MARRIOTT INTERNATIONAL INC /MD/
Form 10-Q
October 09, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 11, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File No. 1-13881

MARRIOTT INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**52-2055918**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
10400 Fernwood Road, Bethesda, Maryland	**20817**
(Address of principal executive offices)	**(Zip Code)**

(301) 380-3000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller Reporting Company ¨
(Do not check if smaller reporting company)
Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date 356,024,123 shares of Class A Common Stock, par value $0.01 per share, outstanding at September 25, 2009.

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PART I FINANCIAL INFORMATION

Item 1. *Financial Statements*

MARRIOTT INTERNATIONAL, INC. (MARRIOTT)

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

($ in millions, except per share amounts)

(Unaudited)

	Twelve Weeks Ended		Thirty-Six Weeks Ended	
	September 11, 2009	September 5, 2008	September 11, 2009	September 5, 2008
REVENUES				
Base management fees	$ 116	$ 143	$ 367	$ 452
Franchise fees	100	108	281	314
Incentive management fees	17	52	95	229
Owned, leased, corporate housing, and other revenue	226	260	684	849
Timeshare sales and services (including note sale losses of $1 for the thirty-six weeks ended September 11, 2009 and note sale gains of $28 for the thirty-six weeks ended September 5, 2008)	254	384	746	1,098
Cost reimbursements	1,758	2,016	5,355	6,153
	2,471	2,963	7,528	9,095
OPERATING COSTS AND EXPENSES				
Owned, leased, and corporate housing-direct	214	240	638	757
Timeshare-direct	238	337	737	961
Timeshare strategy-impairment charges	614		614	
Reimbursed costs	1,758	2,016	5,355	6,153
Restructuring costs	9		44	
General, administrative, and other	144	167	464	513
	2,977	2,760	7,852	8,384
OPERATING (LOSS) INCOME	(506)	203	(324)	711
(Losses) gains and other income (including gain on debt extinguishment of $21 for the thirty-six weeks ended September 11, 2009)	(1)	7	27	19
Interest expense	(27)	(33)	(84)	(113)
Interest income	5	8	20	28
(Provision for) reversal of provision for loan losses			(43)	2
Equity in (losses) earnings	(12)	2	(50)	26
Timeshare strategy-impairment charges (non-operating)	(138)		(138)	
(LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(679)	187	(592)	673
Benefit (provision) for income taxes	210	(103)	133	(317)
	(469)	84	(459)	356

(LOSS) INCOME FROM CONTINUING OPERATIONS								
Discontinued operations, net of tax								3
NET (LOSS) INCOME		(469)		84		(459)		359
Add: Net losses attributable to noncontrolling interests, net of tax		3		10		7		13
NET (LOSS) INCOME ATTRIBUTABLE TO MARRIOTT	$	(466)	$	94	$	(452)	$	372
EARNINGS PER SHARE-Basic								
(Losses) earnings from continuing operations attributable to Marriott shareholders [1]	$	(1.31)	$	0.27	$	(1.27)	$	1.04
Earnings from discontinued operations attributable to Marriott shareholders								0.01
(Losses) earnings per share attributable to Marriott shareholders	$	(1.31)	$	0.27	$	(1.27)	$	1.05
EARNINGS PER SHARE-Diluted								
(Losses) earnings from continuing operations attributable to Marriott shareholders [1]	$	(1.31)	$	0.25	$	(1.27)	$	0.99
Earnings from discontinued operations attributable to Marriott shareholders								0.01
(Losses) earnings per share attributable to Marriott shareholders	$	(1.31)	$	0.25	$	(1.27)	$	1.00
CASH DIVIDENDS DECLARED PER SHARE	$		$	0.0869	$	0.0869	$	0.2482

[1] See Footnote No. 8, Earnings Per Share, for income from continuing operations attributable to Marriott used to calculate earnings from continuing operations per share attributable to Marriott shareholders.

See Notes to Condensed Consolidated Financial Statements

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MARRIOTT INTERNATIONAL, INC. (MARRIOTT)

CONDENSED CONSOLIDATED BALANCE SHEETS

($ in millions)

	Unaudited September 11, 2009	January 2, 2009
ASSETS		
Current assets		
Cash and equivalents	$ 130	$ 134
Accounts and notes receivable	908	898
Inventory	1,465	1,981
Current deferred taxes, net	257	186
Prepaid expenses	78	72
Other	125	135
	2,963	3,406
Property and equipment	1,371	1,443
Intangible assets		
Goodwill	875	875
Contract acquisition costs and other	734	710
	1,609	1,585
Equity and cost method investments	257	346
Notes receivable		
Loans to equity method investees	16	50
Loans to timeshare owners	438	607
Other notes receivable	79	173
	533	830
Other long-term receivables	79	158
Deferred taxes, net	1,012	727
Other	443	408
	$ 8,267	$ 8,903
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Current portion of long-term debt	$ 137	$ 120
Accounts payable	559	704
Accrued payroll and benefits	603	633
Liability for guest loyalty program	438	446
Timeshare segment deferred revenue	75	70
Other payables and accruals	679	560
	2,491	2,533
Long-term debt	2,523	2,975
Liability for guest loyalty program	1,171	1,090
Self-insurance reserves	231	204
Other long-term liabilities	866	710

Marriott shareholders equity				
Class A Common Stock		5		5
Additional paid-in-capital		3,556		3,590
Retained earnings		3,038		3,565
Treasury stock, at cost		(5,622)		(5,765)
Accumulated other comprehensive income (loss)		8		(15)
		985		1,380
Noncontrolling interests				11
		985		1,391
	$	8,267	$	8,903

See Notes to Condensed Consolidated Financial Statements

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MARRIOTT INTERNATIONAL, INC. (MARRIOTT)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in millions)

(Unaudited)

	Thirty-Six Weeks Ended	
	September 11, 2009	**September 5, 2008**
OPERATING ACTIVITIES		
Net (loss) income	$ (459)	$ 359
Adjustments to reconcile to cash provided by operating activities:		
Depreciation and amortization	124	130
Income taxes	(195)	223
Timeshare activity, net	54	(273)
Timeshare strategy-impairment charges	752	
Liability for guest loyalty program	68	79
Restructuring costs and other charges, net	18	
Asset impairments and write-offs	66	27
Working capital changes and other	169	10
Net cash provided by operating activities	597	555
INVESTING ACTIVITIES		
Capital expenditures	(112)	(220)
Dispositions	1	19
Loan advances	(50)	(20)
Loan collections and sales	15	33
Equity and cost method investments	(27)	(4)
Contract acquisition costs	(26)	(124)
Other	69	(51)
Net cash used in investing activities	(130)	(367)
FINANCING ACTIVITIES		
Commercial paper/credit facility, net	(259)	226
Issuance of long-term debt		17
Repayment of long-term debt	(159)	(192)
Issuance of Class A Common Stock	10	42
Dividends paid	(63)	(84)
Purchase of treasury stock		(428)
Other		16
Net cash used in financing activities	(471)	(403)
DECREASE IN CASH AND EQUIVALENTS	(4)	(215)
CASH AND EQUIVALENTS, beginning of period	134	332
CASH AND EQUIVALENTS, end of period	$ 130	$ 117

See notes to Condensed Consolidated Financial Statements

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MARRIOTT INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The condensed consolidated financial statements present the results of operations, financial position, and cash flows of Marriott International, Inc. (Marriott, and together with its subsidiaries we, us, or the Company). In accordance with Financial Accounting Standards (FAS) No. 16 Noncontrolling Interests in Consolidated Financial Statements-an Amendment of ARB No. 51 (FAS No. 160), references in this report to our earnings per share, net income and shareholders equity attributable to Marriott do not include noncontrolling interests (previously known as minority interests), which we report separately. Please see Footnote No. 2, New Accounting Standards, for additional information on this accounting standard adopted in the 2009 first quarter.

The accompanying condensed consolidated financial statements have not been audited. We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. generally accepted accounting principles (GAAP). We believe our disclosures are adequate to make the information presented not misleading. You should, however, read the condensed consolidated financial statements in conjunction with the consolidated financial statements and notes to those financial statements in our Annual Report on Form 10-K for the fiscal year ended January 2, 2009 (2008 Form 10-K). Certain terms not otherwise defined in this quarterly report have the meanings specified in our 2008 Form 10-K.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, the reported amounts of revenues and expenses during the reporting periods, and the disclosures of contingent liabilities. Accordingly, ultimate results could differ from those estimates. We have reclassified certain prior year amounts to conform to our 2009 presentation. Because we discontinued our synthetic fuel business in 2007, we have segregated the balances and activities of the synthetic fuel reportable segment and reported them as discontinued operations for all periods presented.

On May 1, 2009, the Board of Directors declared the issuance of a stock dividend of a 0.00369 share of common stock for each outstanding share of common stock of the Company, payable on July 30, 2009, to shareholders of record on June 25, 2009. On August 6, 2009, the Board of Directors declared the issuance of a stock dividend of a 0.00379 share of common stock for each outstanding share of common stock of the Company, payable on September 3, 2009, to shareholders of record on August 20, 2009. For periods prior to the stock dividends, all share and per share data in our condensed consolidated financial statements and related notes have been retroactively adjusted to reflect the second and third quarter stock dividends using factors of 0.00360 and 0.00370, respectively, adjusted downward to reflect cash that was paid in lieu of fractional shares on July 30, 2009, and September 3, 2009 to shareholders as of the dates of record.

Our 2009 third quarter ended on September 11, 2009; our 2008 fourth quarter ended on January 2, 2009; and our 2008 third quarter ended on September 5, 2008. In our opinion, the accompanying condensed consolidated financial statements reflect all normal and recurring adjustments necessary to present fairly our financial position as of September 11, 2009, and January 2, 2009, the results of our operations for the twelve and thirty-six weeks ended September 11, 2009, and September 5, 2008, and cash flows for the thirty-six weeks ended September 11, 2009, and September 5, 2008. Interim results may not be indicative of fiscal year performance because of seasonal and short-term variations. We have eliminated all material intercompany transactions and balances between entities consolidated in these financial statements. We have evaluated all subsequent events through October 9, 2009, the date the financial statements were issued.

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2. New Accounting Standards

Financial Accounting Standards No. 141 (Revised 2007), Business Combinations (FAS No. 141(R))

We adopted FAS No. 141(R) on January 3, 2009, the first day of our 2009 fiscal year. FAS No. 141(R) significantly changed the accounting for business combinations. Under FAS No. 141(R), an acquiring entity is required to recognize all the assets acquired and all the liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. Transaction costs are no longer included in the measurement of the business acquired. Instead, these costs are expensed as they are incurred. FAS No. 141(R) also includes a substantial number of new disclosure requirements. FAS No. 141(R) applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which for us was the beginning of our 2009 fiscal year. The adoption of FAS No. 141(R) did not have a material impact on our financial statements.

Financial Accounting Standards No. 157, Fair Value Measurements (FAS No. 157)

We adopted FAS No. 157 on December 29, 2007, the first day of our 2008 fiscal year. FASB Staff Position (FSP) FAS No. 157-2, Effective Date of Financial Accounting Standards Board (FASB) Statement No. 157 (FSP FAS No. 157-2), amended FAS No. 157 by delaying its effective date, by one year, for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. In accordance with FSP FAS No. 157-2, we adopted the provisions of FAS No. 157 to non-financial assets and non-financial liabilities in the first quarter of 2009. See Footnote No. 6, Fair Value Measurements, for additional information. The adoption did not have a material impact on our financial statements.

Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements-an Amendment of ARB No. 51 (FAS No. 160)

We adopted FAS No. 160 on January 3, 2009, the first day of our 2009 fiscal year. FAS No. 160 establishes new accounting and reporting standards for noncontrolling interests, previously known as minority interests, in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of noncontrolling interests as equity in the consolidated financial statements separate from the parent s equity. The amount of net income or loss attributable to the noncontrolling interests is included in consolidated net income on the face of the income statement. FAS No. 160 clarifies that changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income attributable to Marriott when a subsidiary is deconsolidated. Such gain or loss is measured using the fair value of the noncontrolling equity investment on the deconsolidation date. FAS No. 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interests. FAS No. 160 is applied prospectively for fiscal years and interim periods within those fiscal years, beginning with the current fiscal year, except for the presentation and disclosure requirements, which are applied retrospectively for all periods presented. The adoption of FAS No. 160 did not have a material impact on our financial statements. See Footnote No. 14, Comprehensive Income and Capital Structure, for related disclosures.

Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133 (FAS No. 161)

We adopted FAS No. 161 on January 3, 2009, the first day of our 2009 fiscal year. FAS No. 161 requires enhanced disclosure of derivatives and hedging activities in order to improve the transparency of financial reporting. Under FAS No. 161, entities are required to provide enhanced disclosures relating to: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedge items are accounted for under FAS No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS No. 133), and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. FAS No. 161 is applied prospectively to all derivative instruments and non-derivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under FAS No. 133 for all financial statements issued for fiscal years and interim periods beginning with our current fiscal year. See Footnote No. 16, Derivative Instruments, for the related disclosures. The adoption of FAS No. 161 did not have a material impact on our financial statements.

FSP FAS No. 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies (FSP FAS No. 141(R)-1)

We adopted FSP FAS No. 141(R)-1 on January 3, 2009, the first day of our 2009 fiscal year. FSP FAS No. 141(R)-1 applies to all assets acquired and all liabilities assumed in a business combination that arise from contingencies. FSP FAS No. 141(R)-1 states that the acquirer will recognize such an asset or liability if the acquisition-date fair value of that asset or liability can be determined during the measurement period. If it cannot be determined during the measurement period, then the asset or liability should be recognized at the acquisition date if the following criteria, consistent with FAS No. 5, Accounting for Contingencies, are met: (1) information available before the end of the measurement period indicates that it is probable that an asset existed or that a liability had been incurred at the acquisition date, and (2) the amount of the asset or liability can be reasonably estimated. The adoption of FSP FAS No. 141(R)-1 did not have a material impact on our financial statements.

FSP FAS No. 142-3, Determination of the Useful Life of Intangible Assets (FSP FAS No. 142-3)

We adopted FSP FAS No. 142-3 on January 3, 2009, the first day of our 2009 fiscal year. FSP FAS No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FAS No. 142, Goodwill and Other Intangible Assets (FAS No. 142). This FSP is intended to improve the consistency between the useful life of an intangible asset under FAS No. 142 and the period of expected cash flows used to measure the fair value of the asset. FSP FAS No. 142-3 requires an entity to disclose information related to the extent to which the expected future cash flows associated with the asset are affected by the entity s intent and/or ability to renew or extend the arrangement. The adoption of FSP FAS No. 142-3 did not have a material impact on our financial statements.

EITF Issue 08-6, Equity Method Investment Accounting Considerations (EITF 08-6)

We adopted Emerging Issues Task Force (EITF) 08-6 on January 3, 2009, the first day of our 2009 fiscal year concurrently with the adoption of FAS No. 141(R) and FAS No. 160. The intent of EITF 08-6 is to clarify the accounting for certain transactions and impairment considerations related to equity method investments as modified by the provisions of FAS No. 141(R) and FAS No. 160. The adoption of EITF 08-6 did not have a material impact on our financial statements.

FSP FAS No. 115-2 and FAS No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS No. 115-2 and FAS No. 124-2)

We adopted FSP FAS No. 115-2 and FAS No. 124-2 in the second quarter of 2009. FSP FAS No. 115-2 and FAS No. 124-2 modifies the other-than-temporary impairment guidance for debt securities through increased consistency in the timing of impairment recognition and enhanced disclosures related to the credit and noncredit components of impaired debt securities that are not expected to be sold. In addition, increased disclosures are required for both debt and equity securities regarding expected cash flows, credit losses, and securities with unrealized losses. The adoption of FSP FAS No. 115-2 and FAS No. 124-2 did not have a material impact on our financial statements.

FSP FAS No. 107-1 and APB Opinion No. 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS No. 107-1 and APB Opinion No. 28-1)

We adopted FSP FAS No. 107-1 and APB Opinion No. 28-1 in the second quarter of 2009. FSP FAS No. 107-1 and APB Opinion No. 28-1 requires fair value disclosures for financial instruments that are not reflected in the Condensed Consolidated Balance Sheets at fair value. Prior to the issuance of FSP FAS No. 107-1 and APB Opinion No. 28-1, the fair values of those assets and liabilities were disclosed only annually. With the issuance of FSP FAS No. 107-1 and APB Opinion No. 28-1, we are now required to disclose this information on a quarterly basis, providing quantitative and qualitative information about fair value estimates for all financial instruments not measured in the Condensed Consolidated Balance Sheets at fair value.

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Please see Footnote No. 7, Fair Value of Financial Instruments for the relevant disclosures. The adoption of FSP FAS No. 107-1 and APB Opinion No. 28-1 did not have a material impact on our financial statements.

FSP FAS No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS No. 157-4)

We adopted FSP FAS No. 157-4 in the second quarter of 2009. FSP FAS No. 157-4 clarifies the methodology to be used to determine fair value when there is no active market or where the price inputs being used represent distressed sales. FSP FAS No. 157-4 also reaffirms the objective of fair value measurement, as stated in FAS No. 157, which is to reflect how much an asset would be sold for in an orderly transaction. It also reaffirms the need to use judgment to determine if a formerly active market has become inactive, as well as to determine fair values when markets have become inactive. The adoption of FSP FAS No. 157-4 did not have a material impact on our financial statements.

Financial Accounting Standards No. 165, Subsequent Events (FAS No. 165)

We adopted FAS No. 165 in the second quarter of 2009. FAS No. 165 establishes the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. See Footnote No. 1, Basis of Presentation, for the related disclosures. The adoption of FAS No. 165 did not have a material impact on our financial statements.

Future Adoption of Accounting Standards

The FASB issued the following two new accounting standards on June 12, 2009.

Financial Accounting Standards No. 166, Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140 (FAS No. 166) and Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 46(R) (FAS No. 167)

FAS No. 166 amends FAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, by: eliminating the concept of a qualifying special-purpose entity (QSPE); clarifying and amending the derecognition criteria for a transfer to be accounted for as a sale; amending and clarifying the unit of account eligible for sale accounting; and requiring that a transferor initially measure at fair value and recognize all assets obtained (for example beneficial interests) and liabilities incurred as a result of a transfer of an entire financial asset or group of financial assets accounted for as a sale. Additionally, on and after the effective date, existing QSPEs (as defined under previous accounting standards) must be evaluated for consolidation by reporting entities in accordance with the applicable consolidation guidance. FAS No. 166 requires enhanced disclosures about, among other things, a transferor s continuing involvement with transfers of financial assets accounted for as sales, the risks inherent in the transferred financial assets that have been retained, and the nature and financial effect of restrictions on the transferor s assets that continue to be reported in the statement of financial position.

FAS No. 166 will be effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009, which for us would be January 2, 2010, the first day of our 2010 fiscal year.

FAS No. 167 amends FIN 46(R), Consolidation of Variable Interest Entities, and changes the consolidation guidance applicable to a variable interest entity (VIE). It also amends the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE, and is, therefore, required to consolidate an entity, by requiring a qualitative analysis rather than a quantitative analysis. The qualitative analysis will include, among other things, consideration of who has the power to direct the activities of the entity that most significantly impact the entity s economic performance and who has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. This standard also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE. Previously, FIN 46(R) required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. QSPEs, which were previously exempt from the application of this standard, will be subject to the provisions of this standard when it becomes effective. FAS No. 167 also requires enhanced disclosures about an enterprise s involvement with a VIE.

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FAS No. 167 will be effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009, which for us would be January 2, 2010, the first day of our 2010 fiscal year.

We expect that the initial adoption of FAS No. 166 and FAS No. 167 in our 2010 first quarter will require our consolidation of 13 existing qualifying special purpose entities associated with past securitization transactions. Accordingly, we expect to record a one-time non-cash after-tax charge of approximately $70 million to $95 million ($115 million to $155 million pre-tax) in the 2010 first quarter, representing the cumulative effect of a change in accounting principle. The cumulative effect will consist primarily of the reestablishment of notes receivable (net of reserves) associated with those securitization transactions, more than offset by the elimination of residual interests that we initially recorded in connection with those transactions, the impact of recording debt obligations associated with third party interests held in the special purpose entities and related adjustments to inventory balances. We anticipate that our adoption of these standards will have the following impacts on our balance sheet: (1) assets will increase by approximately $950 million to $1,025 million, primarily representing the consolidation of notes receivable; (2) liabilities will increase by approximately $1,020 million to $1,120 million, primarily representing the consolidation of debt obligations associated with third party interests; and (3) shareholders equity will decrease by approximately $70 million to $95 million.

The ongoing impact of the adoption in subsequent periods could in the future also prevent us from meeting the derecognition criteria of FAS No. 166, and, accordingly, prevent us from achieving sale accounting for securitization transactions because the underlying securitization vehicles may require consolidation. On an ongoing basis, we estimate that we will report an annual increase in income from continuing operations before income taxes of approximately $30 million to $50 million, primarily attributable to the difference between interest income on notes held (net of interest expense to third party debt holders) and the previously recorded accretion income attributed to residual interests for our past securitization transactions. Future securitizations may also have an earnings impact but such amounts are not included in these estimates.

Accounting Standards Update No. 2009-05 Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value (ASU No. 2009-5)

The FASB issued ASU No. 2009-5, which amends Subtopic 820-10, Fair Value Measurements and Disclosures-Overall for the fair value measurement of liabilities, on August 28, 2009. ASU No. 2009-5 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, an entity is required to measure fair value utilizing one or more of the following techniques: (1) a valuation technique that uses the quoted market price of an identical liability or similar liabilities when traded as assets; or (2) another valuation technique that is consistent with the principles of Topic 820, such as a present value technique. ASU No. 2009-5 will be effective for the first reporting period after the issuance, which for us would be the fourth quarter of 2009. We do not expect ASU No. 2009-5 to have a material impact on our financial statements.

3. Income Taxes

Our federal income tax returns have been examined and we have settled all issues for tax years through 2004 with the exception of one 1994 transaction as discussed in Footnote No. 2, Income Taxes, in our 2008 Form 10-K. We filed a refund claim relating to 2000 and 2001. The Internal Revenue Service (IRS) disallowed the claims, and in July 2009 we protested the disallowance. This issue is pending in the IRS Appeals Division. The 2005, 2006 and 2007 IRS field examinations have been completed, and the unresolved issues from those years are now with the IRS Appeals Division. The 2008 and 2009 IRS examinations are ongoing as part of the IRS s Compliance Assurance Program. Various state, local, and foreign income tax returns are also under examination by taxing authorities.

We recorded $56 million of income tax expense for the thirty-six week period ended September 11, 2009 (which included a $13 million income tax expense in the third quarter), primarily related to the treatment of funds received from foreign subsidiaries. We are contesting the issue with the IRS for tax years 2005, 2006, and 2007. The charges recorded in 2009 primarily relate to our ongoing current fiscal year exposure related to this issue.

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The balance of unrecognized tax benefits was $247 million at the end of the 2009 third quarter. For the third quarter of 2009, we increased unrecognized tax benefits by $21 million (from $226 million at the end of the 2009 second quarter) primarily representing an increase for the foreign subsidiaries issue. For the thirty-six weeks ended 2009, we increased unrecognized tax benefits by $106 million (from $141 million at year-end 2008), primarily representing an increase for the foreign subsidiaries issue due to our ongoing current fiscal year exposure. The unrecognized tax benefits balance of $247 million at the end of the 2009 third quarter included $131 million of tax positions that, if recognized, would impact the effective tax rate.

As a large taxpayer, we are under continual audit by the IRS and other taxing authorities. It is possible that the amount of the liability for unrecognized tax benefits could change during the next 52-week period, but we do not anticipate that a significant impact to the unrecognized tax benefit balance will occur.

4. Discontinued Operations-Synthetic Fuel

Our synthetic fuel operations consisted of four coal-based synthetic fuel production facilities (the Facilities). Because tax credits under Section 45K of the Internal Revenue Code were only available for the production and sale of synthetic fuel produced from coal before 2008, and because we estimated that high oil prices during 2007 would result in the phase-out of a significant portion of the tax credits available for synthetic fuel produced and sold in 2007, we permanently shut down the Facilities on November 3, 2007. Accordingly, we now report this business as a discontinued operation. See Footnote No. 4, Discontinued Operations-Synthetic Fuel, in our 2008 Form 10-K for additional information.

The following table provides income statement and balance sheet information relating to the discontinued synthetic fuel operations. The discontinued synthetic fuel operations reflected in the income statement for the twelve and thirty-six weeks ended September 5, 2008, only represents activity related to Marriott and there were no noncontrolling interests.

Income Statement Summary

	Twelve Weeks Ended		Thirty-Six Weeks Ended	
($ in millions)	**September 11, 2009**	**September 5, 2008**	**September 11, 2009**	**September 5, 2008**
Revenue	$	$	$	$ 1
Loss from discontinued operations before income taxes	$	$ (1)	$	$ (4)
Tax (provision) benefit				(3)
Tax credits		1		10
Total tax (provision) benefit		1		7
Income from discontinued operations	$	$	$	$ 3

Balance Sheet Summary

	At Period End	
($ in millions)	**September 11, 2009**	**January 2, 2009**
Liabilities	$	$ (3)

5. Share-Based Compensation

Under our 2002 Comprehensive Stock and Cash Incentive Plan (the Comprehensive Plan), we award: (1) stock options to purchase our Class A Common Stock (Stock Option Program); (2) share appreciation rights (SARs) for our Class A Common Stock (Stock Appreciation Right Program); (3) restricted stock units of our Class A Common Stock; and (4) deferred stock units. We grant awards at exercise prices or strike prices that are equal to the market price of our Class A Common Stock on the date of grant.

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Restricted Stock Units

We granted 0.8 million restricted stock units during the thirty-six weeks ended September 11, 2009, to certain officers and key employees, and those units vest generally over four years in equal annual installments commencing one year after the date of grant. The weighted average grant-date fair value of the restricted stock units granted in the first three quarters of 2009 was $19.

SARs

We granted 0.5 million SARs to officers and key employees during the thirty-six weeks ended September 11, 2009. These SARs expire 10 years after the date of grant and both vest and are exercisable in cumulative installments of one quarter at the end of each of the first four years following the date of grant. The weighted average grant-date fair value of these SARs was $5, and the weighted average exercise price was $15.

During the thirty-six weeks ended September 11, 2009, we also granted 5,600 non-employee director SARs to a director with a weighted average exercise price of $23 and a weighted average grant-date fair value of $10. These non-employee director SARs expire 10 years after the date of grant and vest upon grant, but are generally not exercisable until one year after grant.

To estimate the fair value of each SAR granted, we use a lattice-based valuation model that incorporates a range of assumptions for inputs. Historical data is used to estimate exercise behaviors for separate groups of retirement eligible and non-retirement eligible employees. The expected terms of the SARs granted are derived from the outputs of the valuation model and represent the periods of time that the SARs granted are expected to be outstanding.

