Note: This document contains "forward-looking statements" within the meaning of federal securities laws, including RevPAR, profit margin and earnings trends, estimates and assumptions; statements concerning the number of lodging properties we expect to add in the future; our expected cost savings, investment spending and share repurchases; and similar statements concerning anticipated future events and expectations that are not historical facts. We caution you that these statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including the depth and duration of the current recession in the lodging industry and the economy generally; supply and demand changes for hotel rooms, vacation ownership, condominiums, and corporate housing; competitive conditions in the lodging industry; relationships with clients and property owners; the availability of capital to finance hotel growth and refurbishment; and other risk factors identified in our most recent annual or quarterly report on Form 10-K or Form 10-Q; any of which could cause actual results to differ materially from those expressed in or implied by the statements herein. These statements are made as of the date of this document, and we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Marriott

Marriott International, Inc.
First Quarter 2009 Earnings Conference Call Transcript[1]
April 23, 2009

Operator: Good day and welcome to this Marriott International first quarter 2009 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: Good morning, everyone. Welcome to our first quarter 2009 earnings conference call. Joining me today is Laura Paugh, senior vice president, investor relations; Betsy Dahm, senior director of investor relations and Carl Berquist, our new executive vice president and chief financial officer as of May 1.

Carl's deep experience, including 28 years with Arthur Andersen, as well as his most recent responsibilities here at Marriott for the past 6 years, position him uniquely well to lead our global finance team. Welcome and congratulations, Carl.

Today, Carl and I are going to talk about the first quarter and our ongoing business trends and strategies. We want to leave plenty of time for your questions, so let's get started.

As always, before we get into the discussion of our results, let me first remind everyone that many of our comments today are not historical facts and are considered forward looking statements under federal securities laws. These statements are subject to numerous risks and uncertainties, as described in our SEC filings, which could cause future results to differ materially from those expressed in or implied by our comments. Forward looking statements in the press release that we issued earlier this morning, along with our comments today, are effective only today, April 23, 2009, and will not be updated as actual events unfold. You can find a reconciliation of non-GAAP financial measures referred to in our remarks on our web site at www.marriott.com/investor.

Economic conditions in the U.S. and around the world remain very difficult, as clearly reflected by our first quarter RevPAR statistics. At the same time, there are mixed signals across the broader economy. On any given day, we see a range of news. The Fed reported last week that the economy continues to drop, but five of the 12 Fed districts said that the decline was lessening – even stabilizing – in some regions. This week, leading indicators fell and other experts predicted the

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

recession would last through the summer. And of course job losses are widely expected to continue in the near term.

As we've discussed before, our industry typically lags heading into a downturn and to recover. So we're obviously far from being out of the woods. However, there are some initial signs of demand stabilization – even if at today's very low levels. We've seen gross booking trends for transient travelers flatten during the first quarter, and new group bookings, while still declining, are doing so at a lower rate. Of course while demand may have bottomed, there is still risk in pricing, and therefore, RevPAR.

As you can imagine, it remains exceedingly difficult to predict future results in this environment. Still, even given the murky outlook, we all must evaluate the trends and take action, and we are doing just that. We outlined our near-term strategies last quarter. First, we continue to aggressively manage our balance sheet and our cost structure to meet whatever challenges may present themselves. During the quarter we reduced our debt[2] by about $150 million and expect to reduce debt by $600 to $650 million in full year 2009. We raised nearly $200 million from the sale of timeshare notes during the quarter. We've reduced our investment spending forecast and won't be contributing incremental capital into hotel transactions unless we see truly compelling economics. We believe our success in preserving cash and protecting our investment grade rating today will result in earnings growth long-term.

We're also proud of our success in reducing administrative costs and protecting margins for our hotel owners while preserving jobs where we can, which is especially impressive considering the RevPAR declines. In fact adjusted G&A was down 16 percent during the first quarter and we expect it to be down roughly 20 percent for the full year. Teams at headquarters and our managed hotels cut expenses during the quarter, which helped house profit margins decline only 340 basis points despite an 18 percent worldwide company-operated constant dollar RevPAR decline. We believe that this hard work, along with our compelling RevPAR index, has encouraged interest of owners and franchisees in converting hotels of competitor brands to one of ours. And we still opened 8,800 new rooms during the quarter.

At the same time, we realize our owners and franchisees are facing challenges. So, in addition to cost controls, we are deploying an array of revenue generation tools and strategies, optimizing our previous investments in systems, to drive incremental top line results and capture greater market share. We're also relaxing some brand standards for hotels and capital expenditure guidelines for new initiatives and renovations.

These steps have already improved our position in the short run, and we believe they will enhance our ability to seize new opportunities and prosper over the long term as well.

But before we get there, I'd like to turn this over to Carl to talk a bit more about our first quarter results and our expectations for the future.

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[2] Intended to say, "During the quarter we reduced our **net** debt by about $150 million…"

Carl Berquist: Thank you, Arne. And welcome to all of you. I'm excited to be here and look forward to working with those of you in the investment community through this challenging environment and even more so, in the recovery to come. Let's get right to the details.

