did Marriott Distribution Services or Marriott Senior Living? Why this sort of works given the volatility we see on the income statement, versus the volatility those other divisions created on the income statement?

Arne Sorenson: Yeah. I can't add…That's a great question. And it's like night and day, I think, in our view. The distribution business was essentially an unbranded business. Didn't make any difference whether the Marriott brand was on trucks driving ketchup around or somebody else's brand was on it. And the expertise there was all about logistics and things which we had a team that could do. But those expertises had very little to do with what we were doing in the core of our operating businesses.

The Senior Living business was a business that we think branding made some difference, but the customers were maybe occasionally the customers who would be the same as our customers in hotels. But by and large, it was not a business that was focused on our hotel customers. It was a place that we got into because we thought the connotations of our brand name, about reliability and good service and property management and those sorts of things, would translate into what we viewed as a sort of a seniors-focused hospitality business. I think as we got into it, we discovered it was increasingly a health-care business, and as a health care business you end up with a very different risk profile. Exposing the same brand that's involved in lodging and timeshare to that kind of business didn't seem to make sense. And so in short there weren't really any synergies at all between those two. And so we could exit that business without it – it much better belonged with somebody who was focused on that.

The timeshare business and the lodging business are in fact focused on the same customers. And the brand has tremendous synergy because you've got resorts and timeshare facilities that are often located next to each other. They can be run together. We use Marriott Rewards heavily in the process of both marketing and serving our timeshare customer. We know that our timeshare customer becomes a better hotel customer once they've bought that timeshare. And the brand translates wonderfully. So that's why we're still in this business, and that's why we are so convinced that great value can be made.

Having said that, we're obviously disappointed in the way this economic market has walloped our timeshare business. That is – it's partly about financing. It's partly about residential and fractional. But it's also weaker consumer demand and how that's impacting timeshare. And it's been obviously a pretty significant decline in our expectations around that business. We will be focused mightily on driving the results better. And we remain confident today that when the economy turns, we will produce great returns from this business. If there ever comes a time when we don't have that confidence, we'll have to address that. It'd be a huge factor.

William Truelove: Thanks, Arne.

Bill Crow, Raymond James: Good morning, Arne and Laura. Let me follow up on Will's last question just a little bit. I mean, earlier this year you hosted the analysts meeting focused on timeshare and reaffirmed not only the commitment but the intent to grow that business. Has that wavered at all? I mean, I understand the benefits you see there, but the valuation being attributed to it is awfully low these days. And the capital it uses is pretty significant. So have you guys backed off at all?

Arne Sorenson: Oh, sure. Yeah. I mean we talked about gross timeshare spending down 20 percent against budget so far this year.

Bill Crow: I guess I'm talking longer term. Whether it's maybe less of a part of the Marriott strategy going forward?

Arne Sorenson: Well, I think it's too early to really have a different perspective on this business. Obviously what we've experienced so far is disappointing. And as a consequence it doesn't make it easier, and it's a whole lot harder to get out here and extol the virtues of the synergies across these two businesses.

But having said that, we are wrestling with historically negative environments. Environments that we haven't seen for a long, long time. And I don't think we're going to, in a matter of months, react to those environments and say, "The sky's falling and we've got to move." I think we're going to have to watch it over a sustained period of time. I think if the capital markets don't rebound and we end up with a building timeshare note sale portfolio that is not just about not doing the fourth quarter note sale but it's about a number of quarters or maybe a number of years of not selling that, that is a big change to the capital intensity of the business that by itself will be something we'll have to wrestle with.

Bill Crow: Yep.

Arne Sorenson: But none of us, I think, want to overreact to today's market. We are very much reacting to today's market by scaling back dramatically the spending we're putting into this business. But we're not going to throw the baby out with the bathwater.