The range of assumptions for the SARs granted during the first three quarters of 2009 is as follows:

Expected volatility	32%-33%
Dividend yield	0.95%
Risk-free rate	2.0%-3.2%
Expected term (in years)	6-10

The risk-free rates are based on the corresponding U.S. Treasury spot rates for the expected duration at the date of grant, converted to a continuously compounded rate.

Deferred Stock Units

We issued 32,000 deferred stock units with a weighted average grant-date fair value of $23 to non-employee directors during the thirty-six weeks ended September 11, 2009. These non-employee director deferred stock units vest within one year and are distributed upon election.

Other Information

At the end of the 2009 third quarter, 69.8 million shares were reserved under the Comprehensive Plan, including 37.4 million shares under the Stock Option Program and Stock Appreciation Right Program.

On May 1, 2009, the shareholders approved an amendment to the Comprehensive Plan to increase the number of shares of the Company s common stock authorized for issuance by 15 million to a total of 185 million.

6. Fair Value Measurements

FAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The standard outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. FAS No. 157 details the disclosures that are required for items measured at fair value.

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We have various financial instruments we must measure on a recurring basis under FAS No. 157, including certain marketable securities, derivatives, and residual interests related to our asset securitizations. We also apply the provisions of FAS No. 157 to various non-recurring measurements for our financial and non-financial assets and liabilities, which included the impairment of a joint venture investment, and two security deposits in the first quarter of 2009 and the impairment of Timeshare segment inventory, property and equipment, anticipated fundings in conjunction with certain purchase commitments, and a joint venture investment in the third quarter of 2009. See Footnote No. 19, Restructuring Costs and Other Charges, and Footnote No. 18, Timeshare Strategy-Impairment Charges, for further information. We measure our assets and liabilities using inputs from the following three levels of the fair value hierarchy:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 includes unobservable inputs that reflect our assumptions about the assumptions that market participants would use in pricing the asset or liability. We develop these inputs based on the best information available, including our own data.

In accordance with the fair value hierarchy, the following table shows the fair value as of September 11, 2009, of those assets and liabilities that we must measure at fair value on a recurring basis and that we classify as Other current assets, Other assets, Other payables and accruals, and Other long-term liabilities :

($ in millions)	**Fair Value Measurements as of September 11, 2009**			
Description	**Balance at September 11, 2009**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Residual interests	$ 174	$	$	$ 174
Marketable securities	31	15	16	
Liabilities:				
Derivative instruments	(10)	(4)	(4)	(2)

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The following tables summarize the changes in fair value of our Level 3 assets and liabilities for the twelve and thirty-six weeks ended September 11, 2009:

($ in millions)	**Fair Value Measurements of Assets and Liabilities Using Level 3 Inputs**	
	Residual Interests	**Derivative Instruments**
Beginning balance at June 19, 2009	$ 180	$ (1)
Total gains (losses) (realized or unrealized)		
Included in earnings	10	(1)
Purchases, sales, issuances, and settlements	(16)	
Ending balance at September 11, 2009	$ 174	$ (2)
Gains (losses) for the third quarter of 2009 included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ 10	$ (1)

($ in millions)	**Fair Value Measurements of Assets and Liabilities Using Level 3 Inputs**	
	Residual Interests	**Derivative Instruments**
Beginning balance at January 3, 2009	$ 221	$ (15)
Total gains (losses) (realized or unrealized)		
Included in earnings	(1)	
Purchases, sales, issuances, and settlements	(46)	13
Ending balance at September 11, 2009	$ 174	$ (2)
Gains (losses) for the first three quarters of 2009 included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ (1)	$

As discussed in more detail in Footnote No. 12, Asset Securitizations, we periodically sell notes receivable originated by our Timeshare segment. We continue to service the notes after the sale, and we retain servicing assets and other interests in the notes and account for these assets and interests as residual interests. At the dates of sale and at the end of each reporting period, we estimate the fair value of our residual interests using a discounted cash flow model. These transactions may utilize interest rate swaps to protect the net interest margin associated with the beneficial interest.

The most significant estimate involved in the measurement process is the discount rate, followed by the default rate and the loan prepayment rate. Estimates of these rates are based on management s expectations of future prepayment rates and default rates, reflecting our historical experience, industry trends, current market interest rates, expected future interest rates, and other considerations. Actual prepayment rates, default rates, and discount rates could differ from those projected by management due to changes in a variety of economic factors, including prevailing interest rates and the availability of alternative financing sources to borrowers. If actual prepayments of the notes being serviced were to occur more slowly than had been projected, or if actual default rates or actual discount rates are lower than expected, the carrying value of servicing assets could increase and accretion and servicing income would exceed previously projected amounts. Conversely, if actual prepayments occur at a faster than projected pace, or if actual default or actual discount rates are higher than we expect, the carrying value of servicing assets could decrease and accretion and servicing income would be below previously projected amounts. Accordingly, the residual interests actually realized, could differ from the amounts initially or currently recorded.

The discount rates we use in determining the fair values of our residual interests are based on the volatility characteristics (i.e., defaults and prepayments) of the residual assets. We assume increases in the default and prepayment rates and discount the resulting cash flows with a low risk rate to derive a stressed asset value. The low risk rate approximates credit spreads in the current market. Using our base case cash flows, we then determine the discount rate, which when applied to the base case cash flows, produces the stressed asset value, which we assume approximates an exit price for the residual assets. We adjust discount rates quarterly as interest rates, credit spreads, and volatility characteristics in the market fluctuate.

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We treat our residual interests as trading securities under the provisions of FAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, and accordingly, we record realized and unrealized gains or losses related to these assets in the Timeshare sales and services revenue caption in our Condensed Consolidated Statements of Income. During the twelve weeks ended September 11, 2009, and September 5, 2008, we recorded trading gains of $10 million and $12 million, respectively. During the thirty-six weeks ended September 11, 2009 and September 5, 2008, we recorded trading losses of $1 million and gains of $14 million, respectively.

For our first quarter 2009 note sale, we used the following key assumptions to measure the fair value of the residual interests, including servicing assets, at the date of sale: average discount rate of 13.57 percent; average expected annual prepayments, including defaults, of 19.27 percent; expected weighted average life of prepayable notes receivable, excluding prepayments and defaults, of 73 months; and expected weighted average life of prepayable notes receivable, including prepayments and defaults, of 38 months. Our key assumptions are based on experience with notes receivable and servicing assets.

We used the following key assumptions in measuring the fair value of the residual interests in our 13 outstanding Timeshare note sales as of September 11, 2009: an average discount rate of 17.07 percent; an average expected annual prepayment rate, including defaults, of 15.56 percent; an expected weighted average life of prepayable notes receivable, excluding prepayments and defaults, of 57 months; and an expected weighted average life of prepayable notes receivable, including prepayments and defaults, of 37 months.

We completed a stress test on the fair value of the residual interests as of the end of the 2009 third quarter to measure the change in value associated with independent changes in individual key variables. This methodology applied unfavorable changes that would be statistically significant for the key variables of prepayment rate, discount rate, and weighted average remaining term. Before we applied any of these stress test changes, we determined that the fair value of the residual interests was $174 million as of September 11, 2009.

Applying the stress tests, we concluded that each change to a variable shown in the table below would have the following impact on the valuation of our residual interests at the end of the 2009 third quarter.

	Decrease in Quarter-End Valuation ($ in millions)	Percentage Decrease
100 basis point increase in the prepayment rate	$ 4	2.2%
200 basis point increase in the prepayment rate	8	4.7%
100 basis point increase in the discount rate	4	2.5%
200 basis point increase in the discount rate	9	4.9%
Two month decline in the weighted average remaining term	1	0.8%
Four month decline in the weighted average remaining term	3	1.6%

We value our Level 3 input derivatives using valuations that are calibrated to the initial trade prices. Subsequent valuations are based on unobservable inputs to the valuation model including interest rates and volatilities. We record realized and unrealized gains and losses on these derivative instruments in gains from the sale of timeshare notes receivable, which are recorded within the Timeshare sales and services revenue caption in our Condensed Consolidated Statements of Income.

In connection with the first quarter 2009 note sale, on the date of transfer, we recorded notes that we effectively owned after the transfer at a fair value of $81 million. We used a discounted cash flow model, including Level 3 inputs, to determine the fair value of notes we effectively owned after the transfer. We based the discount rate we used in determining the fair value on the methodology described earlier in this footnote. Other assumptions, such as default and prepayment rates, are consistent with those used in determining the fair value of our residual interests. For additional information, see Footnote No. 12, Asset Securitizations.

During the first quarter of 2009, we recorded $79 million of impairment charges for two of our security deposits and one joint venture investment, prior to the application of an $11 million liability remaining from 2008. These charges are reflected in our thirty-six week Condensed Consolidated Statements of Income as

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$49 million in the General, administrative, and other caption and $30 million in the Equity in (losses) earnings caption. For additional information, see Footnote No. 19, Restructuring Costs and Other Charges.

During the third quarter of 2009, we recorded an other-than-temporary impairment charge related to marketable equity securities. This charge is reflected in our twelve and thirty-six week Condensed Consolidated Statements of Income as $5 million in the (Losses) gains and other income caption. We measure these securities using Level 1 inputs on a recurring basis.

During the third quarter of 2009, in conjunction with our evaluation of the entire Timeshare portfolio and our resulting decisions to adjust the business strategy to reflect current market conditions, we recorded $685 million of impairment charges in accordance with FAS No. 157 for inventory, property and equipment, anticipated fundings in conjunction with certain purchase commitments, and one joint venture investment. We reflect these charges in our twelve and thirty-six week Condensed Consolidated Statements of Income as $614 million in the Timeshare strategy impairment charges caption and $71 million in the Timeshare strategy-impairment charges (non-operating) caption. For additional information, see Footnote No. 18, Timeshare Strategy-Impairment Charges.

7. Fair Value of Financial Instruments

We adopted FSP FAS No. 107-1 and APB Opinion No. 28-1 as of March 28, 2009, the first day of our 2009 second quarter. The guidance requires quarterly fair value disclosures for financial instruments rather than annual disclosure.

We believe that the fair values of our current assets and current liabilities approximate their reported carrying amounts. The carrying values and the fair values of non-current financial assets and liabilities, that qualify as financial instruments per FAS No. 107, Disclosures about Fair Value of Financial Instruments, are shown in the following table.

	At September 11, 2009		At Year-End 2008	
($ in millions)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Cost method investments	$ 40	$ 32	$ 37	$ 36
Long-term notes receivable	533	519	830	817
Residual interests and effectively owned notes	197	197	135	135
Restricted cash	18	18	51	51
Marketable securities	31	31	24	24
Other long-term receivables	23	22	24	24
Total long-term financial assets	$ 842	$ 819	$ 1,101	$ 1,087
Long-term debt	$ (2,492)	$ (2,473)	$ (2,941)	$ (2,720)
Other long-term liabilities	(90)	(86)	(92)	(92)
Long-term derivative liabilities	(6)	(6)	(20)	(20)
Total long-term financial liabilities	$ (2,588)	$ (2,565)	$ (3,053)	$ (2,832)

We estimate the fair value of our cost method investments by applying a cap rate to stabilized earnings. We estimate the fair value of our long-term notes receivables using various methods, which include discounting cash flows using risk-adjusted rates and applying historical results from our most recent securitization transaction to our unsold notes receivables. The carrying value of our restricted cash approximates its fair value, and we estimate the fair value of our other long-term receivables by discounting future cash flows at risk-adjusted rates. The carrying value of our marketable securities at September 11, 2009, of $31 million includes $15 million in equity securities in one entity and $16 million in debt securities of the U.S. Government, its sponsored agencies and other U.S. corporations invested for our self-insurance programs. Our residual interests, marketable securities, and restricted cash are included within the Other long-term assets caption on our Condensed Consolidated Balance Sheets.

We estimate the fair value of our long-term debt, excluding leases, using a combination of quoted market prices and expected future payments discounted at risk-adjusted rates. Other long-term liabilities represent

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guarantee costs and reserves and deposit liabilities. The carrying value of these liabilities approximates their fair values.

Our residual interests related to our timeshare securitizations, marketable securities, and derivative liabilities are carried at fair value. Please see Footnote No. 6, Fair Value Measurements, for additional information on the methods and assumptions used to estimate the fair value of these financial instruments and for further information on the effectively held notes. We include our long-term derivative liabilities within the Other long-term liabilities caption on our Condensed Consolidated Balance Sheets. See Footnote No. 16, Derivative Instruments for additional information.

8. Earnings Per Share

The table below illustrates the reconciliation of the earnings (losses) and number of shares used in our calculations of basic and diluted earnings (losses) per share attributable to Marriott shareholders.

	Twelve Weeks Ended		Thirty-Six Weeks Ended	
($ in millions)	**September 11, 2009**	**September 5, 2008**	**September 11, 2009**	**September 5, 2008**
Computation of Basic Earnings Per Share Attributable to Marriott Shareholders				
(Loss) income from continuing operations	$ (469)	$ 84	$ (459)	$ 356
Net losses attributable to noncontrolling interests	3	10	7	13
(Loss) income from continuing operations attributable to Marriott shareholders	(466)	94	(452)	369
Weighted average shares outstanding	355.5	353.8	354.5	355.6
Basic (losses) earnings per share from continuing operations attributable to Marriott shareholders	$ (1.31)	$ 0.27	$ (1.27)	$ 1.04
Computation of Diluted Earnings Per Share Attributable to Marriott Shareholders				
(Loss) income from continuing operations attributable to Marriott shareholders	$ (466)	$ 94	$ (452)	$ 369
Weighted average shares outstanding	355.5	353.8	354.5	355.6
Effect of dilutive securities				
Employee stock option and SARs plans		11.3		13.0
Deferred stock incentive plans		1.6		1.6
Restricted stock units		1.3		1.8
Shares for diluted earnings per share attributable to Marriott shareholders	355.5	368.0	354.5	372.0
Diluted (losses) earnings per share from continuing operations attributable to Marriott shareholders	$ (1.31)	$ 0.25	$ (1.27)	$ 0.99

We compute the effect of dilutive securities using the treasury stock method and average market prices during the period. We determine dilution based on earnings from continuing operations attributable to Marriott shareholders. As we recorded a loss from continuing operations for the twelve and thirty-six week periods ended September 11, 2009, we did not include the following shares in the Effect of dilutive securities caption in the preceding table, because it would have been antidilutive to do so: 7.4 million employee stock option and SARs plan shares, 1.4 million deferred stock incentive plans shares, or 2.0 million restricted stock unit shares for the twelve-week period and 6.7 million employee stock option and SARs plan shares, 1.5 million deferred stock incentive plans shares, or 1.5 million restricted stock units shares for the thirty-six week period.

In accordance with FAS No. 128, Earnings per Share, we have not included the following stock options and SARs in our calculation of diluted earnings per share attributable to Marriott shareholders because the exercise prices were greater than the average market prices for the applicable periods:

(a) for the twelve-week period ended September 11, 2009, 12.6 million options and SARs, with exercise prices ranging from $22.30 to $49.03;

(b) for the twelve-week period ended September 5, 2008, 4.9 million options and SARs, with exercise prices ranging from $27.46 to $49.03;

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(c) for the thirty-six week period ended September 11, 2009, 12.8 million options and SARs, with exercise prices ranging from $20.17 to $49.03; and

(d) for the thirty-six week period ended September 5, 2008, 3.9 million options and SARs, with exercise prices ranging from $32.16 to $49.03.

Weighted average common and diluted shares have been restated to reflect the second and third quarter stock dividends of 0.00360 and 0.00370 shares of common stock, respectively, (adjusted downward from 0.00369 shares declared in the second quarter of 2009 and 0.00379 shares declared in the third quarter of 2009) to reflect cash that was distributed in lieu of fractional shares.

9. Inventory

Inventory, totaling $1,465 million and $1,981 million as of September 11, 2009, and January 2, 2009, respectively, consists primarily of Timeshare segment interval, fractional ownership, and residential products totaling $1,447 million and $1,959 million as of September 11, 2009, and January 2, 2009, respectively. Inventory totaling $18 million and $22 million as of September 11, 2009, and January 2, 2009, respectively, primarily relates to hotel operating supplies for the limited number of properties we own or lease. We value Timeshare segment interval, fractional ownership, and residential products at the lower of cost or net realizable value, and generally value operating supplies at the lower of cost (using the first-in, first-out method) or market. Consistent with recognized industry practice, we classify Timeshare segment interval, fractional ownership, and residential products inventory, which has an operating cycle that exceeds 12 months, as a current asset.

Weak economic conditions in the United States, Europe and much of the rest of the world, instability in the financial markets following the 2008 worldwide financial crisis, and weak consumer confidence all contributed to a difficult business environment and resulted in weaker demand for our Timeshare segment products, in particular our luxury residential (or whole ownership) products, but also to a lesser extent our luxury fractional ownership and timeshare products. In the 2009 third quarter, we recorded an inventory impairment charge of $529 million in conjunction with our evaluation of the entire Timeshare portfolio. See Footnote No. 18, Timeshare Strategy-Impairment Charges, for additional information.

10. Property and Equipment

The following table details the composition of our property and equipment balances at September 11, 2009, and January 2, 2009.

($ in millions)	**September 11, 2009**	**January 2, 2009**
Land	$ 453	$ 469
Buildings and leasehold improvements	907	852
Furniture and equipment	963	954
Construction in progress	193	244
	2,516	2,519
Accumulated depreciation	(1,145)	(1,076)
	$ 1,371	$ 1,443

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11. Notes Receivable

The following table details the composition of our notes receivable balances at September 11, 2009, and January 2, 2009.

($ in millions)	September 11, 2009	January 2, 2009
Loans to timeshare owners	$ 511	$ 688
Senior loans	1	2
Mezzanine and other loans	192	236
	704	926
Less current portion	(171)	(96)
	$ 533	$ 830

We classify notes receivable due within one year as current assets in the caption Accounts and notes receivable in the accompanying Condensed Consolidated Balance Sheets, including $73 million and $81 million, at September 11, 2009, and January 2, 2009, respectively, related to Loans to timeshare owners.

In the first quarter of 2009, we fully reserved two notes receivable balances that we deemed uncollectible, one of which relates to a project that is in development. We recorded a total charge of $42 million in the first quarter of 2009 in the Provision for loan losses caption in our Condensed Consolidated Statements of Income related to these two notes receivable balances. We also recorded a $1 million charge in the second quarter of 2009 related to two notes receivable balances. See Footnote No. 19, Restructuring Costs and Other Charges for additional information.

In the 2009 third quarter we fully reserved certain notes receivable balances that we deemed uncollectible, which relate to a Timeshare segment project that is in development. Accordingly, we recorded a loan impairment charge of $40 million in the 2009 third quarter in the Timeshare strategy-impairment charges (non-operating) caption of our Consolidated Statements of Income. See Footnote No. 18, Timeshare Strategy-Impairment Charges, for additional information.

12. Asset Securitizations

As noted in Footnote No. 12, Asset Securitizations, in our 2008 Form 10-K, we periodically sell, without recourse, through special purpose entities, notes receivable originated by our Timeshare segment in connection with the sale of timeshare interval and fractional products. We continue to service the notes and transfer all proceeds collected to special purpose entities. We retain servicing assets and other interests in the notes and account for these assets and interests as residual interests. Residual interests at September 11, 2009, and January 2, 2009, totaled $174 million and $221 million, respectively, and included servicing assets totaling $12 million and $12 million, respectively. The interests are limited to the present value of cash available after paying financing expenses and program fees and absorbing credit losses.

We have inherent risk for changes in fair value of the servicing assets but do not deem the risk significant and therefore, do not use other financial instruments to mitigate this risk. The changes in servicing assets for the twelve weeks and thirty-six weeks ended September 11, 2009, measured using the fair value method appear in the following table:

($ in millions)	Servicing Assets Twelve Weeks Ended September 11, 2009	Servicing Assets Thirty-Six Weeks Ended September 11, 2009
Fair value at beginning of period	$ 13	$ 12
Servicing from securitizations		3
Changes in fair value [1]	(1)	(3)
Fair value at end of period	$ 12	$ 12

(1) Principally represents changes due to collection/realization of expected future cash flows over time and changes in fair value due to changes in key variables listed below.

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At the end of the third quarter of 2009, $1,168 million of principal due from timeshare interval and fractional owners remained outstanding in 13 special purpose entities formed in connection with our timeshare note sales. Delinquencies of more than 90 days amounted to $16 million. The impact to us from delinquencies, and our maximum exposure to loss as a result of our involvement with these special purpose entities, is limited to our residual interests, which we value based on a discounted cash flow model, as discussed in Footnote No. 6, Fair Value Measurements. Please see the Timeshare Residual Interests Valuation caption within the Restructuring Costs and Other Charges section of the Management s Discussion and Analysis of Financial Condition and Results of Operations section for additional information on the risks associated with our residual interests. Under the terms of our timeshare note sales, we have the right, at our option, to repurchase defaulted mortgage notes at par. The transaction documents typically limit such repurchases to ten percent of the transaction s initial mortgage balance, but during the 2009 third quarter investors in two of our outstanding note sale transactions agreed to increase the applicable limit to 15 percent. In cases where we have chosen to exercise this repurchase right, we have been able to resell the timeshare units underlying the defaulted loans without incurring material losses, although we may not be able to do so in the future.

Cash flows between us and third-party purchasers during the thirty-six weeks ended September 11, 2009, and September 5, 2008 were as follows: net proceeds to us from new timeshare note sales of $181 million and $237 million, respectively; voluntary repurchases by us of defaulted notes (over 150 days overdue) of $58 million and $37 million, respectively; servicing fees received by us of $5 million and $5 million, respectively; and cash flows received from our retained interests of $54 million and $69 million, respectively.

We earned contractually specified servicing fees for the twelve weeks ended September 11, 2009 and September 5, 2008 totaling $2 million and $2 million, respectively, which we reflected within the changes in fair value to the servicing assets. Contractually specified late and ancillary fees earned for the twelve weeks ended September 11, 2009 and September 5, 2008, totaled $2 million for both periods. We reflect servicing fees and late and ancillary fees within the Timeshare sales and services line item on our Condensed Consolidated Statements of Income.

We earned contractually specified servicing fees for the thirty-six weeks ended September 11, 2009 and September 5, 2008 totaling $5 million and $5 million, respectively, which we reflected within the changes in fair value to the servicing assets. Contractually specified late and ancillary fees earned for the thirty-six weeks ended September 11, 2009 and September 5, 2008, totaled $5 million for both periods.

In March 2009, prior to the end of our first quarter, we completed a private placement of approximately $205 million of floating-rate Timeshare Loan Backed Notes with a bank-administered commercial paper conduit. We contributed approximately $284 million of notes receivable originated by our Timeshare segment in connection with the sale of timeshare interval and fractional ownership products to a newly formed special purpose entity. On the same day, the special purpose entity issued approximately $205 million of the entity s notes. In connection with the private placement of notes receivable, we received proceeds of approximately $181 million, net of costs, and retained $94 million of residual interests in the special purpose entity, which included $81 million of notes we effectively owned after the transfer and $13 million related to the servicing assets and interest only strip. We measured all residual interests at fair market value on the date of the transfer. The notes effectively owned after the transfer require accounting treatment as notes receivable and are carried at the basis established at the date of transfer unless we deem them non-recoverable in the future. If that were to occur, we would record a valuation allowance.

In connection with the first quarter 2009 note sale, we recorded a $1 million loss, which was included within the Timeshare sales and services line item on our Condensed Consolidated Statements of Income. See Asset Securitizations later in this report in Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations for information regarding disruption in the credit markets.

As of September 11, 2009, the value of the notes that we effectively owned from the 2009 note sale was approximately $82 million, which we classified as Other assets in our Condensed Consolidated Balance Sheets. During the thirty-six weeks ended September 11, 2009, we recorded approximately $6 million of interest income associated with these effectively owned notes, $3 million of which we recognized during the third quarter.

13. Long-term Debt

Our long-term debt at September 11, 2009, and January 2, 2009, consisted of the following:

($ in millions)	September 11, 2009	January 2, 2009
Senior Notes:		
Series C, interest rate of 7.875%, face amount of $76, maturing September 15, 2009	$ 76	$ 76
Series F, interest rate of 4.625%, face amount of $348, maturing June 15, 2012	347	347
Series G, interest rate of 5.810%, face amount of $316, maturing November 10, 2015	301	349
Series H, interest rate of 6.200%, face amount of $289, maturing June 15, 2016	289	314
Series I, interest rate of 6.375%, face amount of $293, maturing June 15, 2017	291	335
Series J, interest rate of 5.625%, face amount of $400, maturing February 15, 2013	398	397
$2.4B Effective Credit Facility, average interest rate of 0.762% at September 11, 2009	710	969
Other	248	308
	2,660	3,095
Less current portion	(137)	(120)
	$ 2,523	$ 2,975

As of the end of our 2009 third quarter, all debt was unsecured, and we had long-term public debt ratings of BBB- from Standard and Poor s and Baa3 from Moody s.

In the first three quarters of 2009, we repurchased $122 million principal amount of our Senior Notes in the open market, across multiple series. We recorded a gain of $21 million for the debt extinguishment representing the difference between the acquired debt s purchase price of $98 million and its carrying amount of $119 million.

Subsequent to the 2009 third quarter, on September 15, 2009, we made a $79 million cash payment of principal and interest to retire, at maturity, all of our outstanding Series C Senior Notes.

As discussed in more detail in Footnote No. 13, Long-term debt, of our 2008 Form 10-K, we are party to a multicurrency revolving credit agreement (the Credit Facility) that provides for $2.4 billion of aggregate effective borrowings to support general corporate needs, including working capital and capital expenditures, and letters of credit and supported our commercial paper program.

Until the 2008 fourth quarter, we regularly issued short-term commercial paper primarily in the United States and, to a much lesser extent, in Europe. Disruptions in the financial markets beginning in September 2008 significantly reduced liquidity in the commercial paper market. Accordingly, in the fourth quarter of 2008, we suspended issuing commercial paper and used funds borrowed under the Credit Facility to repay all of our previously issued commercial paper as it matured. Our Standard and Poor s commercial paper rating at the end of the 2009 third quarter was A3. Because the market for A3 commercial paper is currently very limited, it would be very difficult to rely on the use of this market as a meaningful source of liquidity, and we do not anticipate issuing commercial paper under these circumstances.

We classified outstanding commercial paper as long-term debt based on our ability and intent to refinance it on a long-term basis. We reserved unused capacity under our Credit Facility to repay outstanding commercial paper borrowings in the event that the commercial paper market was not available to us for any reason when outstanding borrowings matured. Given our borrowing capacity under the Credit Facility, fluctuations in the commercial paper market or the costs at which we can issue commercial paper have not affected our liquidity, and we do not expect them to do so in the future.

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Although we are predominantly a manager and franchisor of hotel properties, we depend on capital to buy, develop, and improve hotels, as well as to develop timeshare properties. Capital markets were disrupted in the fourth quarter of 2008 and remain challenging due to the recession and ongoing worldwide financial instability. See the Cash Requirements and Our Credit Facilities discussion in the Liquidity and Capital Resources section of this report for additional information regarding our Credit Facility.