Adjusted diluted earnings per share totaled $0.24 for the quarter compared to our guidance of $0.13 to $0.15. We booked about a 4 cent gain by purchasing our public debt at a discount, but solid cost savings drove outperformance elsewhere… lower general and administrative costs gave us 2 cents; and property cost savings drove a penny each for our incentive fees and our "owned/leased/corporate housing and other" lines. An additional 2 cents of our outperformance was related to higher timeshare financing income and a reversed sales reserve associated with our note sale.

The most gratifying aspect of the quarter was witnessing the team at Marriott pitching in together to make the business work despite the economic climate. Our sales and marketing experts leveraged Marriott Rewards, Marriott.com and strategic relationships to launch significant, new revenue generation programs and promotions during the quarter. We expanded our reach to customers and increased our speed to market. We expect to roll out 3 times the normal number of marketing programs this year and do so while cutting the time from concept to rollout by two-thirds. Our sales associates called on more meeting planners this quarter and developed new tools to get the deals closed. On the cost side, we revised purchasing specs, shortened restaurant menus and hours and reduced food waste. At some hotels we've temporarily shut down floors, reduced the number of restaurants and shortened retail outlet hours. Many associates are working in multiple departments, and often at multiple hotels, as we work hard to give associates as many hours as possible. During the quarter, North American management wages were down approximately 10 percent and hourly productivity at our properties was way up. Even with the pressure, our operations team remained focused, driving year over year guest satisfaction scores higher during the quarter.

Still, as Arne mentioned, despite this tremendous effort, North American comparable company-operated RevPAR declined 18 percent during the first quarter. Our statistics were meaningfully impacted by the one week shift in our fiscal calendar. Adjusting for this, North American company-operated RevPAR would have been down 21 percent. The weakness was widespread across demand segments, regions, and brands. Only one out of seven comparable hotels worldwide reported an increase in constant dollar RevPAR.

In the U.S., a notable bright spot was New Orleans – despite the expected negative RevPAR comparison this year it's clear that a range of groups are slowly finding their way back to the city. In the leisure segment, New Orleans reported its best Mardi Gras occupancy since Katrina five years ago. The Nation's Capital did well during the first quarter, with RevPAR up 17 percent, led by Inaugural activities as well as business related to the management of the economic crisis. With the center of economic gravity shifting, at least temporarily, from New York to Washington, we expect that some of this activity could persist throughout the year.

Across our North American markets, transient demand began weakening last spring led by the financial services industry. To buttress transient occupancy, we added business from the federal government, travelers using AAA and senior citizen discounts and other contract customers. Despite this, we continue to see occupancy declines reflecting weakness across most corporate rated business. We saw some resilience in pharmaceuticals and defense in the first quarter, but this was only relative to the other sectors we track.

In terms of pricing, we recognize that discounting corporate business will not drive demand for us, particularly as the competition tends to react pretty quickly. Nevertheless, we are already seeing significant competitor discounting of room rates for corporate business in many markets. As we discussed last quarter, Marriott will not lead the market down on rate, but we also do not intend to lose share by failing to respond. Room rates are likely to remain weak until the economy shows meaningful improvement.

Group business is typically the last segment to turn down and this recession has been no exception. We began 2008 with Marriott brand group revenue on the books up 10 percent from the prior year. We actually achieved 2 percent growth in group revenue in 2008 reflecting disappointing "in the year for the year" bookings and some attrition from expected attendance.

Late in 2008, significant rhetoric from Washington triggered group cancellations from banking as well as other customers fearful of populist perceptions. Our industry, led by Bill Marriott, fought back both against unwarranted rhetoric as well as regulation, and today an understanding of the importance of meetings and business travel has emerged, the rhetoric has cooled considerably, and recent cancellations are running at more normal levels. One lingering impact is that meeting planners are showing a greater preference for urban and suburban hotels rather than luxury and resort locations for new business.

Another lingering impact of both the rhetoric and the economy is the continued hesitancy on the part of meeting planners to book new meetings, but we note that the rate of year-over-year decline has been improving for the past 16 weeks. Attrition in meeting attendance remains a significant problem but it, too, appears to be stabilizing. We're getting better at forecasting near term group business. While first quarter 2009 North American bookings implied a "down 15 percent" group revenue in the quarter, actual comparable hotel group revenue for the Marriott brand declined only 13 percent.

By and large, as the recession spread across the globe, we saw international company-operated RevPAR decline 17 percent in the first quarter excluding the impact of foreign exchange, and 24 percent including the impact of currency movements. For our international RevPAR statistics, the first quarter includes the months of January and February. Despite the increasing convergence of worldwide market performance, several markets are worth noting. Our London hotels' performance was interestingly mixed, with several relatively stronger RevPAR results at some hotels contrasted by pronounced weakness at other properties. Clearly the impact of the credit market problems on the financial sector affected such areas as Canary Wharf. In the Middle East, Dubai suffered from over supply and weaker demand. Several other Middle Eastern markets have seemingly developed more of an in-country travel pattern, which buoyed some of the results in that region.

Around the world, our properties are well-positioned to weather the downturn. We continue to focus on our brands -- reinventing, refreshing and renovating our hotels. We've installed great rooms at nearly 20 percent of our full service hotels in the last 2 years, making traditional lobbies obsolete. And we continue to open impressive new hotels around the world.