Bill Crow: All right. And you led me into my next question, which is, at what point do you extract from your guidance – or your framework, I guess, that you've presented for '09 – the timeshare note sales gains? I mean, if we're at a similar point with the capital markets when you report in January-February, will you at that point – at that point we take it out of the earnings or do you have a sense for that yet?

Arne Sorenson: If the capital markets are as bad in February or March as they are today, I suspect there's no reason why we wouldn't take at least the second quarter deal out of our guidance. That would be stunningly bad.

Bill Crow: Yep. Yep.

Arne Sorenson: And I think that's the wrong bet. We've got well over a decade of experience in selling these timeshare notes. There is no part of our timeshare note transaction which depends on the kind of frothy markets we saw in 2006 and early 2007. So our guidance doesn't need us to get back to some bubble-like credit market. We need to get back to a more normalized environment like the one we saw five years ago. And if we get there, I think the odds are there's as much upside as there is downside in the timeshare portfolio. We could maybe sell a bit more notes than we've got modeled. We could maybe have a bit more gain.

Bill Crow: Fair enough. Two quick questions here, Arne, then I'll cede the floor. Are you doing anything to hedge the dollar change as we look forward and how that could have a real negative impact, I guess, next year, kind of reversing the positive impacts we've seen?

Arne Sorenson: Yeah, we typically would hedge, oh, maybe three-quarters or so of our expected Euro/Pound/Canadian dollar cash flow. They're highly liquid currencies and relatively easy to hedge. I think as we sit here today we've probably hedged about half, maybe 40 percent -

Bill Crow: Okay.

Arne Sorenson: – of next year's cash flows in those three currencies. I can't tell you precisely what exchange we've hedged at. I know we locked in a bunch very, very recently on the Euro when the exchange popped back up to 1.47 or 1.48 in the last couple of weeks. I think we're about 1.40 yesterday. I don't know what the currency markets have done today.

Bill Crow: That's helpful. Then finally, you talked about the pipeline ultimately shrinking, which seems like it has to happen in the financing environment. Is that going to shrink outside the U.S. as well, or what are the trends there? Are they having as much financing difficulties as we're experiencing here?

Arne Sorenson: Oh, you know, it's a big world out there. I think the U.K. and Europe are the most like the U.S. – the U.K. particularly. There's not much of our pipeline which is in the U.K., where we've got broad distribution. I can think of a handful of hotels, but not thousands and thousands and thousands of that 130,000 room portfolio.

You get to the Middle East, you get to Eastern Europe, you get to Asia, capital markets are stronger. The capital financing approach, I think, becomes increasingly different. A lot of equity going in. A lot of land value going in. And as a consequence we would expect there to be less near-term threat there. Having said that, the capital markets are global in nature. We are seeing banks under pressure all over the place, including some in India. So this is spreading, and that's not going to be good news.

About 65 percent, I think, of our full-service pipeline is outside the U.S. in that portfolio, which is probably an historic high. That gives us a bit more confidence that those rooms will continue to open.

Bill Crow: Great. Appreciate your insights. Thanks.

Jeff Donnelley, Wachovia Securities: Good morning, Arne. I just want to reiterate our condolences for the loss of your associates.

Arne Sorenson: Thank you.

Laura Paugh: Thank you.

Jeffrey Donnelly: It seems fair, obviously, based on your comments, to assume that 2008-2009 period is probably – certainly a peak for your new-build unit growth, as a result of the construction lending market. But I'm curious how aligned are conversions on financing? Do they often come in hand with hotel sales or is a change of ownership not typically the norm in a rebranding into Marriott.

Arne Sorenson: No, change of ownership is the best time to accomplish a conversion. Part of that is that's sort of when whatever financial pain has got to be taken gets crystallized. Part of that is a function of human nature. When you got a buyer stepping in and taking a new hotel, they are often convincing themselves that the asset is worth more than the seller – by definition, because they've got a different plan for it. And that different plan often includes brand conversion.