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14. Comprehensive Income and Capital Structure

The following tables detail comprehensive income attributable to Marriott, comprehensive income attributable to noncontrolling interests, and consolidated comprehensive income for the twelve and thirty-six weeks ended September 11, 2009, and September 5, 2008.

($ in millions)	Attributable to Marriott Twelve Weeks Ended		Attributable to Noncontrolling Interests Twelve Weeks Ended		Consolidated Twelve Weeks Ended	
	September 11, 2009	September 5, 2008	September 11, 2009	September 5, 2008	September 11, 2009	September 5, 2008
Net (loss) income	$ (466)	$ 94	$ (3)	$ (10)	$ (469)	$ 84
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	8	(14)			8	(14)
Other derivative instrument adjustments	(3)	(4)			(3)	(4)
Unrealized gains (losses) on available-for-sale securities	2	(5)			2	(5)
Reclassification of losses (gains) on available-for-sale securities	5				5	
Total other comprehensive (loss) income, net of tax	12	(23)			12	(23)
Comprehensive (loss) income	$ (454)	$ 71	$ (3)	$ (10)	$ (457)	$ 61

($ in millions)	Attributable to Marriott Thirty-Six Weeks Ended		Attributable to Noncontrolling Interests Thirty-Six Weeks Ended		Consolidated Thirty-Six Weeks Ended	
	September 11, 2009	September 5, 2008	September 11, 2009	September 5, 2008	September 11, 2009	September 5, 2008
Net (loss) income	$ (452)	$ 372	$ (7)	$ (13)	$ (459)	$ 359
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	20	2			20	2
Other derivative instrument adjustments	(7)	6			(7)	6
Unrealized gains (losses) on available-for-sale securities	5	(11)			5	(11)
Reclassification of losses (gains) on available-for-sale securities	5				5	
Total other comprehensive (loss) income, net of tax	23	(3)			23	(3)
Comprehensive (loss) income	$ (429)	$ 369	$ (7)	$ (13)	$ (436)	$ 356

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The following table details changes in shareholders equity, including changes in equity attributable to Marriott shareholders and changes in equity attributable to the noncontrolling interests. We have restated common shares outstanding to reflect the stock dividends that were declared on May 1, 2009 and August 6, 2009, respectively. The stock dividends were distributed in the 2009 third quarter.

($ in millions, except share amounts)			**Equity Attributable to Marriott Shareholders**					
Common Shares Outstanding		**Total**	**Class A Common Stock**	**Additional Paid-in-Capital**	**Retained Earnings**	**Treasury Stock, at Cost**	**Accumulated Other Comprehensive Loss**	**Equity Attributable to Non-controlling Interests**
352.1	Balance at January 2, 2009	$ 1,391	$ 5	$ 3,590	$ 3,565	$ (5,765)	$ (15)	$ 11
	Net (loss) income	(459)			(452)			(7)
	Other comprehensive income	23					23	
	Dividends	(33)			(96)	63		
3.6	Employee stock plan issuance	67		(34)	21	80		
	Other	(4)						(4)
	Purchase of treasury stock							
355.7	Balance at September 11, 2009	$ 985	$ 5	$ 3,556	$ 3,038	$ (5,622)	$ 8	$

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15. Contingencies

Guarantees

We issue guarantees to certain lenders and hotel owners primarily to obtain long-term management contracts. The guarantees generally have a stated maximum amount of funding and a term of three to 10 years. The terms of guarantees to lenders generally require us to fund if cash flows from hotel operations are inadequate to cover annual debt service or to repay the loan at the end of the term. The terms of the guarantees to hotel owners generally require us to fund if the hotels do not attain specified levels of operating profit. Guarantee fundings to lenders and hotel owners are generally recoverable as loans repayable to us out of future hotel cash flows and/or proceeds from the sale of hotels. We also enter into project completion guarantees with certain lenders in conjunction with hotels and Timeshare segment properties that we or our joint venture partners are building.

The maximum potential amount of future fundings for guarantees where we are the primary obligor and the carrying amount of the liability for expected future fundings at September 11, 2009, are as follows:

($ in millions)

Guarantee Type	**Maximum Potential Amount of Future Fundings**	**Liability for Expected Future Fundings at September 11, 2009**
Debt service	$ 37	$ 1
Operating profit	152	26
Other	102	7
Total guarantees where we are the primary obligor	$ 291	$ 34

The liability for expected future fundings at September 11, 2009, is included in our Condensed Consolidated Balance Sheets as follows: $6 million in the Other payables and accruals line item and $28 million in the Other long-term liabilities line item.

Our guarantees of $291 million listed in the preceding table include $33 million of operating profit guarantees that will not be in effect until the underlying properties open and we begin to operate the properties, along with $3 million of debt service guarantees that will not be in effect until the underlying debt has been funded, and $9 million of other guarantees that will not be in effect until certain requirements are met.

The guarantees of $291 million in the preceding table do not include $179 million of guarantees that we anticipate will expire in the years 2011 through 2013, related to Senior Living Services lease obligations totaling $123 million and lifecare bonds totaling $56 million for which we are secondarily liable. Sunrise Senior Living, Inc. (Sunrise) is the primary obligor of the leases and $8 million of the lifecare bonds, and CNL Retirement Properties, Inc., which subsequently merged with Health Care Property Investors, Inc. (HCP), is the primary obligor of $46 million of the lifecare bonds. Five Star is the primary obligor of the remainder of the lifecare bonds. Prior to our sale of the Senior Living Services business in 2003, these preexisting guarantees were guarantees by us of obligations of consolidated Senior Living Services subsidiaries. Sunrise and HCP have indemnified us for any guarantee fundings we may be called on to make in connection with these lease obligations and lifecare bonds. While we currently do not expect to fund under the guarantees, according to recent SEC filings made by Sunrise there has been a significant deterioration in Sunrise s financial position and access to liquidity; accordingly, Sunrise s continued ability to meet these guarantee obligations cannot be assured.

The table also does not include lease obligations for which we became secondarily liable when we acquired the Renaissance Hotel Group N.V. in 1997, consisting of annual rent payments of approximately $6 million and total remaining rent payments through the initial term of approximately $64 million. Most of these obligations expire at the end of 2020. CTF Holdings Ltd. (CTF) had originally made available 35 million in cash collateral in the event that we are required to fund under such guarantees.

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Approximately 7 million ($9 million) of this cash collateral remained at the end of the 2009 third quarter. Our contingent liability exposure of approximately $64 million will decline to the extent that CTF obtains releases from the landlords or these hotels exit the system. Since the time we assumed these guarantees, we have not funded any amounts and we do not expect to fund any amounts under these guarantees in the future.

In addition to the guarantees noted in the preceding table, we have provided a project completion guarantee to a lender for a project with an estimated aggregate total cost of $586 million. Payments for cost overruns for this project will be satisfied by the joint venture through contributions from the partners, and we are liable on a several basis with our partners in an amount equal to our pro rata ownership in the joint venture, which is 34 percent. We do not expect to fund under the guarantee. At the end of the 2009 third quarter, the carrying value of the liabilities associated with this project completion guarantee was $6 million. We have provided a project completion guarantee to another lender for a project with an estimated aggregate total cost of CAD $466 million (USD $427 million). Payments for cost overruns for this project will be satisfied by the joint venture through contributions from the partners, and we are liable on a several basis with our partners in an amount equal to our pro rata ownership in the joint venture, which is 20 percent. We do not expect to fund under the guarantee. At September 11, 2009, the carrying value of the liabilities associated with this project completion guarantee was $3 million.

In addition to the guarantees described in the preceding paragraphs, in conjunction with financing obtained for specific projects or properties owned by joint ventures in which we are a party, we may provide industry standard indemnifications to the lender for loss, liability, or damage occurring as a result of the actions of the other joint venture owner or our own actions.

Commitments and Letters of Credit

In addition to the guarantees noted previously, we had the following commitments outstanding as of September 11, 2009:

- $5 million of loan commitments we have extended to owners of lodging properties, under which we expect to fund approximately $3 million, in two to three years. We do not expect to fund the remaining $2 million of commitments, $1 million of which will expire in two to three years and $1 million of which will expire after six years.

- Commitments to invest up to $50 million of equity for noncontrolling interests in partnerships that plan to purchase North American full-service and limited-service properties or purchase or develop hotel-anchored mixed-use real estate projects. We expect to fund $40 million of these commitments in two to three years and $10 million after three years. If not funded, $30 million of these investment commitments will expire within three years, and $20 million will expire in more than three years.

- A commitment, with no expiration date, to invest up to $12 million in a joint venture for development of a new property that we expect to fund in two to three years.

- A commitment, with no expiration date, to invest up to $7 million in a joint venture that we do not expect to fund.

- A commitment, subject to certain conditions, to invest up to $50 million (35 million) into a new fund, which we expect will be capitalized and launched within six to 18 months, to purchase or develop Marriott brand hotels in Western Europe that will be managed exclusively by us. After the initial closing of the fund, we expect that our commitment will expire after four years subject to a one-year extension option with funding occurring over time during that period.

- A commitment to invest up to $29 million (20 million) in a joint venture in which we are a partner. We do not expect to fund under this commitment.

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We have two commitments aggregating to $139 million to purchase units upon completion of construction for use in our Asia Pacific points and the Ritz-Carlton Destination Club programs. We have already made deposits of $21 million in conjunction with these commitments, and we expect to make the remaining payment of $118 million in 2010.

At September 11, 2009, we also had $118 million of letters of credit outstanding, the majority of which related to our self-insurance programs. Surety bonds issued as of September 11, 2009, totaled $405 million, the majority of which were requested by federal, state or local governments related to our lodging operations, including our Timeshare segment and self-insurance programs.

16. Derivative Instruments

We adopted FAS No. 161 on January 3, 2009, the first day of our 2009 fiscal year. FAS No. 161 enhances the current disclosure framework for derivative instruments and hedging activities. In this initial year of adoption, we have elected not to present earlier periods for comparative purposes.

The designation of a derivative instrument as a hedge and its ability to meet the FAS No. 133 hedge accounting criteria determine how the change in fair value of the derivative instrument will be reflected in the Condensed Consolidated Financial Statements. A derivative qualifies for hedge accounting if, at inception, the derivative is expected to be highly effective in offsetting the underlying hedged cash flows or fair value and the documentation standards of FAS No. 133 are fulfilled at the time we enter into the derivative contract. A hedge is designated as a cash flow hedge, fair value hedge, or a net investment in foreign operations hedge based on the exposure being hedged. The asset or liability value of the derivative will change in tandem with its fair value. Changes in fair value, for the effective portion of qualifying hedges, are recorded in other comprehensive income (OCI). The derivative s gain or loss is released from OCI to match the timing of the underlying hedged cash flows effect on earnings.

We review the effectiveness of our hedging instruments on a quarterly basis, recognize current period hedge ineffectiveness immediately in earnings, and discontinue hedge accounting for any hedge that we no longer consider to be highly effective. We recognize changes in fair value for derivatives not designated as hedges or those not qualifying for hedge accounting in current period earnings. Upon termination of cash flow hedges, we release gains and losses from OCI based on the timing of the underlying cash flows, unless the termination results from the failure of the intended transaction to occur in the expected timeframe. Such untimely transactions require us to immediately recognize in earnings gains and losses previously recorded in OCI.

Changes in interest rates, foreign exchange rates, and equity securities expose us to market risk. We manage our exposure to these risks by monitoring available financing alternatives, as well as through development and application of credit granting policies. We also use derivative instruments, including cash flow hedges, net investment in foreign operations hedges, fair value hedges, and other derivative instruments, as part of our overall strategy to manage our exposure to market risks associated with fluctuations in interest rates and foreign currency exchange rates. As a matter of policy, we only enter into transactions that we believe will be highly effective at offsetting the underlying risk, and we do not use derivatives for trading or speculative purposes.

Our use of derivative instruments to manage market risks exposes us to the risk that a counterparty could default on a derivative contract. Our financial instrument counterparties are high-quality investment or commercial banks with significant experience with such instruments. We manage our exposure to counterparty risk by requiring specific minimum credit standards for our counterparties and by spreading our derivative contracts among diverse counterparties. As of September 11, 2009, we had derivative contracts outstanding with seven investment grade counterparties.

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In the event that we were to default under a derivative contract or similar obligation, our derivative counterparty would generally have the right, but not the obligation, to require immediate settlement of some or all open derivative contracts at their then-current fair value. Although the netting terms of our derivative contracts vary by agreement, in a settlement following a default, the liability positions under some of these contracts would be netted against the asset positions with the same counterparty. At September 11, 2009, we had open derivative contracts in a liability or net liability position with a total fair value of $10 million.

During the first three quarters of 2009, we used the following derivative instruments to mitigate our interest rate and foreign currency exchange rate risks:

Cash Flow Hedges

During 2008, we entered into interest rate swaps to manage interest rate risk associated with forecasted timeshare note sales. During 2008, eleven swaps were designated as cash flow hedges under FAS No. 133. We terminated nine of the eleven swaps in 2008 and recognized a $6 million loss in Timeshare sales and services revenue in our 2008 full-year income statement. The remaining two swaps became ineffective in the fourth quarter of 2008. We recognized a $12 million loss in Timeshare sales and services revenue in our full-year 2008 income statement and no longer accounted for them as cash flow hedges under FAS No. 133. We terminated these swaps in the first quarter of 2009 and recognized no additional gain or loss.

During 2009 and fiscal years 2008 and 2007, we entered into forward foreign exchange contracts to hedge the risk associated with forecasted transactions for contracts and fees denominated in foreign currencies. These contracts have terms of less than three years. During the 2009 third quarter, we entered into foreign exchange option contracts to hedge the risk associated with forecasted transactions for contracts and fees denominated in foreign currencies. These contracts have terms of less than one year.

Net Investment Hedges

During 2009, we entered into forward foreign exchange contracts to manage our risk of currency exchange rate volatility associated with certain of our investments in foreign operations. The contracts offset the gains and losses associated with translation adjustments for various investments in foreign operations.

Fair Value Hedges

In 2003, we entered into an interest rate swap to address interest rate risk. Under this agreement, which has an aggregate notional amount of $92 million and matures in 2010, we receive a floating rate of interest and pay a fixed rate of interest. The swap modifies our interest rate exposure by effectively converting a note receivable with a fixed rate to a floating rate. We classify this swap as a fair value hedge under FAS No. 133 and we recognize the change in the fair value of the swap, as well as the change in the fair value of the underlying note receivable, in interest income. Due to the structure of the swap, the change in its fair value moves in tandem with the change in fair value of the underlying note receivable. The hedge is highly effective and, therefore, we reported no net gain or loss during the first three quarters of 2009.

Derivatives not Designated as Hedging Instruments Under FAS No. 133

In certain note sale transactions, we use interest rate swaps to limit the variability in the value of the excess spread (or the difference between the loan portfolio average fixed coupon rate and the variable rate expected by the note investors) due to changing interest rates. Although we expect to receive the excess spread, we provide interest rate swaps for the benefit of the investors in the event the underlying notes do not perform as expected. The interest rate swaps used in some conduit note sale transactions move inversely to the movement in the excess spread and thus provide a natural hedge in the transaction. We use multiple interest rate swaps, including differential swaps, in some of the term asset backed securities transactions that largely offset one another to the extent that the sold notes prepay within expectations. Given the natural hedges provided by both of these types of transactions, we did not apply FAS No. 133

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hedge accounting to these interest rate swaps. In certain deals, we sell a portfolio of fixed-coupon consumer loans to investors who require a variable rate of return. If unhedged, an increase in the variable rate of those deals would compress the excess spread; therefore, we enter into these interest rate swaps to preserve the excess spread at the level expected by the investors.

At the end of the 2009 third quarter, we had six such swap agreements with expiration dates ranging from 2013 to 2022. Due to market conditions, we were required to enter into a differential swap, representing two of our six outstanding swaps, related to our retained interests for our 2009 first quarter note sale.

We do not apply the standards of FAS No. 133 to some of our foreign exchange contracts because there is no material timing difference between the recognition of the gain or loss on the underlying asset or liability and the gain or loss on the derivative instrument. During the first three quarters of 2009 and for fiscal year 2008, we entered into these forward contracts to hedge foreign currency denominated net monetary assets and/or liabilities. We anticipate entering into similar contracts when these contracts expire in the fourth quarter of 2009. Examples of monetary assets and liabilities that we hedge include, but are not limited to, cash, receivables, payables, and debt. Pursuant to FAS No. 52, Foreign Currency Translation, the gains or losses on such forward contracts are computed by multiplying the foreign currency amount of the forward contract by the difference between the spot rate at the balance sheet date and the spot rate at the date of inception of the forward contract (or the spot rate last used to measure a gain or loss on that contract for an earlier period).

The following tables summarize the fair value of our derivative instruments, and the effect of derivative instruments on our Condensed Consolidated Statements of Income and Comprehensive income.

Fair Value of Derivative Instruments

($ in millions)	**Balance Sheet Location**	**Fair Value at September 11, 2009**		**Notional Amount at September 11, 2009**	
Derivatives designated as hedging instruments under FAS No. 133 [(1)]					
Asset Derivatives					
Foreign exchange forwards [(2)]	Other payables and accruals	$		$	3
Liability Derivatives					
Interest rate swaps	Other long-term liabilities		(4)		92
Foreign exchange forwards [(2)]	Other payables and accruals		(3)		44
Net investment hedges	Other payables and accruals				16
Total liabilities under FAS No. 133		$	(7)		
Derivatives not designated as hedging instruments under FAS No. 133 [(1)]					
Asset Derivatives					
Interest rate swaps [(2)]	Other long-term liabilities	$	4	$	198
Foreign exchange forwards [(2)]	Other payables and accruals				23
Total asset derivatives not under FAS No. 133		$	4		
Liability Derivatives					
Interest rate swaps [(2)]	Other long-term liabilities	$	(6)	$	265
Foreign exchange forwards [(2)]	Other payables and accruals		(1)		261
Total liability derivatives not under FAS No. 133		$	(7)		

(1) See Footnote No. 6, Fair Value Measurements, for additional information on the fair value of our derivative instruments.

(2) Certain derivatives are subject to master netting agreements in accordance with FASB Interpretation No. 39.

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The Effect of Derivative Instruments on the Condensed Consolidated Statement of Income

($ in millions)	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income Twelve Weeks Ended September 11, 2009	Gain (Loss) Recognized in Income Thirty-Six Weeks Ended September 11, 2009
FAS No. 133 cash flow hedges			
Foreign exchange forwards	Base management fees	$ 2	$ 5
Foreign exchange forwards	Franchise fees		1
Total gain from FAS No. 133 cash flow hedges		2	6
Derivatives not designated as hedging instruments under FAS No. 133			
Interest rate swaps	Timeshare sales and services	$ (1)	$
Foreign exchange forwards	General, administrative, and other	(4)	(12)
Total (loss) from derivatives not under FAS No. 133		(5)	(12)
Total (loss) recognized in income		$ (3)	$ (6)

The Effect of Derivative Instruments on the Statement of Comprehensive Income (1), (2)

($ in millions)	FAS No. 133 Cash Flow Hedges Foreign Exchange Forwards	FAS No. 133 Net Investment Foreign Exchange Forwards
Deferred gains (losses) from derivatives in OCI at January 3, 2009	$ 6	$ 1
Gains (losses) recognized in OCI from derivatives	3	1
Gains (losses) reclassified from OCI (effective portion) to:		
Base management fees	(1)	
Franchise fees	(1)	
Deferred gains (losses) from derivatives in OCI at March 27, 2009	7	2
Gains (losses) recognized in OCI from derivatives	(3)	(1)
Gains (losses) reclassified from OCI (effective portion) to:		
Base management fees	(2)	
Franchise fees		
Deferred gains (losses) from derivatives in OCI at June 19, 2009	2	1
Gains (losses) recognized in OCI from derivatives		(1)
Gains (losses) reclassified from OCI (effective portion) to:		
Base management fees	(2)	
Deferred gains (losses) from derivatives in OCI at September 11, 2009	$	$

Forecasted reclassification of derivative gains (losses) from OCI in the next 12 months		
Base management fees	$	$
Total forecasted recognition of derivative gains (losses)	$	$

(1) For additional information, see Footnote No. 14, Comprehensive Income and Capital Structure.

(2) There was no ineffective portion of our derivatives in the first three quarters of 2009; therefore, no amount required reclassification from OCI due to ineffectiveness.

17. Business Segments

We are a diversified hospitality company with operations in five business segments:

North American Full-Service Lodging, which includes the Marriott Hotels & Resorts, Marriott Conference Centers, JW Marriott Hotels & Resorts, Renaissance Hotels & Resorts, and Renaissance ClubSport properties located in the continental United States and Canada;

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North American Limited-Service Lodging, which includes the Courtyard, Fairfield Inn, SpringHill Suites, Residence Inn, TownePlace Suites, and Marriott ExecuStay properties located in the continental United States and Canada;

International Lodging, which includes the Marriott Hotels & Resorts, JW Marriott Hotels & Resorts, Renaissance Hotels & Resorts, Courtyard, Fairfield Inn, Residence Inn, and Marriott Executive Apartments properties located outside the continental United States and Canada;

Luxury Lodging, which includes The Ritz-Carlton and Bulgari Hotels & Resorts properties worldwide (together with adjacent residential properties associated with some Ritz-Carlton hotels), as well as Edition, for which no properties are yet open; and

Timeshare, which includes the development, marketing, operation, and sale of Marriott Vacation Club, The Ritz-Carlton Destination Club, Ritz-Carlton Residences, and Grand Residences by Marriott timeshare, fractional ownership, and residential properties worldwide.

We evaluate the performance of our segments based primarily on the results of the segment without allocating corporate expenses, interest expense, income taxes, or indirect general, administrative, and other expenses. With the exception of the Timeshare segment, we do not allocate interest income to our segments. Because note sales are an integral part of the Timeshare segment, we include note sale gains or (losses) in our Timeshare segment results. We also include interest income associated with our Timeshare segment notes in our Timeshare segment results because financing sales are an integral part of that segment s business. Additionally, we allocate other gains and losses, equity in earnings or losses from our joint ventures, divisional general, administrative, and other expenses, and income or losses attributable to noncontrolling interests to each of our segments. Other unallocated corporate represents that portion of our revenues, general, administrative, and other expenses, equity in earnings or losses, and other gains or losses that are not allocable to our segments.

We aggregate the brands presented within our North American Full-Service, North American Limited-Service, International, Luxury, and Timeshare segments considering their similar economic characteristics, types of customers, distribution channels, the regulatory business environment of the brands and operations within each segment and our organizational and management reporting structure.

Revenues

	Twelve Weeks Ended		Thirty-Six Weeks Ended	
($ in millions)	**September 11, 2009**	**September 5, 2008**	**September 11, 2009**	**September 5, 2008**
North American Full-Service Segment	$ 1,074	$ 1,239	$ 3,382	$ 3,917
North American Limited-Service Segment	489	544	1,401	1,570
International Segment	259	342	756	1,093
Luxury Segment	296	357	971	1,147
Timeshare Segment	330	463	962	1,326
Total segment revenues	2,448	2,945	7,472	9,053
Other unallocated corporate	23	18	56	42
	$ 2,471	$ 2,963	$ 7,528	$ 9,095

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(Loss) Income from Continuing Operations Attributable to Marriott

	Twelve Weeks Ended		Thirty-Six Weeks Ended	
($ in millions)	September 11, 2009	September 5, 2008	September 11, 2009	September 5, 2008
North American Full-Service Segment	$ 51	$ 66	$ 191	$ 290
North American Limited-Service Segment	77	103	182	301
International Segment	25	50	89	179
Luxury Segment	7	17		66
Timeshare Segment	(681)	49	(733)	123
Total segment financial results	(521)	285	(271)	959
Other unallocated corporate	(65)	(58)	(136)	(183)
Interest expense, interest income, and provision for loan losses	(89)	(25)	(174)	(83)
Income taxes	209	(108)	129	(324)
	$ (466)	$ 94	$ (452)	$ 369

Net Losses Attributable to Noncontrolling Interests

	Twelve Weeks Ended		Thirty-Six Weeks Ended	
($ in millions)	September 11, 2009	September 5, 2008	September 11, 2009	September 5, 2008
International Segment	$	$	$	$ (1)
Timeshare Segment	4	15	11	21
Total segment net losses attributable to noncontrolling interests	4	15	11	20
Provision for income taxes	(1)	(5)	(4)	(7)
	$ 3	$ 10	$ 7	$ 13

Equity in (Losses) Earnings of Equity Method Investees

	Twelve Weeks Ended		Thirty-Six Weeks Ended	
($ in millions)	September 11, 2009	September 5, 2008	September 11, 2009	September 5, 2008
North American Full-Service Segment	$ 1	$ 1	$ 1	$ 2
North American Limited-Service Segment	(1)		(5)	1
International Segment	(4)	(1)	(5)	
Luxury Segment		(1)	(31)	(1)
Timeshare Segment	(4)	2	(6)	9
Total segment equity in (losses) earnings	(8)	1	(46)	11
Other unallocated corporate	(4)	1	(4)	15
	$ (12)	$ 2	$ (50)	$ 26

Assets

	At Period End	
($ in millions)	**September 11, 2009**	**January 2, 2009**
North American Full-Service Segment	$ 1,182	$ 1,287
North American Limited-Service Segment	491	467
International Segment	867	832
Luxury Segment	653	715
Timeshare Segment	2,814	3,636
Total segment assets	6,007	6,937
Other unallocated corporate	2,260	1,966
	$ 8,267	$ 8,903

We estimate that, for the 20-year period from 2009 through 2028, the cost of completing improvements and currently planned amenities for our owned timeshare properties will be approximately $2.9 billion. See Footnote No. 9, Inventory for additional information about the current weak demand environment.

18. <u>Timeshare Strategy-Impairment Charges</u>

In response to the difficult business conditions that the Timeshare segment s timeshare, luxury residential, and luxury fractional real estate development businesses continue to experience, we evaluated our entire Timeshare portfolio in the 2009 third quarter. In order to adjust the business strategy to reflect current market conditions, on September 22, 2009, we approved plans for our Timeshare segment to take the following actions: (1) for our luxury residential projects, reduce prices, convert certain proposed projects to other uses, sell some undeveloped land, and not pursue further Marriott-funded residential development projects; (2) reduce prices for existing luxury fractional units; (3) continue short-term promotions for our U.S. timeshare business and defer the introduction of new projects and development phases; and (4) for our European timeshare and fractional resorts, continue promotional pricing and marketing incentives and not pursue further development. We designed these plans, which primarily relate to luxury residential and fractional resorts, to stimulate sales, accelerate cash flow, and reduce investment spending.

As a result of these decisions, we recorded third quarter 2009 pretax charges totaling $752 million in our Consolidated Statements of Income ($502 million after-tax), including $614 million of pretax charges impacting operating income under the Timeshare strategy-impairment charges caption, and $138 million of pretax charges impacting non-operating income under the Timeshare strategy-impairment charges (non-operating) caption. These $752 million of pretax impairment charges are non-cash, except for $27 million associated with future mezzanine loan fundings in 2009 and $21 million related to purchase commitments expected to be funded in 2010.