In our timeshare business, new contract sales in the first quarter were consistent with our expectations and we were pleased by the relative strength, albeit within small volume, of our fractional sales. Unfortunately, we recorded $28 million of contract cancellation reserves largely associated with our residential business.

We are significantly changing the way we market and sell one-week timeshare intervals. We are offering fewer tour packages, reducing the cost of tours, and closing less productive sales centers. Instead, we are more aggressively selling to in-house guests, existing owners, and guests staying at nearby Marriott properties. It's easier, and cheaper, to sell to a customer who is already staying at or already owns our product. Changing our strategy takes time, as some tours are scheduled as much as a year in advance, but we expect our marketing costs should decline and our closing efficiency should improve over the course of 2009.

In April, we rolled out our own "stimulus" plan. To celebrate the 25th anniversary of North American timeshare business, for a limited time we are offering existing owners 25 percent off a one-week timeshare interval and offering new customers a 15 percent discount. Thus far, results are good with improved closing efficiencies since the program began.

We began discounting our Ritz-Carlton fractional product at the beginning of the year and are also very pleased with the results. Excluding contract cancellations, adjusted contracts sales totaled $20 million, an increase of 54 percent from the prior year and $18 million more than in the fourth quarter of 2008.

Significantly, our timeshare team also reduced general and administrative costs by an amazing 37 percent in the quarter, as they right-sized overhead to meet current lower demand levels. The business reduced development, marketing, sales, and finance expenses faster than anyone expected.

On the financing side, we financed 49 percent of our timeshare interval sales in the first quarter compared to 78 percent in the year ago quarter. Of those that financed with us, the average down payment was nearly 20 percent and the average credit score was around 730. As you might expect, U.S. mortgage delinquency rates have been climbing, reaching 9.8 percent in March compared to 7.9 percent in December and 6.4 percent a year ago. We've seen some stabilization in early April which gives us some cautious optimism in this area.

We currently have $281 million in retained interests on our balance sheet in 13 loan securitization pools. One such pool reached a performance trigger in March which effectively redirected the excess spread we typically receive each month to accelerate returns to investors. We estimate the earnings and cash flow impact is only about $2 to $3 million in 2009.

We completed a timeshare note sale in the first quarter, raising nearly $200 million and we are likely to complete another deal totaling $50 to $100 million in the second half of 2009.

Gross timeshare spending in the first quarter totaled $94 million or $33 million net of cost of goods sold. We continue to cut our inventory spending plans for 2009. Last quarter, we estimated we would spend $400 million in gross timeshare inventory compared to the $687 million in the prior year. Today, we estimate 2009 gross inventory spending will total approximately $350 million. Net of cost of goods sold, we currently estimate we'll invest roughly $70 to $80 million for new timeshare inventory in 2009. We do not plan on starting any new projects in 2009.

With the significant cost savings, inventory spending reductions and successful note sale, the timeshare business was cash flow positive for the quarter.

Let's talk a moment about G&A. Through the hard work of our associates across the company, as well as necessary and sometimes difficult steps to reduce expenses, our G&A, adjusted for restructuring and other non-recurring charges, declined by 16 percent from the year-ago quarter to $136 million. We reversed about $6 million in incentive compensation expense for lower than expected 2008 bonuses. We've postponed new business initiatives, dramatically reduced spending for lodging development, and reorganized corporate departments to improve efficiency and lower costs. Many of the changes that we have been making in this very difficult environment are sustainable and will become embedded in our ongoing operations.

Turning to hotel development, our worldwide pipeline of hotels under construction, awaiting conversion or approved for development still stands at over 115,000 rooms, just a bit less than the 125,000 rooms we reported a quarter ago. We opened about 8,800 rooms during the first quarter and cancelled a few development projects. As we mentioned last quarter, owners are finding projects requiring debt difficult to finalize, particularly in the full-service hotels. We added no new-build full service rooms to our pipeline[3] during the quarter, and our limited service room pipeline also declined. Some owners are delaying projects already approved as they speculate that construction costs – probably down some 10 percent already – might decline further.

At the same time, we have seen an increase in inquiries from owners regarding conversions of their hotels to one of our brands. As you would expect, the difficult business environment makes our RevPAR premiums and operating know-how more valuable to owners.

This is of course, a challenging environment both for us and for our owners, particularly those who invested in hotel properties at the peak of the market. Our owners remain pleased with our rapid and creative approaches to controlling costs and our aggressiveness in driving revenue. During this difficult downturn, we are also working with them to delay certain expenditures and investments in the hotels where it makes sense.

In addition to paying close attention to the top line and the costs of our hotels, we are committed to improving Marriott's balance sheet. The charges that we booked in the first quarter largely reflect our decision to write off our investment in a couple of deals rather than contribute additional capital that would have inflated our debt levels and might not have delivered an adequate return.