So the biggest conversion opportunities will occur when we start to see some trades occur again in the industry. I think if you look at the statistics, existing hotel sales this year are down 80 to 85 percent from levels of last year. And that's the case even if you back out the big M&A style transactions. You just look at run-of-the-mill trades of existing assets, and they're down massively.

I suspect that as we get closer to maturity of existing debt on hotels, we'll see that transaction volume start to step back up. That's probably not until the second half of next year, we would guess, at the earliest.

Jeffrey Donnelly: Does Marriott have an effort, or do you guys have experience, maybe even working with lenders out there, for example, banks and et cetera, that might be taking possession of assets over the next few years that you can step in and maybe asset manage or help them through issues?

Arne Sorenson: Well, yeah, and I guess your question highlights another area where there is some opportunity. We have – I know we've got at least one conversation in discussion, which is about a luxury hotel which was slated to have a different – one of our competitors' brands on it, and it is in trouble from a financing perspective. It's not in such trouble that it will get killed. It will still happen. But the folks who are stepping in with new financial participation in that project are very interested in seeing that convert to a Ritz-Carlton project. That's not a hotel that's open yet, but it's opportunity that presents itself even short of the sort of existing conversion, if you will, that we talked about a moment ago.

We're obviously involved significantly through our partners, but meaningfully involved, with the participants in the capital markets as it relates to financing hotel assets. There's a lot of fluidity, there's a lot of search for pricing, and understanding about value in the business today. But there are lots of conversations about where are the opportunities. Are there opportunities to pick up debt on existing assets or projects under construction that give us some opportunities with our partners to explore that stuff? And we will look at all of those things.

Jeffrey Donnelly: I know I'm asking you to look into your crystal ball, but if you assume that your unit growth overall is going to be declining, I guess, in future years, would you expect then beyond say 2010 though that the composition of that pipeline is going to increasingly shift more towards conversions? Because new builds likely just aren't going to have the construction financing in the near-term?

Arne Sorenson: Yeah, I think we will see healthy growth out of our development pipeline in 2009 and 2010, probably full-year. I think particularly the full-service hotels slated to open in 2010 are overwhelmingly under construction and financed today. You start to get to 2011, and we're going to end up being more dependent on conversion activity. And we'll see. I think the last cycles have told us that the new build will fall a few years after the operating peak, if you will. Conversions step in reasonably well during that period of time. Our net unit growth probably reaches its lowest point in the year or two after recovery has well begun, by which point RevPAR and margin growth often provides as exciting fee growth for us as the new unit growth would. And then you get beyond that and you start to see the pipeline build again.

So while I think you could say that 2009 may be – it might even be a 12-month period that bridges 2009 and 2010 – will be this cycle's peak of new-built hotel openings, it is by no means the all-time peak. And we'll see that cyclicality will bring us back some strong growth, particularly global growth, when we get beyond that.

Laura Paugh: Jeff, if I could add to that as well. In the 50 years that Marriott's been in the hotel business, we've always had unit growth every year.

Jeffrey Donnelly: That's great, thank you. And if I could just ask just two quick last questions. Can you give us any color on the default rates by vintage or year of origination of those timeshare loans?

Arne Sorenson: No. At least not sitting here, we can't. I wouldn't expect that there will be a lot of difference. I think if you look at them for sort of comparability purposes, obviously the most likely time we're going to see a default is relatively early. Because after the customer has been servicing that debt for a couple of years, the loss if they would let that go becomes correspondingly greater. But if you look at that performance – I don't think you'll see it's dramatically different.

Jeffrey Donnelly: And where are default rates overall on your paper? I'm sorry; did you say that earlier?

Arne Sorenson: Only the delinquency rates that we're seeing: 6.4, going to about 6.7 percent.

Jeffrey Donnelly: My last question was on international incentive fees. I think you said they accounted for 36 percent in '07 and I think upwards of 70 percent next year. Do you have a figure on where you see that for 2008?

Arne Sorenson: For the full year, 2008?

Laura Paugh: In the third quarter, we were at 70 percent.