Grouped by product type and/or geographic location, these impairment charges consist of $295 million associated with five luxury residential projects, $299 million associated with nine North American luxury fractional projects, $93 million related to one North American timeshare project, $51 million related to the four projects in our European timeshare and fractional business, and $14 million associated with two Asia Pacific timeshare resorts. The following table details the composition of these charges.

($ in millions)	**Impairment Charge**
Third Quarter 2009 Operating Income Charge	
Inventory impairment	$ 529
Property and equipment impairment	64
Other impairments	21
Total operating income charge	614
Third Quarter 2009 Non-Operating Income Charge	
Joint venture impairment	71
Loan impairment	40
Funding liability	27
Total non-operating income charge	138
Total	$ 752

In accordance with FAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we made these impairment adjustments to inventory, property and equipment and one joint venture investment to adjust the carrying value of each underlying asset to our estimate of its fair value as of the end of the 2009 third quarter, including fully impairing the joint venture investment. We estimated the fair value of the underlying assets using probability-weighted cash flow models that reflected our expectations of future performance discounted at risk-free interest rates commensurate with the remaining life of the related projects, using the guidance specified in FAS No. 157. We used Level 3 inputs for our discounted cash flow analyses. Our assumptions included: growth rate and sales pace projections, additional pricing discounts resulting from the business decisions we made, development cancellations resulting in shorter project life cycles, marketing and sales cost estimates, and in certain instances alternative uses to comply with FAS No. 157 s highest and best use provisions. In some instances, we took into account appraisals, which we deemed to be Level 3 inputs, for the fair value of the underlying assets.

We also determined that certain loans likely will not be repaid. As a result, we fully reserved the loans in accordance with FAS No. 114, Accounting by Creditors for Impairment of a Loan, based on the present value of the loans expected cash flows discounted at the loans effective interest rates.

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Our funding liability relates to management s intention to provide financial support to one of our variable interest entities through the end of 2009 based upon significant milestones related to the project and our history of support for the entity s operations in order to ensure the completion of this project. We do not anticipate repayment from the variable interest entity and have accordingly expensed these amounts. The funding liability meets the criteria of probable and reasonably estimable, in accordance with the guidance in FAS No. 5, Accounting for Contingencies.

Other impairments primarily relate to our anticipated fundings in conjunction with certain purchase commitments, a portion of which we do not expect to recover because the projected fair value of the assets to be purchased under the commitments will be below the amount we expect to fund. We measured the projected fair value of the assets using probability-weighted cash flow models with Level 3 inputs, in accordance with FAS No. 157. Our assumptions included: growth rate and sales pace projections, additional pricing discounts as a result of the business decisions made, marketing and sales cost estimates, and in certain instances alternative uses to comply with FAS No. 157 s highest and best use provisions.

19. Restructuring Costs and Other Charges

During the latter part of 2008, we experienced a significant decline in demand for hotel rooms both domestically and internationally as a result, in part, of the recent failures and near failures of a number of large financial service companies in the fourth quarter of 2008 and the dramatic downturn in the economy. Our capital intensive Timeshare business was also hurt both domestically and internationally by the downturn in market conditions and particularly the significant deterioration in the credit markets, which resulted in our decision not to complete a note sale in the fourth quarter of 2008 (although we did complete a note sale in the first quarter of 2009). These declines resulted in reduced management and franchise fees, cancellation of development projects, reduced timeshare contract sales, and anticipated losses under guarantees and loans. In the fourth quarter of 2008, we put certain company-wide cost-saving measures in place in response to these declines, with individual company segments and corporate departments implementing further cost saving measures. Upper-level management responsible for the Timeshare segment, hotel operations, development, and above-property level management of the various corporate departments and brand teams individually led these decentralized management initiatives. The various initiatives resulted in aggregate restructuring costs of $55 million that we recorded in the fourth quarter of 2008. We also recorded $137 million of other charges in the 2008 fourth quarter. For information regarding the fourth quarter 2008 charges, see Footnote No. 20, Restructuring Costs and Other Charges, in our 2008 Form 10-K.

Restructuring Costs

As part of the restructuring actions we began in the fourth quarter of 2008, we initiated further cost savings measures in the 2009 first, second, and third quarters associated with our Timeshare segment, hotel development, above-property level management, and corporate overhead. These further measures resulted in additional restructuring costs of $44 million in the first three quarters of 2009, $9 million of which were incurred in the third quarter. These 2009 restructuring costs included: (1) $16 million in severance costs related to the reduction of 970 employees, $4 million of which we incurred in the third quarter for 116 employees terminated during the quarter (the majority of whom were given notice of termination by September 11, 2009); (2) $27 million in facilities exit costs incurred in the second and third quarters of 2009, $5 million of which we incurred in the third quarter; and (3) $1 million related to the write-off of capitalized costs relating to development projects no longer deemed viable in the second quarter of 2009. The severance costs do not reflect amounts billed out separately to owners for property-level severance costs. The $4 million of severance costs we recorded in the 2009 third quarter reflected a portion of the $6 million to $9 million in costs that, as disclosed in our Quarterly Report on Form 10-Q for the quarterly period ended June 19, 2009 (2009 Second Quarter Form 10-Q), we expected to incur in the third through fourth quarters of 2009. Of the $5 million of facilities exit costs we recorded in the 2009 third quarter, $3 million reflected a portion of the $2 million to $4 million in costs that, as disclosed in our 2009 Second Quarter Form 10-Q, we expected to incur in the third through fourth quarters of 2009, and $2 million reflected incremental costs that we incurred as a result of further cost savings measures we implemented in the 2009 third quarter.

As part of the restructuring efforts in our Timeshare segment, we reduced and consolidated sales channels in the United States and closed down certain operations in Europe in the fourth quarter of 2008. We recorded Timeshare restructuring costs of $28 million in the 2008 fourth quarter. We recorded further Timeshare restructuring costs in the first three quarters of 2009 of $38 million including: (1) $10 million in severance costs, of which $2 million were incurred in the third quarter of 2009; (2) $27 million in facility exit costs incurred in the second and third quarters of 2009, primarily associated with noncancelable lease costs in excess of estimated sublease income arising from the reduction in personnel, ceased use of certain lease facilities, and $8 million in fixed asset impairments incurred in the second and third quarters; and (3) $1 million related to the write-off of capitalized costs relating to development projects no longer deemed viable in the second quarter of 2009. In connection with these initiatives, we expect to incur an additional $1 million related to severance and fringe benefits and $2 million to $3 million related to ceasing use of additional noncancelable leases in 2009. We expect to complete the portion of our restructuring efforts related to our Timeshare segment by year-end 2009.

As part of the hotel development restructuring efforts across several of our Lodging segments in the fourth quarter of 2008, we discontinued certain development projects that required our investment. We recorded restructuring costs in the 2008 fourth quarter of $24 million. We recorded further hotel development restructuring costs in the first three quarters of 2009 of $2 million for severance and fringe benefit costs, of which $1 million was incurred in the third quarter of 2009. We expect to complete this restructuring by year-end 2009 and do not expect to incur additional expenses in connection with these initiatives.

We also implemented restructuring initiatives by reducing above property-level lodging management personnel and corporate overhead. We incurred 2008 fourth quarter restructuring costs of $3 million primarily reflecting severance and fringe benefit costs. We recorded further restructuring costs in the second and third quarters of 2009 of $3 million and $1 million, respectively, for severance and fringe benefit costs. In connection with these initiatives, we expect to incur at least an additional $2 million related to severance and fringe benefits in 2009. We expect to complete this restructuring by year-end 2009.

Other Charges

We also incurred $150 million of other charges in the first three quarters of 2009, of which a net $1 million credit was recorded in the third quarter of 2009, as detailed in the following paragraphs.

Security Deposit and Joint Venture Asset Impairments

We sometimes issue guarantees to lenders and other third parties in connection with financing transactions and other obligations. As a result of the continued downturn in the economy, certain hotels have experienced significant declines in profitability and accordingly, may experience cash flow shortfalls. In the fourth quarter of 2008, we concluded based on cash flow projections that we would fund certain cash flow shortfalls in two portfolios of hotels in order to prevent draws against the related security deposits and the potential conversion of the related management contracts to franchise agreements, even though the related guarantees had expired. We did not deem these fundings to be fully recoverable and recorded a corresponding charge of $16 million for the amount we expected to fund but not recover. However, in the first quarter of 2009 we decided not to continue funding, as the expected incremental funding levels had increased to unacceptable levels.

As a result of the Company s decisions to stop funding these cash flow shortfalls and based on our internal analysis of expected future discounted cash flows, we determined that we may not recover two security deposits totaling $49 million. We used Level 3 inputs for our discounted cash flows analysis in accordance with FAS No. 157. Our assumptions included property level pro forma financial information, growth rates, and inflation. We recorded an impairment charge of $49 million in the first quarter of 2009

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to fully reserve these security deposits in the General, administrative, and other expenses caption in our Condensed Consolidated Statements of Income. In the 2009 first quarter, we applied the remaining $11 million of the $16 million liability established in the fourth quarter of 2008 against this impairment. In the tables that follow, see the Impairment of investments and other caption, which includes the $49 million impairment charge, and the Reserves for expected fundings caption, which includes the $11 million reduction in the liability.

We expect that one project in development, in which the Company has a joint venture investment, will generate lower operating results than we had previously anticipated due to the continued downturn in the economy, and have concluded that it is highly unlikely that we will receive a return on or of our investment without first fully funding potentially significant incremental capital, which we are not inclined to do. As a result, based on our internal analysis of expected discounted future cash flows using Level 3 inputs in accordance with FAS No. 157, we determined that our investment in that joint venture was fully impaired. The Level 3 inputs we used in our analysis were based on assumptions regarding property level pro forma financial information, fundings of debt service obligations, growth rates, and inflation. We recorded an impairment charge of $30 million in the 2009 first quarter in the Equity in (losses) earnings caption in our Condensed Consolidated Statements of Income. See the Impairment of investments and other caption in the tables that follow that includes this charge.

Accounts Receivable-Bad Debts and Charges for Guarantees

We expect to fund under cash flow guarantees for two properties that have experienced cash flow shortfalls. We do not deem these guarantee fundings to be recoverable, and have therefore recorded a charge of $2 million during the 2009 second quarter and $1 million during the 2009 third quarter to reflect these obligations. During the 2009 second quarter, we also reserved a $1 million accounts receivable balance, which on analysis we deemed to be uncollectible as a result of the unfavorable hotel operating environment. We have recorded these charges in the General, administrative, and other expenses caption in our Condensed Consolidated Statements of Income. See the Accounts receivable and guarantee charges caption in the tables that follow that includes these charges.

Reserves for Loan Losses

From time to time, we advance loans to owners of properties that we manage. As a result of the continued downturn in the economy, certain hotels have experienced significant declines in profitability and the owners may not be able to meet debt service obligations to us or, in some cases, to third-party lending institutions. In the first quarter of 2009, we determined that two loans made by us may not be repaid. Due to the expected loan losses, we fully reserved these loans and recorded a charge of $42 million in the first quarter of 2009. We also recorded an additional $1 million in the second quarter of 2009 related to two loans, and the total $43 million is reflected in the Provision for loan losses caption in our Condensed Consolidated Statements of Income. See the Reserves for loan losses caption in the tables that follow, which includes this provision.

Timeshare Residual Interests Valuation

The fair market value of our residual interests in timeshare notes sold declined in the first quarter of 2009 primarily due to an increase in the market rate of interest at which we discount future cash flows to estimate the fair market value of the retained interests. The fair market value of our residual interests in timeshare notes sold also declined in the second quarter of 2009 primarily due to certain previously securitized loan pools reaching performance triggers, partially offset by a decrease in the market rate of interest at which we discount future cash flows to estimate the fair market value of the retained interests. The increase in the market rate of interest in the 2009 first quarter reflected an increase in defaults caused by the continued deteriorating economic conditions. As a result of this change, we recorded an $11 million charge in the 2009 first quarter. Seven previously securitized loan pools reached performance triggers as a result of increased defaults; one pool in March 2009, and the other six pools in April and May 2009. These performance triggers effectively redirected the excess spread we typically receive each month to accelerate returns to investors. As a result, we recorded a $2 million charge in the first quarter of 2009 and a $17 million charge in the 2009 second quarter. The $17 million unfavorable impact of these performance triggers was partially offset by a $5 million favorable impact from changes in assumptions related to discount rate, defaults and prepayments, resulting in a net $12 million charge in the second quarter of 2009. In the 2009 third quarter, loan performance improved sufficiently in three of the seven previously securitized loan pools, curing the performance triggers and resulting in a $3 million benefit to residual interest. We recorded these charges in the Timeshare sales and services caption in our Condensed Consolidated Statements of Income. See the Residual interests valuation caption in the tables that follow, which includes these charges. The tables summarizing the changes to our Level 3 assets and liabilities in Footnote No. 6, Fair Value Measurements, reflect the $22 million in total charges for the first three quarters of 2009 on the Included in earnings line, which also reflects a partial offset due to other changes in the underlying assumptions that impact the fair value of the residual interests and the cure of the performance triggers in the 2009 third quarter.

Timeshare Contract Cancellation Allowances

Our financial statements reflect net contract cancellation allowances of $4 million recorded in the first quarter of 2009, $1 million recorded in the second quarter of 2009, and $1 million recorded in the third quarter of 2009, in anticipation that a portion of contract revenue and costs previously recorded for certain projects under the percentage-of-completion method will not be realized due to contract cancellations prior to closing. We have an equity method investment in one of these projects, and accordingly, we reflected $3 million of the $6 million in the first three quarters of 2009 in the Equity in (losses) earnings caption in our Condensed Consolidated Statements of Income. The remaining net $3 million of contract cancellation allowances consisted of a reduction in revenue, net of adjustments to product costs and other direct costs and was recorded in Timeshare sales and services revenue, net of direct costs. See the Contract cancellation allowances caption in the tables that follow, which includes this net allowance.

Timeshare Software Development Write-off

During the second quarter of 2009, we recorded an impairment of $7 million for the write-off of capitalized software development costs related to a software project we have decided not to further develop. We concluded that continued development of this software was not cost effective given continued cost savings initiatives associated with the challenging business environment and we will instead pursue alternative lower cost solutions.

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Summary of Restructuring Costs and Other Charges

The following table is a summary of the restructuring costs and other charges we recorded in the first three quarters of 2009 and through the third quarter of 2009, as well as our remaining liability at the end of the third quarter of 2009:

($ in millions)	Restructuring Costs and Other Charges Liability at January 2, 2009	Total Charge (Reversal) in the First Three Quarters of 2009	Cash Payments in the First Three Quarters of 2009	Restructuring Costs and Other Charges Liability at September 11, 2009	Total Cumulative Restructuring Costs through the 2009 Third Quarter [3]
Severance-Timeshare	$ 11	$ 10	$ 17	$ 4	$ 24
Facilities exit costs-Timeshare	5	27 [1]	4	20	32
Development cancellations-Timeshare		1			10
Total restructuring costs-Timeshare	16	38	21	24	66
Severance-hotel development	2	2	2	2	4
Development cancellations-hotel development					22
Total restructuring costs-hotel development	2	2	2	2	26
Severance-above property-level management	2	4	3	3	7
Total restructuring costs-above property-level management	2	4	3	3	7
Total restructuring costs	$ 20	$ 44	$ 26	$ 29	$ 99
Impairment of investments and other		79			
Accounts receivable and guarantee charges		4		3	
Reserves for expected fundings	16	(11)	4	1	
Reserves for loan losses		43			
Residual interests valuation		22			
Contract cancellation allowances		6			
Software development write-off		7			
Total other charges	16	150 [2]	4	4	
Total restructuring costs and other charges	$ 36	$ 194	$ 30	$ 33	

(1) Reflects $8 million of non-cash facilities exit costs related to fixed asset impairments.

(2) Reflects $158 million of non-cash other charges, which exclude the $11 million reversal of reserves for expected fundings and $3 million of guarantee charges.

(3) Includes charges recorded in the 2008 fourth quarter through the 2009 third quarter.

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The following tables provide further detail on the restructuring costs and other charges incurred in the third quarter of 2009, first three quarters of 2009, and cumulative restructuring costs incurred through the third quarter of 2009, including a breakdown of these charges by segment:

Third Quarter 2009 and Cumulative

Operating Income Impact

($ in millions)	North American Full-Service Segment	North American Limited-Service Segment	International Segment	Luxury Segment	Timeshare Segment	Other Unallocated Corporate	Total
Restructuring Costs-Third Quarter 2009:							
Severance	$	$	$	$	$ 2	$ 2	$ 4
Facilities exit costs					5		5
Development cancellations							
Total restructuring costs-third quarter 2009	$	$	$	$	$ 7	$ 2	$ 9
Restructuring Costs-First Three Quarters 2009:							
Severance	$	$	$ 2	$	$ 10	$ 4	$ 16
Facilities exit costs					27		27
Development cancellations					1		1
Total restructuring costs-first three quarters 2009	$	$	$ 2	$	$ 38	$ 4	$ 44
Restructuring Costs-Cumulative through Third Quarter 2009[(1)]:							
Severance	$	$	$ 2	$ 1	$ 24	$ 8	$ 35
Facilities exit costs					32		32
Development cancellations					10	22	32
Total restructuring costs-cumulative through third quarter 2009	$	$	$ 2	$ 1	$ 66	$ 30	$ 99
Other Charges-First Three Quarters 2009:							
Impairment of investments and other	$ 7	$ 42	$	$	$	$	$ 49
Accounts receivable and guarantee charges			3	1			4
Reversal of charges related to expected fundings		(11)					(11)
Residual interests valuation					22		22
Contract cancellation allowances					3		3
Software development write-off					7		7
Total other charges-first three quarters 2009	$ 7	$ 31	$ 3	$ 1	$ 32	$	$ 74

(1) Includes charges recorded in the 2008 fourth quarter through the 2009 third quarter.

First Three Quarters 2009 Non-Operating

Impact

($ in millions)	**Provision for Loan Losses**	**Equity in Earnings**	**Total**
Impairment of investments-Luxury segment	$	$ 30	$ 30
Reserves for loan losses [1]	43		43
Contract cancellation allowances-Timeshare segment		3	3
Total	$ 43	$ 33	$ 76

(1) Includes $14 million loan loss provision related to Limited-Service properties and a $29 million loan loss provision related to a Luxury project in development.

The following table provides further detail on restructuring costs we expect to incur in the fourth quarter of 2009, including a breakdown by segment:

Fourth Quarter 2009

Expected Operating Income Impact

($ in millions)	**Luxury Segment**	**Timeshare Segment**	**Other Unallocated Corporate**	**Total**
Severance	$ 1	$ 1	$ 1	$ 3
Facilities exit costs		2-3		2-3
Development cancellations				
Total restructuring costs	$ 1	$ 3-4	$ 1	$ 5-6

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20. Variable Interest Entities

In accordance with FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities (FIN 46(R)), we analyze our variable interests, including loans, guarantees, and equity investments, to determine if the entity in which we have a variable interest is a variable interest entity. Our analysis includes both quantitative and qualitative reviews. We base our quantitative analysis on the forecasted cash flows of the entity, and our qualitative analysis on our review of the design of the entity, its organizational structure including decision-making ability and financial agreements. We also use our quantitative and qualitative analyses to determine if we must consolidate a variable interest entity as the primary beneficiary.

We have an equity investment in and a loan receivable due from a variable interest entity that develops and markets fractional ownership and residential interests, and we consolidate the entity because we are the primary beneficiary. We concluded that the entity is a variable interest entity because the voting rights are not proportionate to the economic interests. The loan we provided to the entity replaced the original senior loan, and at September 11, 2009, had a principal balance of $76 million and an accrued interest balance of $25 million. The variable interest entity uses the loan facility to fund its net cash flow. The loan s outstanding principal balance increased by $2 million compared to the quarter ended June 19, 2009. At September 11, 2009, the carrying amount of consolidated assets included within our Condensed Consolidated Balance Sheet that are collateral for the variable interest entity s obligations totaled $58 million and comprised $55 million of real estate held for development, property, equipment, and other assets and $3 million of cash. Further, at September 11, 2009, the carrying amount of the consolidated liabilities and noncontrolling interests included within our Condensed Consolidated Balance Sheets for this variable interest entity totaled $16 million and the noncontrolling interest was reduced to zero. The creditors of this entity do not have general recourse to our credit. We have contracted to purchase the noncontrolling interest in the entity for less than $1 million. The acquisition will occur in stages, and commenced with our initial acquisition of 3 percent of the noncontrolling interest in the entity that occurred during the 2009 third quarter. The acquisition is expected to be completed in the 2010 third quarter.

Our Timeshare segment uses several special purpose entities to maintain ownership of real estate in certain jurisdictions in order to facilitate sales within the Asia Pacific Points Club (the Asia Club). We also use a special purpose entity to maintain ownership of real estate for sale of a Portfolio membership in the Ritz-Carlton Destination Club (RCDC Club). Although we have no equity ownership in the Asia or RCDC Clubs themselves, we absorb the variability in the assets of the Asia or RCDC Clubs to the extent that inventory has not been sold to the ultimate Asia or RCDC Club member. The Asia and RCDC Clubs are variable interest entities because the equity investment at risk is not sufficient to permit the entities to finance their activities without additional support from other parties. We determined that we were the primary beneficiary of these entities based upon the proportion of variability that we absorb compared to Asia or RCDC Club members. At September 11, 2009, the carrying amount of inventory associated with the Asia Club was $63 million, of which $36 million resulted from the consolidation of these special purpose entities and $27 million resulted from inventory and deposits in wholly owned subsidiaries that will be transferred to the Asia Club structure in the future in order to facilitate the sale of the real estate interests. At September 11, 2009, the carrying amount of inventory associated with the RCDC Club was $8 million, all of which resulted from the consolidation of the special purpose entity. The creditors of these entities do not have general recourse to our credit.

We have an equity investment in and a loan receivable due from a variable interest entity that develops and markets fractional ownership and residential interests, and we do not consolidate the entity because we are not the primary beneficiary. We concluded that the entity is a variable interest entity because the equity investment at risk is not sufficient to permit the entity to finance its activities without additional support from other parties. We have determined that we are not the primary beneficiary as another party, within a de facto agent group, is most closely associated with the entity. During the 2009 third quarter, we advanced $4 million in additional loans to fund progress towards completion of the project and intend to continue funding through the end of 2009. We subsequently fully impaired our equity investment and

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certain loans receivable due from the entity. We will likely fund up to $33 million, which we believe is our maximum exposure to loss, and do not expect to recover this amount, which has been accrued and is included in current liabilities. See Footnote No. 18, Timeshare Strategy-Impairment Charges, for additional information.

In conjunction with the transaction with CTF described more fully in Footnote No. 8, Acquisitions and Dispositions, of our Annual Report on Form 10-K for the fiscal year ended December 28, 2007, under the caption 2005 Acquisitions, we manage certain hotels on behalf of five tenant entities 100 percent owned by CTF, which lease the hotels from third-party owners. Due to certain provisions in the management agreements, we account for these contracts as operating leases. At the end of the 2009 third quarter, the number of hotels totaled 14. The entities have minimal equity and minimal assets comprised of hotel working capital and furniture, fixtures, and equipment. In conjunction with the 2005 transaction, CTF had placed money in a trust account to cover cash flow shortfalls and to meet rent payments. In turn, we released CTF from their guarantees fully in connection with eight of these properties and partially in connection with the other six properties. At the end of the 2009 third quarter, the trust account held approximately $17 million. The tenant entities are variable interest entities because the holder of the equity investment at risk, CTF, lacks the ability through voting rights to make key decisions about the entities activities that have a significant effect on the success of the entities. We do not consolidate the entities because we do not bear the majority of the expected losses. We are secondarily liable (after exhaustion of funds from the trust account) for rent payments for eight of the 14 hotels in the event that there are cash flow shortfalls. Future minimum lease payments through the end of the lease term for these eight hotels totaled approximately $82 million. In addition, we are secondarily liable for rent payments of up to an aggregate cap of $37 million for the six other hotels in the event that there are cash flow shortfalls. Our maximum exposure to loss is limited to the rent payments and certain other tenant obligations under the lease for which we are secondarily liable.

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Item 2. *Management s Discussion and Analysis of Financial Condition and Results of Operations*

Forward-Looking Statements

We make forward-looking statements in Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report based on the beliefs and assumptions of our management and on information currently available to us. Forward-looking statements include information about our possible or assumed future results of operations, which follow under the headings Business and Overview, Liquidity and Capital Resources, and other statements throughout this report preceded by, followed by or that include the words believes, expects, anticipates, intends, plans, estimates or similar expressions.

Forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those expressed in these forward-looking statements, including the risks and uncertainties described below and other factors we describe from time to time in our periodic filings with the U.S. Securities and Exchange Commission (the SEC). We therefore caution you not to rely unduly on any forward-looking statements. The forward-looking statements in this report speak only as of the date of this report, and we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

In addition, see the Item 1A. Risk Factors caption in the Part II-OTHER INFORMATION section of this report.

BUSINESS AND OVERVIEW

Lodging

Weak economic conditions in the United States, Europe and much of the rest of the world, instability in the financial markets following the 2008 worldwide financial crisis, and weak consumer confidence all contributed to a difficult business environment in the first three quarters of 2009. Lodging demand in the United States, as well as internationally, remained soft throughout the first three quarters of 2009, as a result of weak economic conditions, while hotel room supply increased in several markets. Outside the United States, concerns in the 2009 second and third quarters regarding the H1N1 virus also impacted demand, particularly in Mexico, as well as in some markets in Asia, the Caribbean and South America. Demand for our luxury properties remained particularly weak. We experienced continued weakness associated with both group and business transient demand. Group meeting cancellations have moderated in the 2009 second and third quarters as compared to the 2008 fourth quarter and the 2009 first quarter, although new near-term group bookings remain weak. While we continued to experience significant attrition rates in 2009 from expected attendance at meetings, that has moderated somewhat in the 2009 third quarter. As compared to the 2009 first quarter, non-corporate demand improved in the 2009 second quarter and even more so in the 2009 third quarter, largely as a result of significant promotional efforts and discounting aimed at replacing weak corporate business with leisure, government, and other discounted transient business. Through these challenging times, our strategy and focus continues to be to preserve profit margins by driving revenue, increasing our market share and managing costs.

We currently have approximately 105,000 rooms in our lodging development pipeline. During the first three quarters of 2009, we opened 27,565 rooms (gross), which included 397 residential units. Approximately 8 percent of these rooms were conversions from competitor brands and 22 percent of the new rooms were located outside the United States. For the full 2009 fiscal year, we expect to open over 33,000 rooms (gross), not including residential units or timeshare units.

Responding to the weak demand environment for hotel rooms, we continue to deploy a range of new sales promotions with a focus on leisure and group business opportunities to increase both property-level revenue and market share. These promotions are designed both to reward and retain loyal customers and to attract new guests. Marriott.com and our loyal Marriott Rewards member base are both low cost and high impact vehicles for our revenue generation efforts. In response to increased hesitancy to finalize

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group bookings, we have also implemented sales associate, meeting planner, and customer incentives to close on new group business.