S&P reduced its rating on Marriott to "BBB- stable outlook" just last week, acknowledging the challenging RevPAR environment but noting the strength of our business model. At the end of Q1, we had drawn down only $1 billion of our $2.4 billion revolving line of credit so we continue to have substantial available revolver capacity. Our credit facility, which matures in 2012, contains

[3] Intended to say, "We added no new-build full service rooms to our **U.S.** pipeline during the quarter…"

just one financial covenant and we are well within its limits. More important, our business strategy provides considerable stability in our cash flow and we have the flexibility to reduce our investment activities further if we choose. Today we expect to reduce our net debt levels by approximately $600 to $650 million in 2009.

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

As I mentioned earlier, our fiscal calendar, the shift in the Easter holiday, and very strong results in Washington D.C., favorably impacted reported RevPAR in our first quarter of 2009. In contrast, for the second quarter, the shift in Easter holiday will have a negative impact on RevPAR. We expect second quarter North American comparable systemwide RevPAR to decline 22 to 25 percent with a greater portion of the decline coming from rate rather than occupancy. When we factor in the fiscal 2009 calendar, the Easter holiday and the inauguration, we expect the change in second quarter RevPAR to be nearly the same as our first quarter performance. Outside North America, we expect comparable constant dollar systemwide RevPAR to decline 17 to 20 percent.

Given these assumptions, we expect total fee revenue of $245 to $255 million in the second quarter. Our fees should be helped by unit expansion.

We expect owned, leased, corporate housing and other revenue, net of direct expenses, to total approximately $10 to $15 million in the second quarter. While we own or lease 41 hotels, seasonally softer performance combined with the weak economy should continue to constrain profits. Results will also likely be affected by tougher comparables since contingency cost cutting for North American hotels began in the second quarter of 2008.

Based on the first quarter trends, along with a good consumer response to our discount plan, we expect timeshare contract sales to total $175 to $185 million in the second quarter. We anticipate that timeshare sales and services, net of direct cost, will total about $10 million in the quarter.

The G&A line reflects savings we've taken in our timeshare business as well as at corporate headquarters and in our lodging activities. We estimate second quarter G&A will decline from $184 million in 2008 to $135 to $140 million in 2009, a decline of roughly 25 percent from the prior year. Since cost reductions began in the second quarter of 2008, margin comparisons will become more difficult for the rest of the year.

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

Looking to the full year, as Arne noted earlier, there is obviously considerable uncertainty. In the earnings release, we have shared with you a range of top-line assumptions that we are using internally to manage our business. We are sharing these assumptions to help you model the business, but we are not guiding you to any particular earnings number. Unfortunately, the level of uncertainty simply remains too high for us to have much confidence in predicting results.

In this exercise, for the full year 2009, we are operating our business assuming North American systemwide RevPAR will decline 17 to 20 percent and outside North America, 13 to 16 percent on a constant dollar basis.

Given these RevPAR assumptions and the more than 30,000 rooms expected to open in 2009, we anticipate our fee revenue could total $1.05 to $1.1 billion, and owned, leased, corporate housing and other revenue, net of direct expenses, could total $55 to $65 million.

For our timeshare business, we continue to assume a weak economic climate and adjusted contract sales of approximately $800 million. Assuming this level of contract sales, timeshare sales and services revenue, net of direct costs, could total approximately $55 million in 2009 and the timeshare segment results could total roughly $30 million. This segment profit number is lower than our outlook last quarter because of a decline in rental demand associated with the weak economy and a change in our marketing strategies. We are using fewer villas for marketing purposes overall. In addition, maintenance fees from unsold inventory are also depressing results. Finally, we expect significant reductions in inventory spending will slow reportability of revenue at some projects. While consumers are more cautious, there is still interest in our products, and we expect our discount programs will have an impact. The cost reductions already completed should reduce our timeshare 2009 G&A by about 25 to 30 percent versus the 2008 adjusted levels.

With the completion of the first quarter note sale deal we are confident in our ability to make the timeshare business cash flow positive for 2009.

Overall adjusted G&A spending in 2009 should decline by roughly $150 to $170 million to roughly $580 to $600 million, as every department in the company has reduced spending.

We expect investment spending to total about $350 to $400 million in 2009, roughly $450 million less than we spent in 2008 and about $150 million less than we expected just last quarter. Compared to 2008, this includes cuts in the net timeshare spending, new capital expenditures and other investing activities. While a few months ago we were planning to complete $100 million of asset sales, our current scenario assumes no such sales.

All in all, compared to our prior 2009 scenario, our RevPAR assumption is a bit weaker but cost savings are running ahead of plan. Timeshare contract sales are on track but reported timeshare results are impacted by weak rental demand, unsold maintenance fees and deferral of some inventory spending. Running these assumptions through our model implies adjusted 2009 earnings per share of about $0.88 to $1.02 per share and about $600 to $650 million of reduced debt at year end 2009, an impressive result given the severity of this downturn.

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

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

Given the significance of the recession, these results, while of course not cause for cheering, offer us some modest satisfaction that our effective business model, strong management, and enormously dedicated associates continue to deliver the maximum value possible to our shareholders. We are committed to achieving all we can for the present, as we strengthen our company for the future.

We've discussed in the past the importance of our culture, first established by our founders but also expanded around the world by our associates. I believe as we continually evolve into a true global company, our deeply embedded sense of who we are provides us with enormous advantages. All of us, in more than 60 countries, know exactly the road we're on. We look forward to that journey. Thank you and keep traveling.