Arne Sorenson: Yeah.

Carl Berquist: Incentive.

Laura Paugh: Incentive fees.

Arne Sorenson: Incentive fees.

Laura Paugh: Incentive fees, excuse me.

Arne Sorenson: I would think we're going to be in the – more like a 50 to 60 range. But we ought to get an accurate number for you back on that. I think the first two quarters were well below 70 percent.

Jeffrey Donnelly: Okay. Thank you.

Arne Sorenson: All right. One more question, Jake, if you got anybody left.

Will Marks, JMP Securities: Thanks. Good morning, Arne and Laura. I had a question on – you gave some indication of next year in terms of RevPAR growth being better, I guess, from full service than limited service. Can you be more specific, especially with regard to luxury?

Arne Sorenson: Yeah, I think luxury will be interesting. Now, a reminder: We don't have our budgets together yet. And we really mean for our comments about 2009 to not be guidance so much as a way for you to look at how we think our business will perform under an assumption, which we think is obviously within the realm. We think it's a relevant assumption to make, but it's not the only way things could go. And without having rolled our budgets together, the comments about full service doing better than limited service are basically based on trends, based on the group business in hotels, which should help full service generally.

When you get to luxury, there is an advantage because of group business. But there is a disadvantage because more of that group business depends on the financial markets. I suspect financial contribution to the luxury Ritz-Carlton – typical Ritz-Carlton hotel compared to a typical Marriott hotel is probably twice as much. So maybe its group business is 10 percent finance in the Marriott hotel, it might be 20 percent finance for a Ritz-Carlton hotel. That won't surprise anybody. We would guess at the moment that that's going to be the hardest-hit segment of our customers that are out there. You can hardly keep current on the business cards, let alone booking that business.

So I would guess luxury will be weaker than the rest of full service. Whether it's weaker than limited service or not, I think we've got to wait until we go through our budgeting. And I think to some extent that may depend dramatically on the individual market you're talking about.

William Marks: Great. Okay, thanks. And one other, just very general question. And I won't ask anything else after this. Just on supply. Every company seems to say there's new supply, but it's not going to impact us as much. And some say that it's mostly limited service, and some say it's just not in our market. Any general thoughts on that?

Arne Sorenson: Well, supply in historic terms is not that remarkable. You're talking about supply growth this year of 2.5 percent, maybe something like that. It's a bit over the long-term averages, but it's nothing like the 4 percent-ish supply growth we saw in the late '90s. As demand weakens, obviously from a same-store perspective, everybody would like for supply to be zero, or lower, no matter how low it was. So I think one of the reasons you hear the kind of optimistic comments you hear is that quite fairly supply is not the threat today that it was before.

Now, having said that, any supply growth in an environment with weaker demand is relevant. The supply growth has been the strongest in the upscale without food and beverage sort of segment. That's Courtyard and Hilton Garden Inn and Hyatt Place and those sorts of brands. Courtyard is a fabulous brand; it's a great return for our franchisees typically who are building these things. They love it. They've got expertise in running it. They're relatively low risk. That's why you've got that kind of supply growth there.

But not surprisingly, you see because of that, those are the segments which are posting probably the most modest RevPAR statistics. And they will suffer a bit more than some of the other segments will next year because of that. But it's a segment that has grown very well, much better than any other segment over the last decade, because it offers a pretty interesting value proposition to the customer. And as it grows, it'll put more pressure on some of the other segments, which have been shrinking over at least the last 10 years, particularly mid-scale with food and beverage. And we'll see that decline.

But I think supply is relevant, obviously, to RevPAR. It's not a huge factor, and it's not – we're quite sanguine that when demand starts to recover we will quickly gobble up the kind of supply growth that the industry has seen and post some pretty impressive RevPAR numbers when we come out of it.

Jake, we're going to close the call. Thank you all very much for your time and interest this morning. And as always, we encourage you to keep traveling.

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