As more customers use social media, we have also found new ways to connect, communicating with our customers on YouTube, Twitter, Facebook, and through our blog Marriott on the Move. We also continue to enhance our Marriott Rewards loyalty program offerings and specifically and strategically market to this large and growing customer base. As a result, most of our brands continue to gain market share on a global basis.

Properties in our system instituted and are maintaining very tight cost controls. Given this weak demand environment, we continue to work aggressively to reduce costs and enhance property-level house profit margins by modifying menus and restaurant hours, reviewing and adjusting room amenities, relaxing some brand standards for hotels, cross-training personnel, utilizing personnel at multiple properties where feasible, eliminating certain positions, and not filling some vacant positions. We have also reduced above-property costs, which are allocated to hotels, by scaling back systems, processing, and support areas. We have also eliminated or not filled certain above-property positions, and have encouraged, or, where legally permitted, required employees to use their vacation time accrued during the 2009 fiscal year. Additionally, we canceled certain hotel development projects in 2008.

Our lodging business model involves managing and franchising hotels, rather than owning them. At September 11, 2009, 46 percent of the hotel rooms in our system were operated under management agreements, 52 percent were operated under franchise agreements, and 2 percent were owned or leased by us. Our emphasis on management contracts and franchising tends to provide more stable earnings in periods of economic softness while continued unit expansion, reflecting properties added to our system, generates ongoing growth. With long-term management and franchise agreements, this strategy has allowed substantial growth while reducing financial leverage and risk in a cyclical industry. Additionally, we maintain financial flexibility by minimizing our capital investments and adopting a strategy of recycling those investments we do make.

We calculate RevPAR (revenue per available room) by dividing room sales for comparable properties by room nights available to guests for the period. We consider RevPAR to be a meaningful indicator of our performance because it measures the period-over-period change in room revenues for comparable properties. RevPAR may not be comparable to similarly titled measures, such as revenues. References to RevPAR throughout this report are in constant dollars, unless otherwise noted.

Company-operated house profit margin is the ratio of property-level gross operating profit (also known as house profit) to total property-level revenue. We consider house profit margin to be a meaningful indicator of our performance because this ratio measures our overall ability as the operator to produce property-level profits by generating sales and controlling the operating expenses over which we have the most direct control. Gross operating profit includes room, food and beverage, and other revenue and the related expenses including payroll and benefits expenses, as well as repairs and maintenance, utility, general and administrative, and sales and marketing expenses. Gross operating profit does not include the impact of management fees, furniture, fixtures and equipment replacement reserves, insurance, taxes, or other fixed expenses.

For our North American comparable company-operated properties, RevPAR decreased by 20.8 percent in the first three quarters of 2009, compared to the year-ago period, reflecting weakness in most markets. Our 2009 fiscal year began on January 3, 2009, while the prior year included the New Year s holiday. If RevPAR for the first three quarters of 2009 was calculated for the thirty-six weeks beginning on December 27, 2008, RevPAR would have declined by an average of 21.3 percent for our North American comparable company-operated properties. For our comparable managed properties outside North America, RevPAR for the first three quarters of 2009 decreased 21.0 percent versus the prior year period, with particular weakness in China, Thailand, India, the United Arab Emirates, and Mexico.

Timeshare

Weak economic conditions, instability in the financial markets, and weak consumer confidence also kept demand for timeshare intervals soft in the first three quarters of 2009. Demand for fractional and residential units was particularly weak. As a result, we slowed or canceled some development projects and closed less efficient timeshare sales offices in 2008 and 2009. We also increased marketing efforts and purchase incentives and eliminated or did not fill certain positions in 2008 and the first three quarters of 2009. During the 2009 second and third quarters, we were able to increase sales over the 2009 first quarter through various sales promotions, including pricing adjustments. As with Lodging, our Timeshare properties have instituted very tight cost controls, and we have eliminated or not filled certain above-property positions, and have encouraged, or, where legally permitted, required employees to use their vacation time accrued during the 2009 fiscal year. For additional information on our company-wide restructuring efforts, see our Restructuring Costs and Other Charges caption later in this Management s Discussion and Analysis section.

In response to the difficult business conditions that the Timeshare segment s businesses continue to experience, we evaluated our entire Timeshare segment portfolio in the 2009 third quarter. In order to adjust the business strategy to reflect current market conditions, on September 22, 2009, we approved plans for our Timeshare segment to stimulate sales, accelerate cash flow, and reduce investment spending. These decisions resulted in our recording 2009 third quarter pretax charges totaling $752 million ($502 million after-tax). We discuss these charges in more detail under the caption Timeshare Strategy-Impairment Charges later in this Management s Discussion and Analysis section.

Since the sale of timeshare and fractional intervals and condominiums follows the percentage-of-completion accounting method, soft demand frequently is not reflected in our Timeshare segment results until later accounting periods. Intentional and unintentional construction delays could also reduce nearer-term Timeshare segment results as percentage-of-completion revenue recognition may correspondingly be delayed as well.

CONSOLIDATED RESULTS

The following discussion presents an analysis of results of our operations for the twelve weeks and thirty-six weeks ended September 11, 2009, compared to the twelve weeks and thirty-six weeks ended September 5, 2008. Including residential products, we opened 271 properties (39,016 rooms) while 15 properties (3,035 rooms) exited the system since the third quarter of 2008.

Revenues

Twelve Weeks. Revenues decreased by $492 million (17 percent) to $2,471 million in the third quarter of 2009 from $2,963 million in the third quarter of 2008, as a result of lower: cost reimbursements revenue ($258 million); Timeshare sales and service revenue ($130 million); incentive management fees ($35 million (comprised of $17 million for North America and $18 million outside of North America)); owned, leased, corporate housing, and other revenue ($34 million); base management fees ($27 million (comprised of $19 million for North America and $8 million outside of North America)); and franchise fees ($8 million).

The decrease in Timeshare sales and services revenue, to $254 million in the 2009 third quarter, from $384 million in the 2008 third quarter, primarily reflected lower revenue for timeshare intervals and to a lesser extent, residential products and the Asia points program, as well as unfavorable reportability due to projects that became reportable in the 2008 third quarter. Favorable reportability from projects that started sales or became reportable subsequent to the 2008 third quarter partially offset this decrease.

The decrease in owned, leased, corporate housing, and other revenue, to $226 million in the 2009 quarter, from $260 million in the 2008 third quarter, largely reflected $34 million of lower revenue for owned and leased properties and $6 million of lower revenue associated with our corporate housing business, partially offset by a one-time $6 million transaction cancellation fee received in the 2009 third quarter. Combined branding fees associated with affinity card endorsements and the sale of branded residential real estate totaled $18 million and $16 million for the 2009 and 2008 third quarters, respectively. The decrease in owned and leased revenue primarily reflected RevPAR declines associated with weak lodging demand.

The decrease in incentive management fees, to $17 million in the 2009 third quarter from $52 million in the 2008 third quarter, reflected lower property-level revenue, associated with weak demand and the associated lower property-level operating income and margins in the third quarter of 2009 compared to the third quarter of 2008. The impact of weak demand on incentive management fees was partially offset by the impact of strong cost controls. The decreases in base management fees, to $116 million in the 2009 third quarter from $143 million in the 2008 third quarter, and franchise fees, to $100 million in the 2009 third quarter from $108 million in the 2008 third quarter, reflected RevPAR declines driven by weaker demand, partially offset by the impact of unit growth across the system.

Cost reimbursements revenue represents reimbursements of costs incurred on behalf of managed and franchised properties and relates, predominantly, to payroll costs at managed properties where we are the employer. This revenue and related expense has no impact on operating income or net income attributable to us because we record cost reimbursements based upon the costs incurred with no added mark-up. The decrease in cost reimbursements revenue, to $1,758 million in the 2009 third quarter from $2,016 million in the 2008 third quarter, reflected lower property-level costs, in response to weaker demand and cost controls, partially offset by the impact of growth across the system. We added 27 managed properties (6,855 rooms) and 219 franchised properties (27,585 rooms) to our system since the end of the 2008 third quarter, net of properties exiting the system.

Thirty-six Weeks. Revenues decreased by $1,567 million (17 percent) to $7,528 million in the first three quarters of 2009 from $9,095 million in the first three quarters of 2008, as a result of lower: cost reimbursements revenue ($798 million); Timeshare sales and service revenue ($352 million); owned, leased, corporate housing, and other revenue ($165 million); incentive management fees ($134 million (comprised of $90 million for North America and $44 million outside of North America)); base management fees ($85 million (comprised of $59 million for North America and $26 million outside of North America)); and franchise fees ($33 million).

The decrease in Timeshare sales and services revenue, to $746 million in the first three quarters of 2009, from $1,098 million in the first three quarters of 2008, primarily reflected lower revenue for timeshare intervals and to a lesser extent, residential products and the Asia points program, as well as unfavorable reportability due to projects that became reportable in the 2008 third quarter, and lower financing revenue. Favorable reportability from projects that became reportable subsequent to the first three quarters of 2008 partially offset this decrease.

The decrease in owned, leased, corporate housing, and other revenue, to $684 million in the first three quarters of 2009, from $849 million in the first three quarters of 2008, largely reflected $157 million of lower revenue for owned and leased properties, $10 million of lower revenue associated with our corporate housing business, and $10 million of lower hotel agreement termination fees, partially offset by $8 million of increased branding fees associated with affinity card endorsements and a one-time $6 million transaction cancellation fee received in the 2009 third quarter. Branding fees associated with the sale of residential real estate declined by $3 million. Combined branding fees associated with affinity card endorsements and the sale of branded residential real estate totaled $49 million and $44 million in the first three quarters of 2009 and 2008, respectively. The decrease in owned and leased revenue primarily reflected RevPAR declines associated with weak lodging demand.

The decrease in incentive management fees, to $95 million in the first three quarters of 2009 from $229 million in the first three quarters of 2008, reflected lower property-level revenue, associated with weak demand and the associated lower property-level operating income and margins in the first three quarters of 2009 compared to the first three quarters of 2008. The impact of weak demand on incentive management fees was partially offset by the impact of strong cost controls. The decreases in base management fees, to $367 million in the first three quarters of 2009 from $452 million in the first three quarters of 2008, and franchise fees, to $281 million in the first three quarters of 2009 from $314 million in the first three quarters of 2008, reflected RevPAR declines driven by weaker demand, partially offset by the impact of unit growth across the system.

The decrease in cost reimbursements revenue, to $5,355 million in the first three quarters of 2009 from $6,153 million in the first three quarters of 2008, reflected lower property-level costs, in response to weaker demand and cost controls, partially offset by the impact of growth across the system.

Timeshare Strategy-Impairment Charges

In response to the difficult business conditions that the Timeshare segment s timeshare, luxury residential, and luxury fractional real estate development businesses continue to experience, we evaluated our entire Timeshare portfolio in the 2009 third quarter. In order to adjust the business strategy to reflect current market conditions, on September 22, 2009, we approved plans for our Timeshare segment to take the following actions: (1) for our luxury residential projects, reduce prices, convert certain proposed projects to other uses, sell some undeveloped land, and not pursue further Marriott-funded residential development projects; (2) reduce prices for existing luxury fractional units; (3) continue short-term promotions for our U.S. timeshare business and defer the introduction of new projects and development phases; and (4) for our European timeshare and fractional resorts, continue promotional pricing and marketing incentives and not pursue further development. We designed these plans, which primarily relate to luxury residential and fractional resorts, to stimulate sales, accelerate cash flow, and reduce investment spending.

As a result of these decisions, we recorded third quarter 2009 pretax charges totaling $752 million in our Consolidated Statements of Income ($502 million after-tax), including $614 million of pretax charges impacting operating income under the Timeshare strategy-impairment charges caption, and $138 million of pretax charges impacting non-operating income under the Timeshare strategy-impairment charges (non-operating) caption. These $752 million of pretax impairment charges are non-cash, except for $27 million associated with future mezzanine loan fundings in 2009 and $21 million related to purchase commitments expected to be funded in 2010.

Grouped by product type and/or geographic location, these impairment charges consist of $295 million associated with five luxury residential projects, $299 million associated with nine North American luxury fractional projects, $93 million related to one North American timeshare project, $51 million related to the four projects in our European timeshare and fractional business, and $14 million associated with two Asia Pacific timeshare resorts. The following table details the composition of these charges.

($ in millions)	**Impairment Charge**	
Third Quarter 2009 Operating Income Charge		
Inventory impairment	$	529
Property and equipment impairment		64
Other impairments		21
Total operating income charge		614
Third Quarter 2009 Non-Operating Income Charge		
Joint venture impairment		71
Loan impairment		40
Funding liability		27
Total non-operating income charge		138
Total	$	752

In accordance with Financial Accounting Standards (FAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we made these impairment adjustments to inventory, property and equipment and joint venture investment to adjust the carrying value of each underlying asset to our estimate of its fair value as of the end of the 2009 third quarter, including fully impairing the joint venture investment. We estimated the fair value of the underlying assets using probability-weighted cash flow

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models that reflected our expectations of future performance discounted at risk-free interest rates commensurate with the remaining life of the related projects using the procedures specified in FAS No. 157, Fair Value Measurements (FAS No. 157). We used Level 3 inputs for our discounted cash flow analyses. Our assumptions included: growth rate and sales pace projections, additional pricing discounts resulting from the business decisions we made, development cancellations resulting in shorter project life cycles, marketing and sales cost estimates, and in certain instances alternative uses to comply with FAS No. 157 s highest and best use provisions. In some instances, we took into account appraisals, which we deemed to be Level 3 inputs, for the fair value of the underlying assets.

We also determined that certain loans likely will not be repaid. As a result, we fully reserved the loans in accordance with FAS No. 114, Accounting by Creditors for Impairment of a Loan, based on the present value of the loans expected cash flows discounted at the loans effective interest rates.

Our funding liability relates to management s intention to provide financial support to one of our variable interest entities through the end of 2009 based upon significant milestones related to the project and our history of support for the entity s operations in order to ensure the completion of this project. We do not anticipate repayment from the variable interest entity and have accordingly expensed these amounts. The funding liability meets the criteria of probable and reasonably estimable, in accordance with the guidance in FAS No. 5, Accounting for Contingencies.

Other impairments primarily relate to our anticipated fundings in conjunction with certain purchase commitments, a portion of which we do not expect to recover because the projected fair value of the assets to be purchased under the commitments will be below the amount we expect to fund. We measured the projected fair value of the assets using probability-weighted cash flow models with Level 3 inputs, in accordance with FAS No. 157. Our assumptions included: growth rate and sales pace projections, additional pricing discounts as a result of the business decisions made, marketing and sales cost estimates, and in certain instances alternative uses to comply with FAS No. 157 s highest and best use provisions.

Restructuring Costs and Other Charges

During the latter part of 2008, we experienced a significant decline in demand for hotel rooms both domestically and internationally as a result, in part, of the recent failures and near failures of a number of large financial service companies in the fourth quarter of 2008 and the dramatic downturn in the economy. Our capital intensive Timeshare business was also hurt both domestically and internationally by the downturn in market conditions and particularly the significant deterioration in the credit markets, which resulted in our decision not to complete a note sale in the fourth quarter of 2008 (although we did complete a note sale in the first quarter of 2009). These declines resulted in reduced management and franchise fees, cancellation of development projects, reduced timeshare contract sales, and anticipated losses under guarantees and loans. In the fourth quarter of 2008, we put certain company-wide cost-saving measures in place in response to these declines, with individual company segments and corporate departments implementing further cost saving measures. Upper-level management responsible for the Timeshare segment, hotel operations, development, and above-property level management of the various corporate departments and brand teams individually led these decentralized management initiatives. The various initiatives resulted in aggregate restructuring costs of $55 million that we recorded in the fourth quarter of 2008. We also recorded $137 million of other charges in the 2008 fourth quarter. For information regarding the fourth quarter 2008 charges, see Footnote No. 20, Restructuring Costs and Other Charges, in our Annual Report on Form 10-K for the fiscal year ended January 2, 2009 (2008 Form 10-K).

Restructuring Costs

As part of the restructuring actions we began in the fourth quarter of 2008, we initiated further cost savings measures in the 2009 first, second, and third quarters associated with our Timeshare segment, hotel development, above-property level management, and corporate overhead. These further measures resulted in additional restructuring costs of $44 million in the first three quarters of 2009, $9 million of which were incurred in the third quarter. These 2009 restructuring costs included: (1) $16 million in severance costs related to the reduction of 970 employees, $4 million of which we incurred in the third quarter for 116 employees terminated during the quarter (the majority of whom were given notice of termination by September 11, 2009); (2) $27 million in facilities exit costs incurred in the second and third quarters of 2009, $5 million of which we incurred in the third quarter; and (3) $1 million related to the write-off of capitalized costs relating to development projects no longer deemed viable in the second quarter of 2009. The severance costs do not reflect amounts billed out separately to owners for property-level severance costs. The $4 million of severance costs we recorded in the 2009 third quarter reflected a portion of the $6 million to $9 million in costs that, as disclosed in our Quarterly Report on Form 10-Q for the quarterly period ended June 19, 2009 (the 2009 Second Quarter Form 10-Q), we expected to incur in the third through fourth quarters of 2009. Of the $5 million of facilities exit costs we recorded in the 2009 third quarter, $3 million reflected a portion of the $2 million to $4 million in costs that, as disclosed in our 2009 Second Quarter Form 10-Q, we expected to incur in the third through fourth quarters of 2009, and $2 million reflected incremental costs that we incurred as a result of further cost savings measures we implemented in the 2009 third quarter.

As part of the restructuring efforts in our Timeshare segment, we reduced and consolidated sales channels in the United States and closed down certain operations in Europe in the fourth quarter of 2008. We recorded Timeshare restructuring costs of $28 million in the 2008 fourth quarter. We recorded further Timeshare restructuring costs in the first three quarters of 2009 of $38 million including: (1) $10 million in severance costs, of which $2 million were incurred in the third quarter of 2009; (2) $27 million in facility exit costs incurred in the second and third quarters of 2009, primarily associated with noncancelable lease costs in excess of estimated sublease income arising from the reduction in personnel, ceased use of certain lease facilities, and $8 million in fixed asset impairments incurred in the second and third quarters; and (3) $1 million related to the write-off of capitalized costs relating to development projects no longer deemed viable in the second quarter of 2009. In connection with these initiatives, we expect to incur an additional $1 million related to severance and fringe benefits and $2 million to $3 million related to ceasing use of additional noncancelable leases in 2009. We are projecting $95 million to $105 million ($58 million to $64 million after-tax) of annual cost savings as of the beginning of 2010 as a result of the restructuring, and $48 million ($29 million after-tax) has already been realized in 2009 of the $70 million to $80 million projected for 2009. These savings will likely be reflected in the Timeshare-direct and the General, administrative, and other expenses captions in our Condensed Consolidated Statements of Income. We expect to complete the portion of our restructuring efforts related to our Timeshare segment by year-end 2009.

As part of the hotel development restructuring efforts across several of our Lodging segments in the fourth quarter of 2008, we discontinued certain development projects that required our investment. We recorded restructuring costs in the 2008 fourth quarter of $24 million. We recorded further hotel development restructuring costs in the first three quarters of 2009 of $2 million for severance and fringe benefit costs, of which $1 million was incurred in the third quarter of 2009. We expect to complete this restructuring by year-end 2009 and do not expect to incur additional expenses in connection with these initiatives. We have realized $1 million ($1 million after-tax) of the $3 million ($2 million after-tax) of savings projected for 2009. These savings will likely be reflected in the General, administrative, and other expenses caption in our Condensed Consolidated Statements of Income.

We also implemented restructuring initiatives by reducing above property-level lodging management personnel and corporate overhead. We incurred 2008 fourth quarter restructuring costs of $3 million, primarily reflecting severance and fringe benefit costs. We recorded further restructuring costs in the second and third quarters of 2009 of $3 million and $1 million, respectively, for severance and fringe benefit costs. In connection with these initiatives, we expect to incur at least an additional $2 million related to severance and fringe benefits in 2009. We expect to complete this restructuring by year-end 2009. We have realized $5 million ($3 million after-tax) of the $8 million ($5 million after-tax) of savings projected for 2009. These savings will likely be reflected in the General, administrative, and other expenses caption in our Condensed Consolidated Statements of Income.

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Other Charges

We also incurred $150 million of other charges in the first three quarters of 2009, of which a net $1 million credit was recorded in the third quarter of 2009, as detailed in the following paragraphs.

Security Deposit and Joint Venture Asset Impairments

We sometimes issue guarantees to lenders and other third parties in connection with financing transactions and other obligations. As a result of the continued downturn in the economy, certain hotels have experienced significant declines in profitability and accordingly, may experience cash flow shortfalls. In the fourth quarter of 2008, we concluded based on cash flow projections that we would fund certain cash flow shortfalls in two portfolios of hotels in order to prevent draws against the related security deposits and the potential conversion of the related management contracts to franchise agreements, even though the related guarantees had expired. We did not deem these fundings to be fully recoverable and recorded a corresponding charge of $16 million for the amount we expected to fund but not recover. However, in the first quarter of 2009 we decided not to continue funding, as the expected incremental funding levels had increased to unacceptable levels.

As a result of the Company s decisions to stop funding these cash flow shortfalls and based on our internal analysis of expected future discounted cash flows, we determined that we may not recover two security deposits totaling $49 million. We used Level 3 inputs for our discounted cash flows analysis in accordance with FAS No. 157. Our assumptions included property level pro forma financial information, growth rates, and inflation. We recorded an impairment charge of $49 million in the first quarter of 2009 to fully reserve these security deposits in the General, administrative, and other expenses caption in our Condensed Consolidated Statements of Income. In the 2009 first quarter, we applied the remaining $11 million of the $16 million liability established in the fourth quarter of 2008 against this impairment. In the tables that follow, see the Impairment of investments and other caption, which includes the $49 million impairment charge, and the Reserves for expected fundings caption, which includes the $11 million reduction in the liability.

We expect that one project in development, in which the Company has a joint venture investment, will generate lower operating results than we had previously anticipated due to the continued downturn in the economy, and have concluded that it is highly unlikely that we will receive a return on or of our investment without first fully funding potentially significant incremental capital, which we are not inclined to do. As a result, based on our internal analysis of expected discounted future cash flows using Level 3 inputs in accordance with FAS No. 157, we determined that our investment in that joint venture was fully impaired. The Level 3 inputs we used in our analysis were based on assumptions regarding property level pro forma financial information, fundings of debt service obligations, growth rates, and inflation. We recorded an impairment charge of $30 million in the 2009 first quarter in the Equity in (losses) earnings caption in our Condensed Consolidated Statements of Income. See the Impairment of investments and other caption in the tables that follow that includes this charge.

Accounts Receivable-Bad Debts and Charges for Guarantees

We expect to fund under cash flow guarantees for two properties that have experienced cash flow shortfalls. We do not deem these guarantee fundings to be recoverable, and have therefore recorded a charge of $2 million during the 2009 second quarter and $1 million during the 2009 third quarter to reflect these obligations. During the 2009 second quarter, we also reserved a $1 million accounts receivable balance, which on analysis we deemed to be uncollectible as a result of the unfavorable hotel operating environment. We have recorded these charges in the General, administrative, and other expenses caption in our Condensed Consolidated Statements of Income. See the Accounts receivable and guarantee charges caption in the tables that follow that includes these charges.

Reserves for Loan Losses

From time to time, we advance loans to owners of properties that we manage. As a result of the continued downturn in the economy, certain hotels have experienced significant declines in profitability and the owners may not be able to meet debt service obligations to us or, in some cases, to third-party lending institutions. In the first quarter of 2009, we determined that two loans made by us may not be repaid. Due to the expected loan losses, we fully reserved these loans and recorded a charge of $42 million in the first quarter of 2009. We also recorded an additional $1 million in the second quarter of 2009 related to two loans, and the total $43 million is reflected in the Provision for loan losses caption in our Condensed Consolidated Statements of Income. See the Reserves for loan losses caption in the tables that follow, which includes this provision.

Timeshare Residual Interests Valuation

The fair market value of our residual interests in timeshare notes sold declined in the first quarter of 2009 primarily due to an increase in the market rate of interest at which we discount future cash flows to estimate the fair market value of the retained interests. The fair market value of our residual interests in timeshare notes sold also declined in the second quarter of 2009 primarily due to certain previously securitized loan pools reaching performance triggers, partially offset by a decrease in the market rate of interest at which we discount future cash flows to estimate the fair market value of the retained interests. The increase in the market rate of interest in the 2009 first quarter reflected an increase in defaults caused by the continued deteriorating economic conditions. As a result of this change, we recorded an $11 million charge in the 2009 first quarter. Seven previously securitized loan pools reached performance triggers as a result of increased defaults; one pool in March 2009, and the other six pools in April and May 2009. These performance triggers effectively redirected the excess spread we typically receive each month to accelerate returns to investors. As a result, we recorded a $2 million charge in the first quarter of 2009 and a $17 million charge in the 2009 second quarter. The $17 million unfavorable impact of these performance triggers was partially offset by a $5 million favorable impact from changes in assumptions related to discount rate, defaults and prepayments, resulting in a net $12 million charge in the second quarter of 2009. In the 2009 third quarter, loan performance improved sufficiently in three of the seven previously securitized loan pools, curing the performance triggers and resulting in a $3 million benefit to residual interest. We recorded these charges in the Timeshare sales and services caption in our Condensed Consolidated Statements of Income. See the Residual interests valuation caption in the tables that follow, which includes these charges. The tables summarizing the changes to our Level 3 assets and liabilities in Footnote No. 6, Fair Value Measurements, reflect the $22 million in total charges for the first three quarters of 2009 on the Included in earnings line, which also reflects a partial offset due to other changes in the underlying assumptions that impact the fair value of the residual interests and the cure of the performance triggers in the 2009 third quarter.

Timeshare Contract Cancellation Allowances

Our financial statements reflect net contract cancellation allowances of $4 million recorded in the first quarter of 2009, $1 million recorded in the second quarter of 2009, and $1 million recorded in the third quarter of 2009, in anticipation that a portion of contract revenue and costs previously recorded for certain projects under the percentage-of-completion method will not be realized due to contract cancellations prior to closing. We have an equity method investment in one of these projects, and accordingly, we reflected $3 million of the $6 million in the first three quarters of 2009 in the Equity in (losses) earnings caption in our Condensed Consolidated Statements of Income. The remaining net $3 million of contract cancellation allowances consisted of a reduction in revenue, net of adjustments to product costs and other direct costs and was recorded in Timeshare sales and services revenue, net of direct costs. See the Contract cancellation allowances caption in the tables that follow, which includes this net allowance.

Timeshare Software Development Write-off

During the second quarter of 2009, we recorded an impairment of $7 million for the write-off of capitalized software development costs related to a software project we have decided not to further develop. We concluded that continued development of this software was not cost effective given

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continued cost savings initiatives associated with the challenging business environment and we will instead pursue alternative lower cost solutions.