We'll take questions now.

Question and Answer Session:

C. Patrick Scholes, Friedman, Billings, Ramsey & Co.: Good morning. I have two questions here. In your press release you mentioned that your strong brands continue to drive significant RevPAR premiums compared to the competitors, what is your RevPAR index at currently. I think the last I recall it was at about 115 percent, and has that, how has that been trending over the last several quarters?

Arne M. Sorenson: Obviously the indexes are calculated by brand and I think generally we're in the 1l3 or 114 at the lowest and about high 120s I would guess for the highest established brand. The data is a little hard to get currently so we have not seen anything for March yet. I think all we've got is through February year end, and generally we're seeing what we would expect which is that the Marriott brand which tends to benefit in weaker times is continuing to take share, solidly benefited probably a bit by group, a bit by the importance of the brand in a weaker demand environment and that sort of strength.

And we're seeing in Courtyard and Residence Inn greater strength in the newer franchise portfolio and relatively weaker performance in the managed portfolio, by and large driven by product quality and new competition in those markets, with still though sort of category killing RevPAR premiums in those brands.

C. Patrick Scholes, Friedman, Billings, Ramsey & Co.: Okay, thank you and just another question here, do you feel now that you have any better sense of visibility today than you did during the last time you reported earnings and then could I also get some early sense of how first quarter 2010 group bookings are faring as far as volume and pricing.

Arne M. Sorenson: Yes, I think the short answer is yes, we feel like we've got a measure of greater confidence in being able to predict at least the next way out in the future, thirty to ninety days. There is still enormous uncertainty in the market compared to what we're used to, but as we look back at our accuracy in forecasting we're seeing greater accuracy in terms of our internal looks over the last quarter really.

You could hear in the prepared remarks we are optimistic with some data to support it but it's hardly unequivocal that we've kind of bottomed in the demand perspective. I think it is quite conceivable that we'll look back and see the second quarter of 2009 as being the low point in terms of year-over-year RevPAR performance. You can hear from the modeling assumptions that we're using that the reported numbers in the second quarter will be worse than the reported numbers in the first quarter, and I'm obviously focused on that reporting number.

And then as you look into 2010 we really hesitate to say much at all about what could happen in 2010. Our group bookings on the books are down in the mid teens year-over-year, but let me do a really big bright flashing caution on that.

That is a comparison of the group business on the books at this time in 2008 for 2009, compared with the group business on the books today for 2010. In normal times that would be a reasonably good data point for forecasting what group RevPAR would perform at next year compared to this year, but because much of the business we have on the books at this time in 2008 for 2009 has already been whacked by the environment that we're in, that baseline doesn't mean a lot. And so even though we're down mid teens we think that tells us less about what the implied group RevPAR performance will be for 2010.

C. Patrick Scholes, Friedman, Billings, Ramsey & Co.: Okay, and just touch on pricing if you are able to.

Arne M. Sorenson: Again, I'm glad you raised that because we can have some optimism about the bottoming of demand. I think of the things we worry about, pricing would be very high on the list. We would expect to see continued threat in pricing going forward.

C. Patrick Scholes, Friedman, Billings, Ramsey & Co.: Okay, I appreciate the color, thank you.

Joseph Greff, J. P. Morgan: Question for you on the RevPAR sensitivity that you talked about a little bit earlier, Carl, does that relationship, is that different depending on whether it is a positive 1 percent RevPAR swing or negative, i.e. if it's a positive swing it's a $20 million, if it's a negative swing from here it's closer to $15 million.

Carl T. Berquist: No, it's plus or minus 1 percent but I would keep that gage 15 to 20, it's not an exact science relative to one side or the other side of it, so I would say plus or minus 1 percent is $15 million to $20 million.

Joseph Greff, J. P. Morgan: Thanks. Then I have some fun timeshare questions, if you going forward from here maintain the 2009 level of timeshare investments, does that mean that the profitability that you're targeting for this year is sort of a rough sustainable annual profitability, all things being equal? How do you think about that, and that's asking you specific about 2010 or beyond 2009 guidance but just generally how do you think about the relationship between investments and the profitability?

Carl T. Berquist: Well I think as we look at the investments what the goal would be as you continue to make investments to obviously not build inventory but instead try to get as close to a just in time inventory as you can. Right now because of the slow down we have adequate inventory to get us through 2009, and probably partially into 2010.

So we can pull back our capital expenditures relative to the inventory we have. That's also the reason we don't need to start new projects in 2009 to still maintain a sales pace of contract sales at the $800 million level.

Joseph Greff, J. P. Morgan: Okay, and then with regard to the second timeshare note sale today, you have any impressions you don't anticipate or you don't have a note sale gain assumed, are you assuming that you might have a small loss or are you assuming it's a push?

Carl T. Berquist: We're assuming we'll probably break even, I mean we're looking in this second half of the year of having a note sale. Obviously that is going to depend on the volume of notes we have as well as the depth of the market and the availability to sell it. But all in all, we're just assuming a break-even on it.

Chris Woronka, Deutsche Bank: I just wanted to kind of follow up a little bit on Joe's question about a timeshare, and understood your comments about kind of having enough into 2010, but how do we look at it beyond that for, say, two to four years? I mean, ultimately you're going to have to spend some more money to have future profits beyond that. Is that right?

Arne M. Sorenson: Let me take a crack at this, since Carl has tried once, and rather than repeat himself, it's way too early to talk about P&L profits for this business in 2010 and beyond. Obviously, we're dealing with pretty historic low demand levels. Gratified by what we have sold this year. And remember, we've sold a couple hundred million dollars of this product, and that's great. And, as Carl mentioned, we've got a good customer response to some of the promotional activity we've got underway. And so this is still a product that resonates with many, even in a tough environment.

I think what we would say is that, with each passing month, the completion of construction in process will continue. And as a consequence, the need to put incremental capital into building new inventory will decline.

And so in 2010, while it's too early to talk about what our reported profitability would be, I think in a steady state environment, we'll see that our cash flow from this business is higher than in 2009, because we'll simply have less of that construction that is underway. We obviously are not going to start incremental projects until demand comes back to a level where it's justified.

Chris Woronka, Deutsche Bank: Right. Okay, that's helpful. And then if I could just kind of get your thoughts on – you guys added back that the cancellations on the residential and fractional contracts, just your thoughts on adding that back to your adjusted number?

Carl T. Berquist: Yes, we added back. I think the amount we added back was net about $4 million to $5 million because, keep in mind that percentage of completion and completed contract accounting, the whole $28 million wasn't benefited through the P&L. But so the total add-back was about $4 million to $5 million.

The reason we added back was because we feel that those reserves are not a recurring type of item. Typically, we don't reserve for things like that but, given these volatile economic times, it was a unique situation relative to primarily the residential and fractional areas. And that's why we added them back.

David Loeb, Robert W. Baird & Company: Hi. Arne, you've mentioned a couple of times that you're seeing demand bottom. Do you mean demand – the absolute level of demand may now be as low as it's likely to be, and that we'll actually see growth in demand from here, or that the rate of change will be less?

Arne M. Sorenson: The latter.

David Loeb, Robert W. Baird & Company: Okay. That's too bad. I was hoping for the former. And one more for you, and then I've got one for Carl. We're hearing from Smith Travel that group rates are now at a premium to transient rates. As you operate your hotels and manage revenue, how do you deal with attrition and apparent attrition that's really just people moving around the group block to book at lower transient rates?

Arne M. Sorenson: Yes, I think on the mix of rates and occupancy, it's important to keep a couple of things in mind. Obviously, a group contract, typically there would be a negotiated rate, there'd be negotiated minimums in terms of volumes, maybe some provisions around F&B and other services that would be provided as part of that group business.

And it is certainly depending on those contracts possible for group participants to book around the block and see whether or not they can get lower rates. That may implicate the guarantee or the minimums that the group customer has put in place. And so depending on the precise terms of those contracts, it may or may not be significant.

I think it's important to keep in mind a couple of things, though. When we look at reported transient rates, they are down, to be sure, on a year-over-year basis, but they're also down, in part, because the mix has shifted. So we're doing relatively more contract business, which Carl mentioned in his comments. We're doing relatively more AAA and government, and leisure is relatively stronger, and we really end up with the most pronounced weakness in the rack rate and less so in the special corporate rate.

But that mix is something that is important to keep in mind. So if I'm a group customer and I'm thinking about booking around the block, I'm not necessarily going to go find the AAA rates available to me as something that can do it. And so the disconnect between the group and transient rate may be much less than first appears to be the case.

David Loeb, Robert W. Baird & Company: Okay. That's great. And one for Carl. You mentioned $0.04 after tax from the repurchase of the senior notes. I gather that means the entire $21 million pretax extinguishment of debt relates to that. So am I doing the math correctly that you bought those notes for about $101 million, or 82.8 percent at face?

Carl T. Berquist: Approximately that area, yes.

David Loeb, Robert W. Baird & Company: And you have appetite to continue doing that?

Carl T. Berquist: We'll probably opportunistically watch the market and if the opportunity comes, we probably will continue to look at buying it back.

David Loeb, Robert W. Baird & Company: That’s great. Thanks.

Jeffrey Donnelly, Wachovia Securities: Good morning, Arne. I have a question about margins. Your RevPAR declines are increasingly seeming to be weighted towards rate declines, which, obviously, can be more damaging to margins. So I’m just looking at what kind of degree of success in controlling costs in Q1? I'm just trying to think, as you roll through the next few quarters, can you talk a little bit, maybe about the sustainability of the cuts in expenses you've made to date, and maybe quantify how much more room you have to cut costs that are not directly related to occupancy? Or has most of that work been done?

Arne M. Sorenson: Yes, I think pound-for-pound – I'm glad you asked the question, because pound-for-pound it's going to get harder on hotel level margins per point of RevPAR. I think a piece of that is rate occupancy mix, but a bigger factor is that, while the comparisons ease on RevPAR, they become more difficult on margins.

So I think many of the things we're doing today are sustainable. We've got tremendous productivity, significant reductions in management wages, we've driven a couple of points – two to three points, really in F&B margins – on a year-over-year basis through procurement and other initiatives.