Summary of Restructuring Costs and Other Charges

The following table is a summary of the restructuring costs and other charges we recorded in the first three quarters of 2009 and through the third quarter of 2009, as well as our remaining liability at the end of the third quarter of 2009:

($ in millions)	Restructuring Costs and Other Charges Liability at January 2, 2009	Total Charge (Reversal) in the First Three Quarters of 2009	Cash Payments in the First Three Quarters of 2009	Restructuring Costs and Other Charges Liability at September 11, 2009	Total Cumulative Restructuring Costs through the 2009 Third Quarter (3)
Severance-Timeshare	$ 11	$ 10	$ 17	$ 4	$ 24
Facilities exit costs-Timeshare	5	27 (1)	4	20	32
Development cancellations-Timeshare		1			10
Total restructuring costs-Timeshare	16	38	21	24	66
Severance-hotel development	2	2	2	2	4
Development cancellations-hotel development					22
Total restructuring costs-hotel development	2	2	2	2	26
Severance-above property-level management	2	4	3	3	7
Total restructuring costs-above property-level management	2	4	3	3	7
Total restructuring costs	$ 20	$ 44	$ 26	$ 29	$ 99
Impairment of investments and other		79			
Accounts receivable and guarantee charges		4		3	
Reserves for expected fundings	16	(11)	4	1	
Reserves for loan losses		43			
Residual interests valuation		22			
Contract cancellation allowances		6			
Software development write-off		7			
Total other charges	16	150(2)	4	4	
Total restructuring costs and other charges	$ 36	$ 194	$ 30	$ 33	

(1) Reflects $8 million of non-cash facilities exit costs related to fixed asset impairments.

(2) Reflects $158 million of non-cash other charges, which exclude the $11 million reversal of reserves for expected fundings and $3 million of guarantee charges.

(3) Includes charges recorded in the 2008 fourth quarter through the 2009 third quarter.

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The following tables provide further detail on the restructuring costs and other charges incurred in the third quarter of 2009, first three quarters of 2009, and cumulative restructuring costs incurred through the third quarter of 2009, including a breakdown of these charges by segment:

Third Quarter 2009 and Cumulative

Operating Income Impact

($ in millions)	North American Full-Service Segment	North American Limited-Service Segment	International Segment	Luxury Segment	Timeshare Segment	Other Unallocated Corporate	Total
Restructuring Costs-Third Quarter 2009:							
Severance	$	$	$	$	$ 2	$ 2	$ 4
Facilities exit costs					5		5
Development cancellations							
Total restructuring costs-third quarter 2009	$	$	$	$	$ 7	$ 2	$ 9
Restructuring Costs-First Three Quarters 2009:							
Severance	$	$	$ 2	$	$ 10	$ 4	$ 16
Facilities exit costs					27		27
Development cancellations					1		1
Total restructuring costs-first three quarters 2009	$	$	$ 2	$	$ 38	$ 4	$ 44
Restructuring Costs-Cumulative through Third Quarter 2009 [1]							
Severance	$	$	$ 2	$ 1	$ 24	$ 8	$ 35
Facilities exit costs					32		32
Development cancellations					10	22	32
Total restructuring costs-cumulative through third quarter 2009	$	$	$ 2	$ 1	$ 66	$ 30	$ 99
Other Charges-First Three Quarters 2009:							
Impairment of investments and other	$ 7	$ 42	$	$	$	$	$ 49
Accounts receivable and guarantee charges			3	1			4
Reversal of charges related to expected fundings		(11)					(11)
Residual interests valuation					22		22
Contract cancellation allowances					3		3
Software development write-off					7		7
Total other charges-first three quarters 2009	$ 7	$ 31	$ 3	$ 1	$ 32	$	$ 74

(1) Includes charges recorded in the 2008 fourth quarter through the 2009 third quarter.

First Three Quarters 2009 Non-Operating

Impact

($ in millions)	Provision for Loan Losses	Equity in Earnings	Total
Impairment of investments-Luxury segment	$	$ 30	$ 30
Reserves for loan losses [1]	43		43
Contract cancellation allowances-Timeshare segment		3	3
Total	$ 43	$ 33	$ 76

(1) Includes $14 million loan loss provision related to Limited-Service properties and a $29 million loan loss provision related to a Luxury project in development.

The following table provides further detail on restructuring costs we expect to incur in the fourth quarter of 2009, including a breakdown by segment:

Fourth Quarter 2009 Expected Operating

Income Impact

($ in millions)	Luxury Segment	Timeshare Segment	Other Unallocated Corporate	Total
Severance	$ 1	$ 1	$ 1	$ 3
Facilities exit costs		2-3		2-3
Development cancellations				
Total restructuring costs	$ 1	$ 3-4	$ 1	$ 5-6

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Operating Income

Twelve Weeks. Operating income decreased by $709 million (349 percent) to an operating loss of $506 million in the 2009 third quarter from operating income of $203 million in the third quarter of 2008. The decrease in operating income reflected Timeshare strategy-impairment charges in the 2009 third quarter of $614 million, $31 million of lower Timeshare sales and services revenue net of direct expenses, $35 million of lower incentive management fees, a decrease in combined base management and franchise fees of $35 million, $9 million of restructuring costs, $8 million of lower owned, leased, corporate housing, and other revenue net of direct expenses, partially offset by a $23 million decrease in general, administrative, and other expenses.

The reasons for the decrease of $35 million in incentive management fees as well as the decrease of $35 million in combined base management and franchise fees as compared to the year-ago quarter are noted in the preceding Revenues section.

Timeshare sales and services revenue net of direct expenses in the third quarter of 2009 totaled $16 million. The decline of $31 million (66 percent) from $47 million in the year-ago quarter primarily reflected $27 million of lower development revenue net of product, marketing and selling costs and $9 million of lower servicing revenue, net of servicing expenses, partially offset by $5 million of other higher revenue, net of expenses. Lower development revenue net of product, marketing and selling costs primarily reflected lower revenue, net of product, marketing and selling costs for timeshare intervals, partially offset by favorable reportability for several projects that started sales or reached revenue recognition reportability thresholds subsequent to the third quarter of 2008 and a favorable variance from a $22 million pretax ($10 million net of noncontrolling interest benefit) charge recorded in the 2008 third quarter related to the impairment of a fractional and whole ownership real estate project held for development by a joint venture that we consolidate. See BUSINESS SEGMENTS: Timeshare, later in this report for additional information regarding our Timeshare segment.

The $8 million (40 percent) decrease in owned, leased, corporate housing, and other revenue net of direct expenses was primarily attributable to a decline of $14 million in revenue, net of expenses associated with weaker demand at owned and leased properties, as well as our corporate housing business, partially offset by a one-time $6 million transaction cancellation fee received in the 2009 third quarter.

General, administrative, and other expenses decreased by $23 million (14 percent) to $144 million in the third quarter of 2009 from $167 million in the third quarter of 2008. This decrease primarily reflected $38 million of decreased expenses, largely due to cost savings generated from the restructuring efforts initiated in 2008 and lower incentive compensation in 2009. General, administrative and other expenses for the 2009 third quarter included charges totaling $5 million associated with litigation. Additionally, the 2009 third quarter included an $8 million unfavorable impact associated with deferred compensation expenses, compared to a $7 million favorable impact in the year-ago quarter, both of which reflected mark-to-market valuations. Of the $23 million decrease in total general, administrative, and other expenses, a decrease of $20 million was attributable to our Lodging and Timeshare segments and a decrease of $3 million was unallocated.

Thirty-six Weeks. Operating income decreased by $1,035 million (146 percent) to an operating loss of $324 million in the first three quarters of 2009 from operating income of $711 million in the first three quarters of 2008. The decrease in operating income reflected Timeshare strategy-impairment charges in the 2009 third quarter of $614 million, $134 million of lower incentive management fees, $128 million of lower Timeshare sales and services revenue net of direct expenses, a decrease in combined base management and franchise fees of $118 million, $46 million of lower owned, leased, corporate housing, and other revenue net of direct expenses, and $44 million of restructuring costs, partially offset by a $49 million decrease in general, administrative, and other expenses.

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The reasons for the decrease of $134 million in incentive management fees as well as the decrease of $118 million in combined base management and franchise fees as compared to the first three quarters of 2008 are noted in the preceding Revenues section.

Timeshare sales and services revenue net of direct expenses in the first three quarters of 2009 totaled $9 million. The decline of $128 million (93 percent) from $137 million in the first three quarters of 2008 primarily reflected $74 million of lower development revenue net of product costs and marketing and selling costs, $42 million of lower financing revenue net of financing expenses, and $15 million of lower services revenue net of expenses. Lower development revenue net of product, marketing and selling costs primarily reflected lower revenue, net of product, marketing and selling costs for timeshare intervals and to a lesser extent, lower revenue, net of costs for our Asia points program, an $8 million charge related to an issue with a state tax authority, and a net $3 million impact from contract cancellation allowances (see the Other Charges caption in the Restructuring Costs and Other Charges section for additional information). These unfavorable variances were partially offset by favorable reportability for several projects that reached revenue recognition reportability thresholds subsequent to the third quarter of 2008 and a favorable variance from a $22 million pretax charge ($10 million net of noncontrolling interest benefit) recorded in the 2008 third quarter as noted in the Twelve Weeks discussion. Lower financing revenue net of financing expenses reflected lower note origination volumes, lower note sale gains and an adjustment to the fair market value of residual interests, while lower services revenue net of expenses reflected weak demand and increased costs. See BUSINESS SEGMENTS: Timeshare later in this section for additional information regarding our Timeshare segment.

The $46 million (50 percent) decrease in owned, leased, corporate housing, and other revenue net of direct expenses was primarily attributable to a decline of $45 million in revenue, net of expenses associated with weaker demand at owned and leased properties, as well as our corporate housing business, $10 million of lower hotel agreement termination fees, and $3 million of lower branding fees associated with sale of residential real estate, partially offset by $8 million of increased branding fees associated with affinity card endorsements and a one-time $6 million transaction cancellation fee received in the 2009 third quarter.

General, administrative, and other expenses decreased by $49 million (10 percent) to $464 million in the first three quarters of 2009 from $513 million in the first three quarters of 2008. The decrease primarily reflected $118 million of lower expenses, largely due to cost savings generated from the restructuring efforts initiated in 2008 and lower incentive compensation. The benefit from these cost savings was partially offset by the following items: $49 million of impairment charges related to two security deposits that we deemed unrecoverable in the first three quarters of 2009 due, in part, to our decision not to fund certain cash flow shortfalls, partially offset by an $11 million reversal of the 2008 accrual for the funding of those cash flow shortfalls; a $7 million write-off of Timeshare segment capitalized software costs; and $4 million of bad debt expense on an accounts receivable balance, and charges totaling $5 million associated with litigation. Additionally, the 2009 period included a $10 million unfavorable impact associated with deferred compensation expenses, compared to an $11 million favorable impact in the first three quarters of 2008, both of which reflected mark-to-market valuations. Of the $49 million decrease in total general, administrative, and other expenses, a decrease of $5 million was attributable to our Lodging and Timeshare segments and a decrease of $44 million was unallocated.

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(Losses) Gains and Other Income

The table below shows our (losses) gains and other income for the twelve weeks and thirty-six weeks ended September 11, 2009, and September 5, 2008:

	Twelve Weeks Ended		Thirty-Six Weeks Ended	
($ in millions)	September 11, 2009	September 5, 2008	September 11, 2009	September 5, 2008
Gain on debt extinguishment	$	$	$ 21	$
Gains on sales of real estate and other	3	2	9	7
Gain on sale of joint venture and other investments		2		3
Income from cost method joint ventures	1	3	2	9
Impairment of equity securities	(5)		(5)	
	$ (1)	$ 7	$ 27	$ 19

Twelve Weeks. The $5 million impairment of equity securities in the third quarter of 2009 reflects an other-than-temporary impairment of marketable securities in accordance with FAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. For additional information on the impairment, see Footnote No. 6, Fair Value Measurements.

Thirty-six Weeks. The $21 million gain on debt extinguishment in the first three quarters of 2009 represents the difference between the purchase price and net carrying amount of Senior Notes we repurchased. For additional information on the debt extinguishment, see the Liquidity and Capital Resources section later in this report.

Interest Expense

Twelve Weeks. Interest expense decreased by $6 million (18 percent) to $27 million in the third quarter of 2009 compared to $33 million in the third quarter of 2008. Interest expense associated with commercial paper and our multicurrency revolving credit agreement (the Credit Facility) decreased by $4 million reflecting the repayment of our commercial paper in 2008 and increased borrowings under the Credit Facility with a lower interest rate. We also benefited from a $5 million decrease in interest costs associated with various programs that we operate on behalf of owners (including our Marriott Rewards, gift certificates, and self-insurance programs) as a result of lower interest rates and, the repurchase of some of our Senior Notes across multiple series in the 2008 fourth quarter and 2009 first quarter (see Liquidity and Capital Resources later in this section for additional information), which resulted in a $3 million reduction to interest expense. These decreases in interest expense were partially offset by a $7 million unfavorable variance to the 2008 third quarter related to lower capitalized interest associated with construction projects.

Thirty-six Weeks. Interest expense decreased by $29 million (26 percent) to $84 million in the first three quarters of 2009 compared to $113 million in the first three quarters of 2008. Interest expense associated with commercial paper and our Credit Facility decreased by $15 million reflecting the repayment of our commercial paper in 2008 and increased borrowings under the Credit Facility with a lower interest rate. We also benefited from a $17 million decrease in interest costs associated with various programs that we operate on behalf of owners as a result of lower interest rates and, the repurchase of some of our Senior Notes across multiple series in the 2008 fourth quarter and 2009 first quarter (see Liquidity and Capital Resources later in this section for additional information), which resulted in an $8 million reduction to interest expense and, finally, other interest expense decreases of $3 million. These decreases in interest expense were partially offset by a $14 million unfavorable variance to the 2008 third quarter year-to-date period related to lower capitalized interest associated with construction projects.

Interest Income, Provision for Loan Losses, and Income Tax

Twelve Weeks. Interest income, before the provision for loan losses, of $5 million decreased $3 million as compared to the 2008 third quarter, primarily reflecting $3 million of interest income we recorded in the third quarter of 2008 related to three loans that subsequently became impaired. Because we recognize interest on impaired loans on a cash basis, we recognized no interest on those impaired loans in the 2009 third quarter.

Our tax provision decreased by $313 million (304 percent) to a tax benefit of $210 million in the third quarter of 2009 from a tax provision of $103 million in the third quarter of 2008, reflecting a pretax loss in 2009 and $15 million of lower tax expense associated with our deferred compensation plan. The decrease was partially offset by an increase to the effective tax rate in the third quarter of 2009 due to a change in our mix of worldwide income resulting from substantial reductions of foreign income in jurisdictions with low tax rates. The 2009 third quarter tax rate also reflected $13 million of income tax expense, primarily related to the treatment of funds received from certain foreign subsidiaries, an issue that is the subject of ongoing discussions between us and the IRS. In addition to tax expense on pre-tax earnings, the tax rate for the third quarter of 2008 also reflected a $29 million income tax expense primarily related to an unfavorable U.S. Court of Federal Claims decision involving a 1994 tax planning transaction.

Thirty-six Weeks. Interest income, before the provision for loan losses, decreased by $8 million (29 percent) to $20 million for the first three quarters of 2009, from $28 million for the first three quarters of 2008, primarily reflecting $9 million of interest income we recorded in the first three quarters of 2008 related to three loans that subsequently became impaired, $2 million of previously reserved interest income collected in the first three quarters of 2008, and $2 million of lower interest income due to a lower cash balance and a decline in interest rate on that cash balance. These unfavorable impacts were partially offset by $6 million of additional interest income from a new loan funded at year-end 2008.

The provision for loan losses increased by $45 million to $43 million for the first three quarters of 2009 from a loan loss provisions reversal of $2 million in the 2008 period. The increase reflected a $29 million loan loss provision associated with one Luxury segment project and a $14 million loan loss provision associated with a North American Limited-Service segment portfolio both of which were recorded in the first three quarters of 2009. See the Other Charges caption in the Restructuring Costs and Other Charges section for additional information. The $2 million net loan loss provision reversal for the first three quarters of 2008 reflected the reversal of loan loss provisions totaling $5 million as two previously impaired loans were repaid to us, partially offset by a $3 million loan loss provision associated with one property.

Our tax provision decreased by $450 million (142 percent) to a tax benefit of $133 million in the first three quarters of 2009 from a tax provision of $317 million in the first three quarters of 2008, reflecting a pretax loss in 2009 and $21 million of lower tax expense associated with our deferred compensation plan. The decrease was partially offset by an increase to the effective tax rate in the first three quarters of 2009 due to a change in our mix of worldwide income resulting from substantial reductions of foreign income in jurisdictions with low tax rates. The 2009 tax rate also reflected $56 million of income tax expense, primarily related to the treatment of funds received from certain foreign subsidiaries. The charges recorded in 2009 primarily relate to our ongoing current fiscal year exposure related to this issue. In addition to tax expense on pre-tax earnings, the tax rate for the first three quarters of 2008 also reflected: (1) $12 million of income tax expense in the 2008 second quarter due primarily to prior years tax adjustments, including a settlement with the IRS that resulted in a lower than expected refund of taxes associated with a 1995 leasing transaction; (2) $24 million of income tax expense in the 2008 second quarter related to the tax treatment of funds received from certain foreign subsidiaries; and (3) $29 million of income tax expense in the 2008 third quarter primarily related to an unfavorable U.S. Court of Federal Claims decision involving a 1994 tax planning transaction.

Equity in (Losses) Earnings

Twelve Weeks. Equity in losses of $12 million in the third quarter of 2009 increased by $14 million from equity in earnings of $2 million in the third quarter of 2008 and primarily reflected $6 million of decreased earnings in the 2009 third quarter for a Timeshare segment joint venture residential project,

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$2 million of equity losses associated with an International segment joint venture, and $3 million of equity losses at certain other joint ventures, which were all hurt by the weak demand environment. The unfavorable impacts also included a $3 million impairment charge for a joint venture that is not allocated to one of our segments and for which we do not expect to recover our investment.

Thirty-six Weeks. Equity in losses of $50 million in the first three quarters of 2009 increased by $76 million from equity in earnings of $26 million in the first three quarters of 2008 and primarily reflected a $30 million impairment charge in 2009 associated with a Luxury segment joint venture investment that we determined to be fully impaired (see the Other Charges caption in the Restructuring Costs and Other Charges section for more information). The decrease in joint venture equity earnings also reflected an unfavorable comparison to $15 million of equity earnings in 2008 from a joint venture that sold portfolio assets and had significant associated gains, and $9 million of earnings in 2008 from another joint venture primarily reflecting insurance proceeds received by that joint venture. Further contributing to the decline were $17 million of decreased earnings, in the first three quarters of 2009, for a Timeshare segment joint venture residential project, $5 million of equity losses associated with a North American Limited-Service segment joint venture, $2 million of equity losses associated with an International segment joint venture, and $4 million of equity losses at certain other joint ventures, all of which were negatively affected by the weak demand environment. The unfavorable impacts also included a $3 million impairment charge for a joint venture that is not allocated to one of our segments and for which we do not expect to recover our investment. These decreases were partially offset by an unfavorable $11 million impact in the 2008 period associated with tax law changes in a country in which two international joint ventures operate.

Net Losses Attributable to Noncontrolling Interests

Twelve Weeks. Net losses attributable to noncontrolling interests decreased by $7 million to $3 million in the third quarter of 2009 compared to $10 million in the third quarter of 2008. The benefits for net losses attributable to noncontrolling interests in the third quarter of 2009 of $3 million are net of tax and reflected our partners share of losses totaling $4 million associated with joint ventures we consolidate net of our partners share of tax benefits of $1 million associated with the losses. The benefits for net losses attributable to noncontrolling interests in the third quarter of 2008 of $10 million are net of tax and reflected our partners share of losses totaling $15 million associated with joint ventures we consolidate net of our partners share of tax benefits of $5 million associated with the losses. See BUSINESS SEGMENTS: Timeshare later in this section for additional information.

Thirty-six Weeks. Net losses attributable to noncontrolling interests decreased by $6 million in the first three quarters of 2009 to $7 million, compared to $13 million in the first three quarters of 2008. The benefits for net losses attributable to noncontrolling interests in the first three quarters of 2009 of $7 million are net of tax and reflected our partners share of losses totaling $11 million associated with joint ventures we consolidate net of our partners share of tax benefits of $4 million associated with the losses. The benefits for net losses attributable to noncontrolling interests in the first three quarters of 2008 of $13 million are net of tax and reflected our partners share of losses totaling $20 million associated with joint ventures we consolidate net of our partners share of tax benefits of $7 million associated with the losses.

(Loss) Income from Continuing Operations

Twelve Weeks. Compared to the year-ago quarter, loss from continuing operations increased by $553 million (658 percent) to a loss of $469 million in the third quarter of 2009 from income of $84 million in the third quarter of 2008, loss from continuing operations attributable to Marriott increased by $560 million (596 percent) to a loss of $466 million in the third quarter of 2009 from income of $94 million in the third quarter of 2008, and diluted losses per share from continuing operations attributable to Marriott increased by $1.56 (624 percent) to $1.31 per share from $0.25 per share. As discussed in more detail in the preceding sections beginning with Operating Income, the $553 million increase in loss from continuing operations compared to the prior year was due to Timeshare strategy impairment charges in the 2009 third quarter ($752 million), lower Timeshare sales and services revenue net of direct expenses ($31 million), lower incentive management fees ($35 million), lower base

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management and franchise fees ($35 million), restructuring costs in the 2009 third quarter ($9 million), lower owned, leased, corporate housing, and other revenue net of direct expenses ($8 million), lower gains and other income ($8 million), lower equity in earnings ($14 million), and lower interest income ($3 million). Lower income taxes ($313 million), lower general, administrative, and other expenses ($23 million), and lower interest expense ($6 million) partially offset the unfavorable variances.

Thirty-six Weeks. Compared to the prior year, loss from continuing operations increased by $815 million (229 percent) to a loss of $459 million in the first three quarters of 2009 from income in the first three quarters of 2008 of $356 million, loss from continuing operations attributable to Marriott increased by $821 million (222 percent) to a loss of $452 million in the first three quarters of 2009 from income in the first three quarters of 2008 of $369 million, and diluted losses per share from continuing operations attributable to Marriott increased by $2.26 (228 percent) to $1.27 per share from earnings of $0.99 per share. As discussed in more detail in the preceding sections beginning with Operating Income, the $815 million increase in loss from continuing operations compared to the prior year was due to Timeshare strategy impairment charges in the 2009 third quarter ($752 million), lower incentive management fees ($134 million), lower Timeshare sales and services revenue net of direct expenses ($128 million), lower base management and franchise fees ($118 million), lower equity in earnings ($76 million), a higher provision for loan losses ($45 million), lower owned, leased, corporate housing, and other revenue net of direct expenses ($46 million), restructuring costs in the first three quarters of 2009 ($44 million), and lower interest income ($8 million). Lower income taxes ($450 million), lower general, administrative, and other expenses ($49 million), lower interest expense ($29 million), and higher gains and other income ($8 million) partially offset the unfavorable variances.

BUSINESS SEGMENTS

We are a diversified hospitality company with operations in five business segments:

- *North American Full-Service Lodging*, which includes the Marriott Hotels & Resorts, Marriott Conference Centers, JW Marriott Hotels & Resorts, Renaissance Hotels & Resorts, and Renaissance ClubSport properties located in the continental United States and Canada;

- *North American Limited-Service Lodging*, which includes the Courtyard, Fairfield Inn, SpringHill Suites, Residence Inn, TownePlace Suites, and Marriott ExecuStay properties located in the continental United States and Canada;

- *International Lodging*, which includes the Marriott Hotels & Resorts, JW Marriott Hotels & Resorts, Renaissance Hotels & Resorts, Courtyard, Fairfield Inn, Residence Inn, and Marriott Executive Apartments properties located outside the continental United States and Canada;

- *Luxury Lodging*, which includes The Ritz-Carlton and Bulgari Hotels & Resorts properties worldwide (together with adjacent residential properties associated with some Ritz-Carlton hotels), as well as Edition, for which no properties are yet open; and

- *Timeshare*, which includes the development, marketing, operation, and sale of Marriott Vacation Club, The Ritz-Carlton Destination Club, Ritz-Carlton Residences, and Grand Residences by Marriott timeshare, fractional ownership, and residential properties worldwide.

We evaluate the performance of our segments based primarily on the results of the segment without allocating corporate expenses, interest expense, income taxes, or indirect general, administrative, and other expenses. With the exception of the Timeshare segment, we do not allocate interest income to our segments. Because note sales are an integral part of the Timeshare segment, we include note sale gains or (losses) in our Timeshare segment results. We also include interest income associated with our Timeshare segment notes in our Timeshare segment results because financing sales are an integral part of that segment s business. Additionally, we allocate other gains and losses, equity in earnings or losses from our joint ventures, divisional general, administrative, and other expenses, and income or losses attributable to noncontrolling interests to each of our segments. Other unallocated corporate represents that portion of our revenues, general, administrative, and other expenses, equity in earnings or losses, and other gains or losses that are not allocable to our segments.

We aggregate the brands presented within our North American Full-Service, North American Limited-Service, International, Luxury, and Timeshare segments considering their similar economic characteristics, types of customers, distribution channels, the regulatory business environment of the brands and operations within each segment and our organizational and management reporting structure.