And I think all of those things are very sustainable, but notwithstanding that, we're going to run into comparison issues which make the likelihood of delivering margins at these same levels in the third or fourth quarter, if RevPAR is essentially comparable, significantly harder.

Jeffrey Donnelly, Wachovia Securities: And then another question, actually, on your limited service hotels, specifically the company-operated limited service hotels, I think North American RevPAR dipped about 20 percent versus 15 percent for system-wide. That's about they did, I think mid-scale and upper-scale hotels did per Smith Travel. I think what's even more striking to me is that decline even outpaced the drop for your company-operated full service. Why the gap in performance there for the limited service products?

Arne M. Sorenson: Well, you think about a Courtyard, and particularly in the most established locations, which would be where the managed portfolio dominates. This is, you know, our promotional tagline is – goodness, it's escaped me at the moment. But for business travel, it's for business transient travel, essentially no group business. And that is the weakest segment of the market. So there's no group business to help buoy that, particularly where they're in established business destinations. Weekend business is performing better, but it's going to be a less significant performance of those hotels than it would be for the typical full-service hotel.

Jeffrey Donnelly, Wachovia Securities: Yes, and just since you mentioned it, I'm curious – people talk about, as they say, "the AIG effect." I know some of the bookings for group events that were into the future are still yet to come, but do you feel that, I guess I'll call it the AIG effect of group events, avoiding nicer properties and avoiding certain markets is largely behind us and that bomb has already gone off, so to speak?

Arne M. Sorenson: I think the good and bad here is that the rhetoric that caused a lot of problem coming out of Washington, I think, has changed. I think the work that Mr. Marriott and other leaders in the industry did on the Hill and with the White House and others to make sure they understood the implications of some of the rhetoric has been quite successful.

The bad news is that an awful lot of the resort location group business that was on the books has been cancelled. And so you look at the impact on a number of Ritz Carlton Hotels or J. W. Marriott or Marriott Hotels and we've suffered that. Essentially already been baked even if the months are still to come and it's going to take some time for us to rebuild that group business and get back to the levels we were at before.

Jeffrey Donnelly, Wachovia Securities: Just one last question and it might be for Carl, which by the way Carl, congratulations. Sorry I didn't say it earlier.

Carl T. Berquist: Thank you.

Jeffrey Donnelly, Wachovia Securities: The last question is actually on loan impairments. In your schedule you mentioned the $42 million loan impairment; can you tell us on what base that is being taken against, and I guess, what's the risk of future impairments of that same nature?

Carl T. Berquist: That's a good question. The loan impairments that we took as adjustments, that's a couple loans. And basically, its situations where we had in one case a project where in order for the project to continue successfully would probably require us to continue to invest in that project even though we didn't have requirements to invest in it.

And we concluded given our focus on the balance sheet where if it didn't make economic sense to invest, we weren't going to. So we reserved that loan. The other one dealt with fundings that we had made in the past that we think now that we won't recover and we fully reserve that. So that's what made up that loan impairment at the time.

I think the other thing I'd like to point out is if you look at our total loans that we have right now, our total notes and interest receivable that we have right now at the end of the first quarter net is about $200 million, $210 million in that neighborhood. And that's substantially down from where it was five, seven years ago. So we've substantially reduced our risk in this area by managing down that portfolio to a much more manageable number.

Jeffrey Donnelly, Wachovia Securities: So it is apples-to-apples to say that that $42 million is on a base of somewhere around $200 odd million?

Carl T. Berquist: That's right.

William Truelove, UBS: Okay, I'm going to start with the timeshare question first unfortunately. Maybe, Carl, you can answer this. The $200 million note that you sold in the first quarter or for the note sales, what was the gain or loss on that note sale? I didn't see that anywhere.

Carl T. Berquist: We lost $1 million on the transaction.

William Truelove, UBS: Okay, and then secondly can you talk a little bit about, I see that one of the charges was the $38 million related to security deposits net of prior year reserves in G&A, is that related to the Hospitality Properties Trust situation and to what extent can you guys comment on that?

Carl T. Berquist: Sure, I'll take that. You know, as we talked earlier, we're very focused on our balance sheet and we've concluded that we're not going to support or fund owner shortfalls unless we have a contractual obligation to do so or if there is an economic reason for us to do so from an earnings standpoint, a management standpoint.

In the case of HPT we can elect to fund shortfalls and recover those fundings through future incentive fees. However, if we don't fund HPT can draw on security deposits that were established way back when these portfolios were originally structured. Or they can convert the contracts to franchise agreements in which case, we'll get base and system fees that, in the near term, are basically equal to the management fees we're getting today.

Given that we've chosen not to fund the shortfalls, we reserved the security deposits net of some reserves that we had set up prior to the first quarter. We also wrote off some receivables that we had for prior fundings that we had done.

So these amounts are all reflected in that adjustment. It's either in the G&A line or that was some of the receivables I talked about in the provision for loan losses.

William Truelove, UBS: Okay, so you would say that there's no further ongoing discussions with HPT as to this or is that basically set and done now?

Carl T. Berquist: Well, obviously we'll continue to talk to them. They're an owner, we work with them through lots of different portfolios and we'll continue to talk to them. I never say never, but right now we don't have any specific deal on the table that we're looking at.

William Truelove, UBS: Wonderful. Thanks so much guys, I appreciate it.

William Crow, Raymond James: No timeshare questions for me. Let's talk about a couple of other things though. As you get a little bit more confidence in the outlook on the demand side at least, and as maybe the time share notes sales become more viable, evidenced in the first quarter of course, do you start to think about that $650 million debt reduction in terms of maybe you could use some of those, some of that fund, the funds earmarked for that for share repurchases or is this just kind of set in stone? We want to reduce our debt despite what might be an improving capital markets environment.

Carl T. Berquist: Well, I think Bill, it's a good question, but I think first and foremost, we obviously want to maintain our investment grade rating and so we're going to continue to manage our balance sheet and reduce our debt in order to do so.

As we watch those debt-to-EBITDAR ratios, one of the levers obviously is paying down debt and that will be our first and foremost thing to do. As you know our model is such that it's a deleveraging model. It generates a lot of cash as you pointed out, either through time share notes or just our fee of managing franchise fees.

But right now that focus is on retiring debt. Into the future 2010, 2011 ratios get down below the 3 1/4, 3 1/2 and obviously we'll be looking at investing it back into the business.

William Crow, Raymond James: Arne, as we think about 2010 and I'm not looking for guidance per say, but with 30,000 new rooms hitting the, gross new rooms hitting the system this year, what should we think about for next year? Does this get cut in half or is that too pessimistic?

Arne M. Sorenson: In rooms, in terms of our rooms opening?

William Crow, Raymond James: Yes.

Arne M. Sorenson: Oh no, I think it will be a number very similar to 2009. There's obviously risk on the down side given as we get into 2010, we'll see the construction, as projects under construction today get completed. And we're clearly not filling that bucket, but we are seeing an increase in activity around conversion products and certainly the full service openings are, really full year 2010 are all under construction. So it could, I suspect the risk is on the downside, but nothing like half the levels of 2009. I think that is way too pessimistic.

William Crow, Raymond James: Then on the management contract side, it's a fairly competitive environment out there. How is Marriott faring relative to maybe historical capture rates on new management contracts? Are you as competitive as you used to be?

Arne M. Sorenson: I think these are times which are great for us and they're great for us not just in the context of RevPAR premiums and margins and some of the other things we've talked about, but they're great for us in the environment of competing for new management and franchise agreements.

This is a, in times of greater uncertainty, we all seek better stability and better reliability. And those are things that we can offer. So whether you're an owner of an existing hotel looking to convert a brand or a potential lender, of which there aren't many these days, but lender to make a loan on a new hotel. All of those things are going to be aided by the reputation and the performance that we can offer our owners and franchisees. So if anything, we'd say it's improving.

William Crow, Raymond James: Okay, interesting. Then finally, the Greenbrier, could you just talk about how that strategically that plays within your thoughts?

Arne M. Sorenson: Well, Greenbrier's obviously a special hotel for those of you who know it. And I think we would be very happy to welcome it to our system as The Greenbrier, a JW Marriott Hotel. It's a process that still has a number of months to run, but we're quite optimistic that's where we'll end up sometime this summer.

William Crow, Raymond James: And that'll be a more than $100 million commitment on your part? Is that right?

Arne M. Sorenson: No, it's a structured deal and I think that would overstate the capital that we would be committing to it. We are also deep into conversations with a number of folks who would likely be a much more traditional owner for whom we would manage the hotel. And we viewed the project as taking some risks potentially, capital risks. But ultimately, something that's very consistent with our model. I can't be more specific than that until we get a little farther along in the process.

If there is one more question we'll take it.

Smedes Rose, Keefe, Bruyette & Wood: Just under the wire here. Arne, just a couple of questions, you spoke about your investment grade rating earlier, are you in conversations with the ratings agencies about how the potential adoption of FASB 140 would impact the way they look at your potential liabilities, which I think would significantly change your balance sheet liabilities?

Carl T. Berquist: I'll take that. Well first of all, when the rating agencies do their calculations they do take in, in some respects, take into consideration note securitization pools through their adjustments, so although they don't add back 100 percent they do take those into consideration. But as far as 140 goes that's been out there for a while. The FASB's taken comments and we haven't heard anything for a while and we're watching it close. So it would probably be premature for us to assume that those all would come back on our balance sheet, since we don't know how the final ruling's going to come out. With that said, like I said, the rating agencies do take into consideration our securitization pools when they do their calculations.

Smedes Rose, Keefe, Bruyette & Wood: Okay, and then on further write-downs of security deposits, you have I think it's close to another $100 million of deposits with HPT. So if those portfolios fall short of minimum rents is it just fair to assume that Marriott will not be funding any of those portfolios going forward?

Carl T. Berquist: I think the other portfolios the arrangements are slightly different than the one we talked about and so they all don't work exactly the same so it would be premature to make any decision right now. It would be more of a fact of circumstances.

Arne M. Sorenson: Obviously any decision that we felt like we were in the position to make we've made and have booked in connection with the closing of the first quarter.

Thank you all. Appreciate your time.

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