Revenues

	Twelve Weeks Ended		Thirty-Six Weeks Ended	
($ in millions)	**September 11, 2009**	**September 5, 2008**	**September 11, 2009**	**September 5, 2008**
North American Full-Service Segment	$ 1,074	$ 1,239	$ 3,382	$ 3,917
North American Limited-Service Segment	489	544	1,401	1,570
International Segment	259	342	756	1,093
Luxury Segment	296	357	971	1,147
Timeshare Segment	330	463	962	1,326
Total segment revenues	2,448	2,945	7,472	9,053
Other unallocated corporate	23	18	56	42

$ 2,471	$	2,963	$ 7,528	$ 9,095

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(Loss) Income from Continuing Operations Attributable to Marriott

	Twelve Weeks Ended		Thirty-Six Weeks Ended	
($ in millions)	September 11, 2009	September 5, 2008	September 11, 2009	September 5, 2008
North American Full-Service Segment	$ 51	$ 66	$ 191	$ 290
North American Limited-Service Segment	77	103	182	301
International Segment	25	50	89	179
Luxury Segment	7	17		66
Timeshare Segment	(681)	49	(733)	123
Total segment financial results	(521)	285	(271)	959
Other unallocated corporate	(65)	(58)	(136)	(183)
Interest expense, interest income, and provision for loan losses	(89)	(25)	(174)	(83)
Benefit/(provision) for income taxes	209	(108)	129	(324)
	$ (466)	$ 94	$ (452)	$ 369

Net Losses Attributable to Noncontrolling Interests

	Twelve Weeks Ended		Thirty-Six Weeks Ended	
($ in millions)	September 11, 2009	September 5, 2008	September 11, 2009	September 5, 2008
International Segment	$	$	$	$ (1)
Timeshare Segment	4	15	11	21
Total segment net losses attributable to noncontrolling interests	4	15	11	20
Provision for income taxes	(1)	(5)	(4)	(7)
	$ 3	$ 10	$ 7	$ 13

Equity in (Losses) Earnings of Equity Method Investees

	Twelve Weeks Ended		Thirty-Six Weeks Ended	
($ in millions)	September 11, 2009	September 5, 2008	September 11, 2009	September 5, 2008
North American Full-Service Segment	$ 1	$ 1	$ 1	$ 2
North American Limited-Service Segment	(1)		(5)	1
International Segment	(4)	(1)	(5)	
Luxury Segment		(1)	(31)	(1)
Timeshare Segment	(4)	2	(6)	9
Total segment equity in (losses) earnings	(8)	1	(46)	11
Other unallocated corporate	(4)	1	(4)	15
	$ (12)	$ 2	$ (50)	$ 26

Assets

($ in millions)	At Period End September 11, 2009	At Period End January 2, 2009
North American Full-Service Segment	$ 1,182	$ 1,287
North American Limited-Service Segment	491	467
International Segment	867	832
Luxury Segment	653	715
Timeshare Segment	2,814	3,636
Total segment assets	6,007	6,937
Other unallocated corporate	2,260	1,966
	$ 8,267	$ 8,903

Our business includes our North American Full-Service, North American Limited-Service, International, Luxury, and Timeshare segments. We consider total segment revenues and total segment financial results to be meaningful indicators of our performance because they measure our growth in profitability and enable investors to compare the revenues and results of our operations to those of other lodging companies.

We added 265 properties (38,377 rooms) and 15 properties (3,035 rooms) exited the system since the end of the 2008 third quarter, not including residential products. We also added 6 residential properties (639 units) since the end of the 2008 third quarter.

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Twelve Weeks. Total segment financial results decreased by $806 million (283 percent) to segment losses of $521 million in the third quarter of 2009 from segment income of $285 million in the third quarter of 2008, and total segment revenues decreased by $497 million to $2,448 million in the third quarter of 2009, a 17 percent decrease from revenues of $2,945 million in the third quarter of 2008. As discussed in more detail earlier in this report, demand was weaker in the 2009 third quarter than the year-ago quarter.

In addition to the revenue decreases noted in succeeding paragraphs, the decrease in revenues also included a $258 million decrease in cost reimbursements revenue, which does not impact operating income or net income attributable to Marriott. The $806 million decrease in segment results, compared to the year-ago quarter, reflected $685 million of Timeshare impairment charges, $614 million of which were reported in the Timeshare strategy-impairment charges caption and $71 million of which were reported in the Timeshare strategy-impairment charges (non-operating) caption of our Consolidated Statements of Income (see the Timeshare strategy-impairment charges section for more information on the impairments), $35 million of lower incentive management fees, a $35 million (14 percent) decrease in combined base management and franchise fees to $216 million in the 2009 quarter from $251 million in the 2008 quarter, a decrease of $31 million in Timeshare sales and services revenue net of direct expenses, a decrease of $12 million in owned, leased, corporate housing, and other revenue net of direct expenses, an $11 million decrease in net losses attributable to noncontrolling interests benefit, $9 million of lower equity joint venture results, $7 million of restructuring costs recorded in the third quarter of 2009, and a decrease of $1 million in gains and other income, partially offset by a $20 million decrease in general, administrative, and other expenses. As discussed in the Restructuring Costs and Other Charges section, these decreases included $2 million in other charges credits, with $1 million in charges recorded in general, administrative, and other expenses and $3 million in credits recorded in Timeshare sales and services revenue net of direct expenses, as well as $19 million of decreased general, administrative, and other expenses.

Compared to the third quarter of 2008, incentive management fees decreased by $35 million (67 percent) in the third quarter of 2009 and reflected lower property-level operating revenues and margins associated with weak demand, somewhat offset by property-level cost controls. The $35 million decrease in combined base management and franchise fees reflected lower demand and significantly lower RevPAR in the 2009 quarter, partially offset by unit growth. With lower property-level operating income, many managed properties did not earn sufficient income to achieve owner priority returns and, therefore, we earned no incentive fees from those properties. In the third quarter of 2009, 20 percent of our managed properties paid incentive management fees to us versus 55 percent in the third quarter of 2008. In addition, in the third quarter of 2009, nearly all of our incentive fees were derived from hotels outside North America versus 68 percent in the 2008 third quarter.

Systemwide RevPAR, which includes data from our franchised properties, in addition to our owned, leased, and managed properties, for comparable North American properties decreased by 19.3 percent and RevPAR for our comparable North American company-operated properties decreased by 20.6 percent.

Systemwide RevPAR for comparable international properties decreased by 22.1 percent, and RevPAR for comparable international company-operated properties decreased by 22.3 percent. Worldwide RevPAR for comparable systemwide properties decreased by 19.9 percent (21.4 percent using actual dollars) while worldwide RevPAR for comparable company-operated properties decreased by 21.1 percent (23.5 percent using actual dollars).

Compared to the year-ago quarter, worldwide comparable company-operated house profit margins in 2009 decreased by 490 basis points and worldwide comparable company-operated house profit per available room (HP-PAR) decreased by 31 percent on a constant U.S. dollar basis reflecting the impact of very tight cost control plans in 2009 at properties in our system, more than offset by the impact of year-over-year RevPAR decreases. North American company-operated house profit margins declined by

520 basis points and HP-PAR at our North American managed properties decreased by 32.1 percent reflecting significant cost control plans at properties, more than offset by the impact of decreased demand.

Thirty-six Weeks. Total segment financial results decreased by $1,230 million (128 percent) to segment losses of $271 million in the first three quarters of 2009 from segment income of $959 million in the first three quarters of 2008, and total segment revenues decreased by $1,581 million to $7,472 million in the first three quarters of 2009, a 17 percent decrease from revenues of $9,053 million in the first three quarters of 2008. As discussed in more detail earlier in this report, demand was weaker in the first three quarters of 2009 than in the year-ago period.

The decrease in revenues included a $798 million decrease in cost reimbursements revenue, which does not impact operating income or net income attributable to Marriott. The results, compared to the first three quarters of 2008, reflected $685 million of Timeshare impairment charges, $614 million of which were reported in the Timeshare strategy-impairment charges caption and $71 million of which were reported in the Timeshare strategy-impairment charges (non-operating) caption of our Consolidated Statements of Income (see the Timeshare strategy-impairment charges section for more information on the impairments), $134 million of lower incentive management fees, a decrease of $128 million in Timeshare sales and services revenue net of direct expenses, a $118 million (15 percent) decrease in combined base management and franchise fees to $648 million in 2009 from $766 million in 2008, $60 million in owned, leased, corporate housing, and other revenue net of direct expenses, $57 million of lower equity joint venture results, $40 million of restructuring costs recorded in the first three quarters of 2009, a $9 million decrease in net losses attributable to a noncontrolling interests benefit, and a decrease of $4 million in gains and other income, partially offset by $5 million of decreased general, administrative, and other expenses. As discussed in the Restructuring Costs and Other Charges section, these decreases included $74 million in other charges, with $49 million recorded in general, administrative, and other expenses and $25 million recorded in Timeshare sales and services revenue net of direct expenses.

The $118 million decrease in combined base management and franchise fees reflected lower demand and significantly lower RevPAR in 2009. Compared to the first three quarters of 2008, incentive management fees decreased by $134 million (59 percent) in the first three quarters of 2009 and reflected lower property-level operating revenues and margins associated with weak demand, somewhat offset by property-level cost controls. With lower property-level operating income, many managed properties did not earn sufficient income to achieve owner priority returns and, therefore, we earned no incentive fees from those properties. In the first three quarters of 2009, 25 percent of our managed properties paid incentive management fees to us versus 62 percent in the first three quarters of 2008. In addition, in the first three quarters of 2009, 65 percent of our incentive fees were derived from hotels outside North America versus 46 percent in the first three quarters of 2008.

Systemwide RevPAR for comparable North American properties decreased by 19.0 percent, and RevPAR for our comparable North American company-operated properties decreased by 20.8 percent.

Systemwide RevPAR for comparable international properties decreased by 20.8 percent, and RevPAR for comparable international company-operated properties decreased by 21.0 percent. Worldwide RevPAR for comparable systemwide properties decreased by 19.3 percent (21.0 percent using actual dollars) and worldwide RevPAR for comparable company-operated properties decreased by 20.9 percent (23.4 percent using actual dollars).

Compared to the year-ago period, worldwide comparable company-operated house profit margins in the first three quarters of 2009 decreased by 440 basis points and worldwide comparable company-operated HP-PAR decreased by 28.9 percent on a constant U.S. dollar basis reflecting the impact of very tight cost control plans in the first three quarters of 2009 at properties in our system, more than offset by the impact of year-over-year RevPAR decreases. North American company-operated house profit margins declined by 480 basis points and HP-PAR at our North American managed properties decreased by 30.1 percent reflecting significant cost control plans at properties, more than offset by the impact of decreased demand.

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Summary of Properties by Brand

We opened 79 lodging properties (10,380 rooms) during the third quarter of 2009, while three properties (503 rooms) exited the system, increasing our total properties to 3,362 (586,515 rooms) inclusive of 30 home and condominium products (2,744 units), for which we manage the related owners associations. Unless otherwise indicated, our references to Marriott Hotels & Resorts throughout this report include Marriott Conference Centers and JW Marriott Hotels & Resorts. References to Renaissance Hotels & Resorts include Renaissance ClubSport, and references to Fairfield Inn include Fairfield Inn & Suites.

The table below shows properties we operated or franchised, by brand, as of September 11, 2009 (excluding 2,153 corporate housing rental units associated with our ExecuStay brand):

	Company-Operated		Franchised	
Brand	**Properties**	**Rooms**	**Properties**	**Rooms**
U.S. Locations				
Marriott Hotels & Resorts	142	73,024	181	54,890
Marriott Conference Centers	11	3,243		
JW Marriott Hotels & Resorts	11	6,570	5	1,553
Renaissance Hotels & Resorts	36	16,789	40	11,370
Renaissance ClubSport	1	174	1	175
The Ritz-Carlton	37	11,549		
The Ritz-Carlton-Residential (1)	24	2,545		
Courtyard	280	43,892	481	62,943
Fairfield Inn	3	1,055	606	53,482
SpringHill Suites	27	4,140	214	23,678
Residence Inn	139	19,403	444	50,462
TownePlace Suites	34	3,659	145	14,258
Marriott Vacation Club (2)	41	9,728		
The Ritz-Carlton Destination Club (2)	7	339		
The Ritz-Carlton Residences (1), (2)	3	222		
Grand Residences by Marriott-Fractional (2)	1	199		
Grand Residences by Marriott-Residential (1), (2)	2	91		
Non-U.S. Locations				
Marriott Hotels & Resorts	127	36,880	34	10,027
JW Marriott Hotels & Resorts	25	9,732	2	371
Renaissance Hotels & Resorts	51	17,948	14	4,343
The Ritz-Carlton	33	10,117		
The Ritz-Carlton-Residential (1)	1	93		
The Ritz-Carlton Serviced Apartments	3	474		
Bulgari Hotels & Resorts	2	117		
Marriott Executive Apartments	21	3,481	1	99
Courtyard	45	9,829	43	7,425
Fairfield Inn			9	1,109
SpringHill Suites			1	124
Residence Inn	3	405	15	2,199
Marriott Vacation Club (2)	11	2,126		
The Ritz-Carlton Destination Club (2)	3	122		
The Ritz-Carlton Residences (1), (2)	1	12		
Grand Residences by Marriott-Fractional (2)	1	49		
Total	1,126	288,007	2,236	298,508

(1) Represents projects where we manage the related owners association. Residential products are included once they possess a certificate of occupancy.

(2) Indicates a Timeshare product. Includes products in active sales as well as those that are sold out.

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Total Lodging and Timeshare Products by Segment

At September 11, 2009, we operated or franchised the following properties by segment (excluding 2,153 corporate housing rental units associated with our ExecuStay brand):

	Total Lodging and Timeshare Products					
	Properties			Rooms		
	U.S.	Non- U.S.	Total	U.S.	Non- U.S.	Total
North American Full-Service Lodging Segment [1]						
Marriott Hotels & Resorts	319	13	332	124,983	4,837	129,820
Marriott Conference Centers	11		11	3,243		3,243
JW Marriott Hotels & Resorts	15	1	16	7,902	221	8,123
Renaissance Hotels & Resorts	76	2	78	28,159	785	28,944
Renaissance ClubSport	2		2	349		349
	423	16	439	164,636	5,843	170,479
North American Limited-Service Lodging Segment [1]						
Courtyard	761	16	777	106,835	2,847	109,682
Fairfield Inn	609	8	617	54,537	903	55,440
SpringHill Suites	241	1	242	27,818	124	27,942
Residence Inn	583	17	600	69,865	2,495	72,360
TownePlace Suites	179		179	17,917		17,917
	2,373	42	2,415	276,972	6,369	283,341
International Lodging Segment [1]						
Marriott Hotels & Resorts	4	148	152	2,765	42,236	45,001
JW Marriott Hotels & Resorts	1	26	27	387	9,716	10,103
Renaissance Hotels & Resorts		63	63		21,506	21,506
Courtyard		72	72		14,407	14,407
Fairfield Inn		1	1		206	206
Residence Inn		1	1		109	109
Marriott Executive Apartments		22	22		3,580	3,580
	5	333	338	3,152	91,760	94,912
Luxury Lodging Segment						
The Ritz-Carlton	37	33	70	11,549	10,117	21,666
Bulgari Hotels & Resorts		2	2		117	117
The Ritz-Carlton-Residential [2]	24	1	25	2,545	93	2,638
The Ritz-Carlton Serviced Apartments		3	3		474	474
	61	39	100	14,094	10,801	24,895
Timeshare Segment [3]						
Marriott Vacation Club	41	11	52	9,728	2,126	11,854
The Ritz-Carlton Destination Club	7	3	10	339	122	461
The Ritz-Carlton Residences [2]	3	1	4	222	12	234
Grand Residences by Marriott-Fractional	1	1	2	199	49	248
Grand Residences by Marriott-Residential [1], [2]	2		2	91		91
	54	16	70	10,579	2,309	12,888
Total	2,916	446	3,362	469,433	117,082	586,515

(1) North American includes properties located in the continental United States and Canada. International includes properties located outside the continental United States and Canada.

(2) Represents projects where we manage the related owners association. Residential products are included once they possess a certificate of occupancy.

(3) Includes resorts that are in active sales as well as those that are sold out. Products in active sales may not be ready for occupancy.

The following table provides additional detail, by brand, as of September 11, 2009, for our Timeshare properties:

	Total Properties [1]	Properties in Active Sales [2]
100 Percent Company-Developed		
Marriott Vacation Club	52	29
The Ritz-Carlton Destination Club and Residences	10	8
Grand Residences by Marriott and Residences	4	4
Joint Ventures		
The Ritz-Carlton Destination Club and Residences	4	4
Total	70	45

(1) Includes products that are in active sales as well as those that are sold out. Residential products are included once they possess a certificate of occupancy.

(2) Products in active sales may not be ready for occupancy.

Statistics

The following tables show occupancy, average daily rate, and RevPAR for comparable properties for each of the brands in our North American Full-Service and North American Limited-Service segments, for our International segment by region, and for the principal brand in our Luxury segment, The Ritz-Carlton. We have not presented statistics for company-operated Fairfield Inn properties in these tables because we operate only a limited number of properties, as the brand is predominantly franchised, and such information would not be meaningful (identified as nm in the tables that follow). Systemwide statistics include data from our franchised properties, in addition to our owned, leased, and managed properties.

The occupancy, average daily rate, and RevPAR statistics used throughout this report for the twelve weeks ended September 11, 2009, include the period from June 20, 2009, through September 11, 2009, and the statistics for the twelve weeks ended September 5, 2008, include the period from June 14, 2008, through September 5, 2008, (except in each case, for The Ritz-Carlton brand properties worldwide and for all other properties located outside of the continental United States and Canada, which for them includes the period from June 1 through the end of August). The occupancy, average daily rate, and RevPAR statistics used throughout this report for the thirty-six weeks ended September 11, 2009, include the period from January 3, 2009, through September 11, 2009, and the statistics for the thirty-six weeks ended September 5, 2008, include the period from December 29, 2007, (except in each case, for The Ritz-Carlton brand properties worldwide and for all other properties located outside of the continental United States and Canada, which for them includes the period from January 1 through the end of August).

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	Comparable Company-Operated North American Properties [1] Twelve Weeks Ended September 11, 2009	Change vs. 2008	Comparable Systemwide North American Properties [1] Twelve Weeks Ended September 11, 2009	Change vs. 2008
Marriott Hotels & Resorts [2]				
Occupancy	70.0%	-4.9% pts.	66.9%	-5.3% pts.
Average Daily Rate	$ 143.98	-14.2%	$ 135.47	-13.6%
RevPAR	$ 100.78	-19.8%	$ 90.69	-19.9%
Renaissance Hotels & Resorts				
Occupancy	68.0%	-4.3% pts.	66.6%	-5.0% pts.
Average Daily Rate	$ 138.14	-13.1%	$ 129.04	-13.5%
RevPAR	$ 93.90	-18.2%	$ 85.97	-19.6%
Composite North American Full-Service [3]				
Occupancy	69.6%	-4.8% pts.	66.9%	-5.2% pts.
Average Daily Rate	$ 142.99	-14.0%	$ 134.40	-13.6%
RevPAR	$ 99.58	-19.6%	$ 89.90	-19.8%
The Ritz-Carlton North America				
Occupancy	64.9%	-5.0% pts.	64.9%	-5.0% pts.
Average Daily Rate	$ 238.99	-17.5%	$ 238.99	-17.5%
RevPAR	$ 155.09	-23.5%	$ 155.09	-23.5%
Composite North American Full-Service and Luxury [4]				
Occupancy	69.2%	-4.8% pts.	66.8%	-5.2% pts.
Average Daily Rate	$ 152.12	-14.6%	$ 140.50	-14.0%
RevPAR	$ 105.21	-20.2%	$ 93.82	-20.2%
Residence Inn				
Occupancy	75.2%	-4.9% pts.	76.3%	-5.0% pts.
Average Daily Rate	$ 110.56	-11.8%	$ 112.41	-11.0%
RevPAR	$ 83.11	-17.2%	$ 85.72	-16.4%
Courtyard				
Occupancy	65.0%	-6.1% pts.	67.2%	-5.8% pts.
Average Daily Rate	$ 103.75	-16.4%	$ 107.88	-13.3%
RevPAR	$ 67.42	-23.7%	$ 72.51	-20.2%
Fairfield Inn				
Occupancy	nm	nm pts.	66.5%	-6.7% pts.
Average Daily Rate	$ nm	nm	$ 85.21	-9.5%
RevPAR	$ nm	nm	$ 56.69	-17.7%
TownePlace Suites				
Occupancy	68.8%	-4.6% pts.	69.4%	-5.3% pts.
Average Daily Rate	$ 75.46	-13.6%	$ 80.22	-11.3%
RevPAR	$ 51.94	-19.0%	$ 55.69	-17.6%
SpringHill Suites				
Occupancy	64.6%	-7.8% pts.	66.9%	-6.4% pts.
Average Daily Rate	$ 92.11	-13.2%	$ 97.97	-10.7%
RevPAR	$ 59.51	-22.6%	$ 65.52	-18.4%
Composite North American Limited-Service [5]				
Occupancy	68.0%	-5.8% pts.	69.5%	-5.8% pts.
Average Daily Rate	$ 103.34	-14.7%	$ 102.68	-11.7%
RevPAR	$ 70.26	-21.4%	$ 71.41	-18.4%
Composite North American [6]				
Occupancy	68.7%	-5.3% pts.	68.5%	-5.6% pts.
Average Daily Rate	$ 131.48	-14.5%	$ 117.09	-12.7%
RevPAR	$ 90.28	-20.6%	$ 80.16	-19.3%

(1) Statistics are for the twelve weeks ended September 11, 2009, and September 5, 2008, except for The Ritz-Carlton, for which the statistics are for the three months ended August 31, 2009, and August 31, 2008.

(2) Marriott Hotels & Resorts includes JW Marriott Hotels & Resorts.

(3) Composite North American Full-Service statistics include Marriott Hotels & Resorts and Renaissance Hotels & Resorts properties located in the continental United States and Canada.

(4) Composite North American Full-Service and Luxury includes Marriott Hotels & Resorts, Renaissance Hotels & Resorts, and The Ritz-Carlton.

(5) Composite North American Limited-Service statistics include Residence Inn, Courtyard, Fairfield Inn, TownePlace Suites, and SpringHill Suites properties located in the continental United States and Canada.

(6) Composite North American statistics include Marriott Hotels & Resorts, Renaissance Hotels & Resorts, Residence Inn, Courtyard, Fairfield Inn, TownePlace Suites, SpringHill Suites, and The Ritz-Carlton properties located in the continental United States and Canada.

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	Comparable Company-Operated Properties [1] Three Months Ended August 31, 2009	Change vs. 2008	Comparable Systemwide Properties [1] Three Months Ended August 31, 2009	Change vs. 2008
Caribbean and Latin America [2]				
Occupancy	66.3%	-9.1% pts.	62.4%	-9.5% pts.
Average Daily Rate	$ 158.84	-13.5%	$ 145.41	-13.1%
RevPAR	$ 105.28	-23.9%	$ 90.76	-24.5%
Continental Europe [2]				
Occupancy	71.0%	-2.1% pts.	69.4%	-3.4% pts.
Average Daily Rate	$ 153.72	-16.0%	$ 156.47	-16.3%
RevPAR	$ 109.13	-18.4%	$ 108.55	-20.3%
United Kingdom [2]				
Occupancy	77.3%	-2.7% pts.	76.2%	-2.8% pts.
Average Daily Rate	$ 144.66	-9.1%	$ 143.41	-9.3%
RevPAR	$ 111.78	-12.3%	$ 109.26	-12.5%
Middle East and Africa [2]				
Occupancy	61.6%	-13.8% pts.	61.6%	-13.8% pts.
Average Daily Rate	$ 121.06	-11.7%	$ 121.06	-11.7%
RevPAR	$ 74.52	-27.8%	$ 74.52	-27.8%
Asia Pacific [2], [3]				
Occupancy	62.6%	-6.1% pts.	63.1%	-6.7% pts.
Average Daily Rate	$ 119.16	-22.7%	$ 130.53	-17.0%
RevPAR	$ 74.55	-29.6%	$ 82.39	-25.0%
Regional Composite [4], [5]				
Occupancy	68.3%	-5.4% pts.	67.0%	-6.0% pts.
Average Daily Rate	$ 142.25	-15.2%	$ 144.17	-14.4%
RevPAR	$ 97.11	-21.4%	$ 96.60	-21.4%
International Luxury [6]				
Occupancy	55.0%	-9.7% pts.	55.0%	-9.7% pts.
Average Daily Rate	$ 282.69	-13.7%	$ 282.69	-13.7%
RevPAR	$ 155.56	-26.7%	$ 155.56	-26.7%
Total International [7]				
Occupancy	66.9%	-5.8% pts.	66.0%	-6.3% pts.
Average Daily Rate	$ 154.40	-15.5%	$ 154.10	-14.7%
RevPAR	$ 103.26	-22.3%	$ 101.66	-22.1%

(1) We report financial results for all properties on a period-end basis, but report statistics for properties located outside the continental United States and Canada on a month-end basis. The statistics are for June 1 through the end of August. For the properties located in countries that use currencies other than the U.S. dollar, the comparison to 2008 was on a constant U.S. dollar basis.

(2) Regional information includes Marriott Hotels & Resorts, Renaissance Hotels & Resorts, and Courtyard properties located outside of the continental United States and Canada.

(3) Excludes Hawaii.

(4) Includes Hawaii.

(5) Regional Composite statistics include all properties located outside of the continental United States and Canada for Marriott Hotels & Resorts, Renaissance Hotels & Resorts, and Courtyard.

(6) Includes The Ritz-Carlton properties located outside of North America and Bulgari Hotels & Resorts.

(7) Total International includes Regional Composite statistics and statistics for The Ritz-Carlton International and Bulgari Hotels & Resorts.

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	Comparable Company-Operated Properties [1] Three Months Ended August 31, 2009	Change vs. 2008	Comparable Systemwide Properties [1] Three Months Ended August 31, 2009	Change vs. 2008
Composite Luxury [2]				
Occupancy	60.7%	-7.0% pts.	60.7%	-7.0% pts.
Average Daily Rate	$ 255.90	-16.2%	$ 255.90	-16.2%
RevPAR	$ 155.29	-24.9%	$ 155.29	-24.9%
Total Worldwide [3]				
Occupancy	68.1%	-5.4% pts.	68.0%	-5.7% pts.
Average Daily Rate	$ 138.03	-14.9%	$ 123.15	-13.2%
RevPAR	$ 94.06	-21.1%	$ 83.79	-19.9%

(1) We report financial results for all properties on a period-end basis, but report statistics for properties located outside the continental United States and Canada on a month-end basis. The statistics are for June 1 through the end of August. For the properties located in countries that use currencies other than the U.S. dollar, the comparison to 2008 was on a constant U.S. dollar basis.

(2) Composite Luxury includes worldwide properties for The Ritz-Carlton and Bulgari Hotels & Resorts.

(3) Total Worldwide statistics include all properties worldwide for Marriott Hotels & Resorts, Renaissance Hotels & Resorts, Residence Inn, Courtyard, Fairfield Inn, TownePlace Suites, SpringHill Suites, and The Ritz-Carlton. Statistics for properties located in the continental United States and Canada (except for The Ritz-Carlton) represent the thirty-six weeks ended September 11, 2009, and September 5, 2008. Statistics for all The Ritz-Carlton brand properties and properties located outside of the continental United States and Canada represent the eight months ended August 31, 2009, and August 31, 2008.

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	Comparable Company-Operated North American Properties (1)		Comparable Systemwide North American Properties (1)	
	Thirty-Six Weeks Ended September 11, 2009	Change vs. 2008	Thirty-Six Weeks Ended September 11, 2009	Change vs. 2008
Marriott Hotels & Resorts (2)				
Occupancy	66.9%	-6.1% pts.	64.1%	-6.2% pts.
Average Daily Rate	$ 156.81	-12.1%	$ 145.13	-11.9%
RevPAR	$ 104.85	-19.4%	$ 93.03	-19.6%
Renaissance Hotels & Resorts				
Occupancy	66.2%	-5.8% pts.	64.4%	-6.0% pts.
Average Daily Rate	$ 154.51	-10.0%	$ 141.97	-10.4%
RevPAR	$ 102.27	-17.3%	$ 91.36	-18.0%
Composite North American Full-Service (3)				
Occupancy	66.7%	-6.0% pts.	64.1%	-6.1% pts.
Average Daily Rate	$ 156.42	-11.8%	$ 144.60	-11.7%
RevPAR	$ 104.40	-19.1%	$ 92.75	-19.4%
The Ritz-Carlton North America				
Occupancy	61.8%	-10.3% pts.	61.8%	-10.3% pts.
Average Daily Rate	$ 281.86	-15.6%	$ 281.86	-15.6%
RevPAR	$ 174.21	-27.6%	$ 174.21	-27.6%
Composite North American Full-Service and Luxury (4)				
Occupancy	66.3%	-6.4% pts.	64.0%	-6.3% pts.
Average Daily Rate	$ 166.98	-12.7%	$ 151.67	-12.3%
RevPAR	$ 110.70	-20.4%	$ 97.10	-20.2%
Residence Inn				
Occupancy	70.5%	-6.7% pts.	71.8%	-5.7% pts.
Average Daily Rate	$ 115.58	-9.7%	$ 115.12	-9.2%
RevPAR	$ 81.49	-17.6%	$ 82.60	-15.8%
Courtyard				
Occupancy	62.0%	-7.5% pts.	64.0%	-6.3% pts.
Average Daily Rate	$ 110.72	-14.5%	$ 112.08	-12.0%
RevPAR	$ 68.60	-23.7%	$ 71.76	-19.9%
Fairfield Inn				
Occupancy	nm	nm pts.	62.3%	-6.4% pts.
Average Daily Rate	$ nm	nm	$ 85.87	-8.0%
RevPAR	$ nm	nm	$ 53.54	-16.6%
TownePlace Suites				
Occupancy	63.2%	-6.9% pts.	64.4%	-6.7% pts.
Average Daily Rate	$ 79.23	-10.1%	$ 83.08	-8.2%
RevPAR	$ 50.04	-18.9%	$ 53.48	-16.8%
SpringHill Suites				
Occupancy	62.2%	-9.1% pts.	63.9%	-6.5% pts.
Average Daily Rate	$ 99.05	-10.5%	$ 101.01	-8.6%
RevPAR	$ 61.58	-22.0%	$ 64.52	-17.1%
Composite North American Limited-Service (5)				
Occupancy	64.5%	-7.3% pts.	65.7%	-6.2% pts.
Average Daily Rate	$ 109.47	-12.7%	$ 105.71	-10.1%
RevPAR	$ 70.58	-21.6%	$ 69.49	-17.8%
Composite North American (6)				
Occupancy	65.5%	-6.8% pts.	65.1%	-6.3% pts.
Average Daily Rate	$ 142.62	-12.6%	$ 123.26	-11.2%
RevPAR	$ 93.44	-20.8%	$ 80.21	-19.0%

(1) Statistics are for the thirty-six weeks ended September 11, 2009, and September 5, 2008, except for The Ritz-Carlton, for which the statistics are for the eight months ended August 31, 2009, and August 31, 2008.

(2) Marriott Hotels & Resorts includes JW Marriott Hotels & Resorts.

(3) Composite North American Full-Service statistics include Marriott Hotels & Resorts and Renaissance Hotels & Resorts properties located in the continental United States and Canada.

(4) Composite North American Full-Service and Luxury includes Marriott Hotels & Resorts, Renaissance Hotels & Resorts, and The Ritz-Carlton.

(5) Composite North American Limited-Service statistics include Residence Inn, Courtyard, Fairfield Inn, TownePlace Suites, and SpringHill Suites properties located in the continental United States and Canada.

(6) Composite North American statistics include Marriott Hotels & Resorts, Renaissance Hotels & Resorts, Residence Inn, Courtyard, Fairfield Inn, TownePlace Suites, SpringHill Suites, and The Ritz-Carlton properties located in the continental United States and Canada.

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	Comparable Company-Operated Properties (1)			Comparable Systemwide Properties (1)		
	Eight Months Ended August 31, 2009		Change vs. 2008	Eight Months Ended August 31, 2009		Change vs. 2008
Caribbean and Latin America (2)						
Occupancy		67.6%	-9.8% pts.		63.4%	-9.1% pts.
Average Daily Rate	$	180.31	-9.9%	$	164.74	-10.1%
RevPAR	$	121.87	-21.3%	$	104.49	-21.4%
Continental Europe (2)						
Occupancy		65.0%	-5.2% pts.		63.2%	-6.1% pts.
Average Daily Rate	$	155.57	-12.2%	$	157.58	-11.9%
RevPAR	$	101.15	-18.7%	$	99.59	-19.6%
United Kingdom (2)						
Occupancy		71.6%	-4.4% pts.		70.3%	-4.7% pts.
Average Daily Rate	$	135.44	-8.6%	$	134.55	-8.6%
RevPAR	$	96.91	-14.0%	$	94.59	-14.3%
Middle East and Africa (2)						
Occupancy		67.0%	-12.5% pts.		67.0%	-12.5% pts.
Average Daily Rate	$	137.69	-6.7%	$	137.69	-6.7%
RevPAR	$	92.22	-21.3%	$	92.22	-21.3%
Asia Pacific (2), (3)						
Occupancy		60.5%	-9.2% pts.		61.5%	-9.0% pts.
Average Daily Rate	$	123.94	-16.1%	$	132.08	-13.0%
RevPAR	$	74.93	-27.2%	$	81.23	-24.0%
Regional Composite (4), (5)						
Occupancy		65.7%	-7.3% pts.		64.4%	-7.5% pts.
Average Daily Rate	$	146.92	-11.5%	$	147.73	-11.0%
RevPAR	$	96.58	-20.3%	$	95.08	-20.2%
International Luxury (6)						
Occupancy		56.2%	-10.3% pts.		56.2%	-10.3% pts.
Average Daily Rate	$	314.73	-10.2%	$	314.73	-10.2%
RevPAR	$	177.03	-24.1%	$	177.03	-24.1%
Total International (7)						
Occupancy		64.7%	-7.6% pts.		63.7%	-7.7% pts.
Average Daily Rate	$	162.25	-11.7%	$	160.41	-11.2%
RevPAR	$	105.04	-21.0%	$	102.13	-20.8%

(1) We report financial results for all properties on a period-end basis, but report statistics for properties located outside the continental United States and Canada on a month-end basis. The statistics are for January 1 through the end of August. For the properties located in countries that use currencies other than the U.S. dollar, the comparison to 2008 was on a constant U.S. dollar basis.

(2) Regional information includes Marriott Hotels & Resorts, Renaissance Hotels & Resorts, and Courtyard properties located outside of the continental United States and Canada.

(3) Excludes Hawaii.

(4) Includes Hawaii.

(5) Regional Composite statistics include all properties located outside of the continental United States and Canada for Marriott Hotels & Resorts, Renaissance Hotels & Resorts, and Courtyard.

(6) Includes The Ritz-Carlton properties located outside of North America and Bulgari Hotels & Resorts.

(7) Total International includes Regional Composite statistics and statistics for The Ritz-Carlton International and Bulgari Hotels & Resorts.

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	Comparable Company-Operated Properties [1] Eight Months Ended August 31, 2009	Change vs. 2008	Comparable Systemwide Properties [1] Eight Months Ended August 31, 2009	Change vs. 2008
Composite Luxury [2]				
Occupancy	59.4%	-10.3% pts.	59.4%	-10.3% pts.
Average Daily Rate	$ 295.13	-13.3%	$ 295.13	-13.3%
RevPAR	$ 175.41	-26.2%	$ 175.41	-26.2%
Total Worldwide [3]				
Occupancy	65.3%	-7.0% pts.	64.9%	-6.5% pts.
Average Daily Rate	$ 147.82	-12.4%	$ 128.81	-11.3%
RevPAR	$ 96.54	-20.9%	$ 83.54	-19.3%

(1) We report financial results for all properties on a period-end basis, but report statistics for properties located outside the continental United States and Canada on a month-end basis. The statistics are for January 1 through the end of August. For the properties located in countries that use currencies other than the U.S. dollar, the comparison to 2008 was on a constant U.S. dollar basis.

(2) Composite Luxury includes worldwide properties for The Ritz-Carlton and Bulgari Hotels & Resorts.

(3) Total Worldwide statistics include all properties worldwide for Marriott Hotels & Resorts, Renaissance Hotels & Resorts, Residence Inn, Courtyard, Fairfield Inn, TownePlace Suites, SpringHill Suites, and The Ritz-Carlton. Statistics for properties located in the continental United States and Canada (except for The Ritz-Carlton) represent the thirty-six weeks ended September 11, 2009, and September 5, 2008. Statistics for all The Ritz-Carlton brand properties and properties located outside of the continental United States and Canada represent the eight months ended August 31, 2009, and August 31, 2008.

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North American Full-Service Lodging includes *Marriott Hotels & Resorts*, *Marriott Conference Centers*, *JW Marriott Hotels & Resorts*, *Renaissance Hotels & Resorts*, and *Renaissance ClubSport*.

	Twelve Weeks Ended			Thirty-Six Weeks Ended		
($ in millions)	September 11, 2009	September 5, 2008	Change 2009/2008	September 11, 2009	September 5, 2008	Change 2009/2008
Segment revenues	$ 1,074	$ 1,239	-13%	$ 3,382	$ 3,917	-14%
Segment results	$ 51	$ 66	-23%	$ 191	$ 290	-34%

Since the third quarter of 2008, across our North American Full-Service Lodging segment we added 12 properties (3,782 rooms) and 3 properties (692 rooms) left the system.

Twelve Weeks. Compared to the year-ago quarter, RevPAR for comparable company-operated North American full-service properties decreased by 19.6 percent to $99.58, occupancy decreased by 4.8 percentage points to 69.6 percent, and average daily rates decreased by 14.0 percent to $142.99.

The $15 million decrease in segment results, compared to the 2008 third quarter, primarily reflected a $12 million decrease in base management and franchise fees, a $6 million decrease in incentive management fees, and a $1 million decrease in owned, leased, and other revenue net of direct expenses, partially offset by a $3 million decrease in general, administrative and other expenses.

The $12 million decrease in base management and franchise fees was primarily driven by lower RevPAR, partially offset by unit growth. The $6 million decrease in incentive management fees was largely due to lower property-level revenue and margins in the third quarter of 2009 compared to the third quarter of 2008, a result of weak demand, partially offset by property-level cost controls.

Owned, leased, and other revenue net of direct expenses, decreased $1 million and primarily reflected net losses in the third quarter of 2009 associated with several properties with weak demand.

The $3 million decrease in general, administrative and other expenses was primarily driven by cost reductions.

Cost reimbursements revenue and expenses associated with our North American Full-Service segment properties totaled $971 million in the third quarter of 2009, compared to $1,114 million in the 2008 third quarter.

Thirty-six Weeks. Compared to the year-ago period, RevPAR for comparable company-operated North American full-service properties decreased by 19.1 percent to $104.40, occupancy decreased by 6.0 percentage points to 66.7 percent, and average daily rates decreased by 11.8 percent to $156.42.

The $99 million decrease in segment results, compared to the first three quarters of 2008, primarily reflected a $51 million decrease in incentive management fees, a $42 million decrease in base management and franchise fees, a $10 million decrease in owned, leased, and other revenue net of direct expenses, partially offset by a $5 million increase in gains and other income. General, administrative, and other expenses remained relatively unchanged compared to the first three quarters of 2008.

The $51 million decrease in incentive management fees was largely due to lower property-level revenue and margins in the first three quarters of 2009 compared to the first three quarters of 2008, a result of weak demand, partially offset by property-level cost controls. The $42 million decrease in base management and franchise fees was primarily driven by lower RevPAR.

Owned, leased, and other revenue, net of direct expenses, decreased $10 million and primarily reflected $14 million of net losses in the first three quarters of 2009 associated with several properties with weak

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demand, partially offset by a favorable variance of $2 million related to a property that was being renovated, and as a result was not operating at full capacity during the 2008 period.

The $5 million increase in gains and other income primarily reflected a favorable variance associated with one property that was sold for a loss in the 2008 period.

Flat general, administrative, and other expenses primarily reflected a $7 million impairment charge related to a security deposit that we deemed unrecoverable in 2009 (see the Other Charges caption in the Restructuring Costs and Other Charges section for more information), which was mostly offset by $6 million in cost reductions.

Cost reimbursements revenue and expenses associated with our North American Full-Service segment properties totaled $3,020 million for the first three quarters of 2009, compared to $3,448 million for the first three quarters of 2008.

North American Limited-Service Lodging includes *Courtyard*, *Fairfield Inn*, *SpringHill Suites*, *Residence Inn*, *TownePlace Suites*, and *Marriott ExecuStay*.

	Twelve Weeks Ended			Thirty-Six Weeks Ended		
($ in millions)	**September 11, 2009**	**September 5, 2008**	**Change 2009/2008**	**September 11, 2009**	**September 5, 2008**	**Change 2009/2008**
Segment revenues	$ 489	$ 544	-10%	$ 1,401	$ 1,570	-11%
Segment results	$ 77	$ 103	-25%	$ 182	$ 301	-40%

Since the third quarter of 2008, across our North American Limited-Service Lodging segment we added 221 properties (25,717 rooms) and 4 properties (571 rooms) left the system. The properties that left the system were mainly franchised hotels associated with our Fairfield Inn brand.

Twelve Weeks. Compared to the year-ago quarter, RevPAR for comparable company-operated North American Limited-Service properties decreased by 21.4 percent to $70.26, occupancy decreased by 5.8 percentage points to 68.0 percent, and average daily rates decreased by 14.7 percent to $103.34.

The $26 million decrease in segment results, compared to the third quarter of 2008, reflected $11 million of lower incentive management fees, $11 million of lower base management and franchise fees, $4 million of lower owned, leased, corporate housing, and other revenue net of direct expenses, and $2 million of lower gains and other income, partially offset by $3 million of lower general, administrative, and other expenses.

The $11 million decrease in incentive management fees was largely due to lower property-level revenue and margins resulting from weak demand, partially offset by property-level cost controls. Twenty-one properties paid incentive fees in the 2009 third quarter as compared to 298 in the 2008 third quarter. The $11 million decrease in base management and franchise fees was largely due to lower demand and significantly lower RevPAR.

The $4 million decrease in owned, leased, corporate housing, and other revenue net of direct expenses primarily reflected lower revenue and property-level margins associated with our corporate housing business.

The $2 million decrease in (losses) gains and other income reflected the lack of dividend distributions in the current quarter from one joint venture, which had a decline in available cash flow as a result of the weak demand environment.

The $3 million decrease in general, administrative, and other expenses was primarily a result of cost reductions that were part of our cost containment efforts.

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Cost reimbursements revenue and expenses associated with our North American Limited-Service segment properties totaled $348 million in the third quarter of 2009, compared to $372 million in the third quarter of 2008.

Thirty-six Weeks. Compared to the year-ago period, RevPAR for comparable company-operated North American Limited-Service properties decreased by 21.6 percent to $70.58, occupancy decreased by 7.3 percentage points to 64.5 percent, and average daily rates decreased by 12.7 percent to $109.47.

The $119 million decrease in segment results, compared to the first three quarters of 2008, reflected $38 million of lower base management and franchise fees, $37 million of lower incentive management fees, $21 million of higher general, administrative, and other expenses, $12 million of lower owned, leased, corporate housing, and other revenue net of direct expenses, $6 million of lower joint venture equity earnings, and $5 million of lower gains and other income.

The $38 million decrease in base management and franchise fees was largely due to lower demand and significantly lower RevPAR. The $37 million decrease in incentive management fees was largely due to lower property-level revenue and margins resulting from weak demand, partially offset by property-level cost controls. Thirty-one properties paid incentive fees in the first three quarters of 2009 as compared to 334 in the first three quarters of 2008.

The $21 million increase in general, administrative, and other expenses primarily reflected a $42 million impairment charge related to two security deposits that we deemed unrecoverable in the first three quarters of 2009 due, in part, to our decision not to fund certain cash flow shortfalls, partially offset by an $11 million reversal of the remaining balance from the 2008 accrual for the expected funding of those cash flow shortfalls (see the Other Charges caption in the Restructuring Costs and Other Charges section for more information). The net increase of $31 million associated with the 2009 impairment charge was partially offset by a $6 million decrease in general, administrative, and other expenses, primarily reflecting cost reductions that were part of our cost containment efforts.

The $12 million decrease in owned, leased, corporate housing, and other revenue net of direct expenses primarily reflected $7 million in lower revenue and property-level margins associated with weaker demand at certain leased properties and $5 million of lower revenue and property-level margins associated with our corporate housing business. The $6 million decrease in joint venture equity earnings primarily reflected equity losses at one of our joint ventures as the related properties experienced weak demand.

The $5 million decrease in gains and other income reflected the lack of dividend distributions in the current quarter from one joint venture, which had a decline in available cash flow as a result of the weak demand environment.

Cost reimbursements revenue and expenses associated with our North American Limited-Service segment properties totaled $1,001 million in the first three quarters of 2009, compared to $1,078 million in the first three quarters of 2008.

International Lodging includes *International Marriott Hotels & Resorts*, *International JW Marriott Hotels & Resorts*, *International Renaissance Hotels & Resorts*, *International Courtyard*, *International Fairfield Inn*, *International Residence Inn*, and *Marriott Executive Apartments*.

	Twelve Weeks Ended			Thirty-Six Weeks Ended		
($ in millions)	**September 11, 2009**	**September 5, 2008**	**Change 2009/2008**	**September 11, 2009**	**September 5, 2008**	**Change 2009/2008**
Segment revenues	$ 259	$ 342	-24%	$ 756	$ 1,093	-31%
Segment results	$ 25	$ 50	-50%	$ 89	$ 179	-50%

Since the third quarter of 2008, across our International Lodging segment we added 29 properties (8,401 rooms) and 7 properties (1,398 rooms) left the system, largely due to quality issues.

Twelve Weeks. Compared to the year-ago quarter, RevPAR for comparable company-operated international properties decreased by 21.4 percent to $97.11, occupancy decreased by 5.4 percentage points to 68.3 percent, and average daily rates decreased by 15.2 percent to $142.25. Comparable managed properties in Central America, Mexico, China, United Arab Emirates, Thailand, India, and Eastern Europe experienced particularly significant RevPAR declines.

The $25 million decrease in segment results in the third quarter of 2009, compared to the year-ago quarter, primarily reflected a $15 million decrease in incentive management fees, a $7 million decrease in base management and franchise fees, a $5 million decrease in owned, leased, and other revenue net of direct expenses, and a $3 million decrease in joint venture equity earnings, partially offset by a $5 million decrease in general, administrative, and other expenses.

The $15 million decrease in incentive management fees was largely due to lower property-level margins, driven by weak demand and, to a lesser extent, unfavorable foreign exchange rates compared to the year-ago quarter, partially offset by property-level cost controls. The $7 million decrease in base management and franchise fees was driven mainly by lower RevPAR, impacted by weak demand and, to a lesser extent, unfavorable foreign exchange rates.

Owned, leased, and other revenue net of direct expenses decreased by $5 million, primarily reflecting $5 million of weak results, driven by soft demand, at some owned and leased properties.

Joint venture equity results were lower than the year-ago quarter by $3 million and primarily reflected lower equity results at some of our joint ventures, primarily driven by weak demand.

General, administrative, and other expenses decreased by $5 million, primarily reflecting cost reductions due to our cost containment efforts.

Cost reimbursements revenue and expenses associated with our International segment properties totaled $132 million in the third quarter of 2009, compared to $169 million in the third quarter of 2008.

Thirty-six Weeks. Compared to the year-ago period, RevPAR for comparable company-operated international properties decreased by 20.3 percent to $96.58, occupancy decreased by 7.3 percentage points to 65.7 percent, and average daily rates decreased by 11.5 percent to $146.92. Comparable managed properties in Central America, Mexico, China, Thailand, India, United Arab Emirates, Ireland and Eastern Europe experienced particularly significant RevPAR declines.

The $90 million decrease in segment results in the first three quarters of 2009, compared to the year-ago period, primarily reflected a $40 million decrease in incentive management fees, a $24 million decrease in owned, leased, and other revenue net of direct expenses, a $22 million decrease in base management and franchise fees, a $5 million decrease in gains and other income, a decrease of $5 million in joint venture equity earnings, and $2 million in restructuring costs, partially offset by a $7 million decrease in general, administrative, and other expenses.

The $40 million decrease in incentive management fees was largely due to lower property-level margins, driven by weak demand and, to a lesser extent, unfavorable foreign exchange rates compared to the year-ago quarter, partially offset by property-level cost controls. The $22 million decrease in base management fees was driven mainly by lower RevPAR, impacted by weak demand and, to a lesser extent, unfavorable foreign exchange rates, somewhat offset by the impact of new room additions.

Owned, leased, and other revenue net of direct expenses decreased by $24 million primarily reflecting $12 million of weaker results, driven by soft demand and lower RevPAR, at some owned and leased

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properties, $9 million of lower termination fees, and $4 million of lower income reflecting conversions from leased properties to managed properties.

The $5 million decrease in gains and other income reflected miscellaneous gain activity in the 2008 first three quarters that did not occur in the first three quarters of 2009. Restructuring costs totaling $2 million reflected severance and fringe benefit costs. See the Restructuring Costs and Other Charges section for more information.

Joint venture equity results were lower than the year-ago period by $5 million. The decrease was primarily driven by $6 million in lower equity results at some of our joint ventures primarily reflecting lower demand. The decrease also reflected an $11 million unfavorable impact in the first three quarters of 2008 associated with tax law changes in a country in which two joint ventures operate, mostly offset by a $9 million favorable impact associated with insurance proceeds received by one of those same joint ventures in the first three quarters of 2008.

General, administrative, and other expenses decreased by $7 million, reflecting $9 million in cost reductions due to our cost containment efforts, partially offset by $3 million in guarantee reserves for two properties. See the Other Charges caption in the Restructuring Costs and Other Charges section for more information.

Cost reimbursements revenue and expenses associated with our International segment properties totaled $358 million in the first three quarters of 2009, compared to $501 million in the first three quarters of 2008.

Luxury Lodging includes *The Ritz-Carlton* and *Bulgari Hotels & Resorts*.

	Twelve Weeks Ended			Thirty-Six Weeks Ended		
($ in millions)	**September 11, 2009**	**September 5, 2008**	**Change 2009/2008**	**September 11, 2009**	**September 5, 2008**	**Change 2009/2008**
Segment revenues	$ 296	$ 357	-17%	$ 971	$ 1,147	-15%
Segment results	$ 7	$ 17	-59%	$	$ 66	-100%

Since the third quarter of 2008, across our Luxury Lodging segment we added 2 properties (387 rooms) and 1 property (374 rooms) left the system. In addition, we added 4 residential products (576 units) since the 2008 third quarter.

Twelve Weeks. Compared to the year-ago quarter, RevPAR for comparable company-operated luxury properties decreased by 24.9 percent to $155.29, occupancy decreased by 7.0 percentage points to 60.7 percent, and average daily rates decreased by 16.2 percent to $255.90. Luxury Lodging has been particularly hurt by weak demand associated with the financial services industry and other corporate group business.

The $10 million decrease in segment results, compared to the third quarter of 2008, reflected a $4 million decrease in base management fees, $3 million of lower incentive management fees, and $2 million of lower owned, leased, and other revenue net of direct expenses.

The $4 million decrease in base management fees was largely driven by RevPAR declines associated with weaker demand. The $3 million decrease in incentive management fees was largely due to lower property-level revenue and margins in the third quarter of 2009 compared to the third quarter of 2008, a result of weak demand, partially offset by property-level cost controls.

The $2 million decrease in owned, leased, and other revenue net of direct expenses primarily reflected lower results at one property driven by weak demand in the third quarter of 2009.

Cost reimbursements revenue and expenses associated with our Luxury segment properties totaled $242 million in the third quarter of 2009, compared to $294 million in the third quarter of 2008.

Thirty-six Weeks. Compared to the year-ago period, RevPAR for comparable company-operated luxury properties decreased by 26.2 percent to $175.41, occupancy decreased by 10.3 percentage points to 59.4 percent, and average daily rates decreased by 13.3 percent to $295.13. Luxury Lodging has been particularly hurt by weak demand associated with the financial services industry and other corporate group business.

The $66 million decrease in segment results, compared to the first three quarters of 2008, reflected a $30 million decrease in joint venture equity earnings, $14 million of lower owned, leased, and other revenue net of direct expenses, a $13 million decrease in base management fees, a $6 million decrease in incentive management fees, and $3 million of increased general, administrative, and other expenses.

The $30 million decrease in joint venture equity earnings reflected a $30 million impairment charge in the first quarter of 2009 associated with a joint venture investment that we determined to be fully impaired (see the Other Charges caption in the Restructuring Costs and Other Charges section for more information).

The $14 million decrease in owned, leased, and other revenue net of direct expenses primarily reflected $7 million of lower results at three properties driven by weak demand and the resulting RevPAR declines in 2009 and $5 million of lower residential branding fees.

The $13 million decrease in base management fees was largely driven by RevPAR declines associated with weaker demand. The $6 million decrease in incentive management fees was largely due to lower property-level revenue and margins in the 2009 period compared to the 2008 period, a result of weak demand, partially offset by property-level cost controls.

The $3 million increase in general, administrative, and other expenses in the first three quarters of 2009 reflected $4 million in bad debt expense related to an accounts receivable balance we deemed to be uncollectible, partially offset by $2 million in cost reductions related to our cost containment efforts.

Cost reimbursements revenue and expenses associated with our Luxury segment properties totaled $792 million for the first three quarters of 2009, compared to $933 million for the first three quarters of 2008.

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Timeshare includes *Marriott Vacation Club*, *The Ritz-Carlton Destination Club and Residences*, and *Grand Residences by Marriott*.

	Twelve Weeks Ended			Thirty-Six Weeks Ended		
($ in millions)	**September 11, 2009**	**September 5, 2008**	**Change 2009/2008**	**September 11, 2009**	**September 5, 2008**	**Change 2009/2008**
Segment Revenues						
Segment revenues	$ 330	$ 463	-29%	$ 962	$ 1,326	-27%
Segment Results						
Base fee revenue	$ 11	$ 12		$ 32	$ 35	
Timeshare sales and services, net	16	47		9	137	
Timeshare strategy-impairment charges	(614)			(614)		
Joint venture equity (losses) earnings	(4)	2		(6)	9	
Gains and other income	1			1		
Net losses attributable to noncontrolling interests	4	15		11	21	
Restructuring costs	(7)			(38)		
General, administrative, and other expense	(17)	(27)		(57)	(79)	
Timeshare strategy-impairment charges (non-operating)	(71)			(71)		
Segment results	$ (681)	$ 49	-1,490%	$ (733)	$ 123	-696%
Sales and Services Revenue						
Development	$ 138	$ 265		$ 441	$ 722	
Services	82	81		232	244	
Financing	27	31		54	107	
Other revenue	7	7		19	25	
Sales and services revenue	$ 254	$ 384	-34%	$ 746	$ 1,098	-32%
Contract Sales						
Timeshare	$ 164	$ 283		$ 502	$ 859	
Fractional	7	18		25	34	
Residential	2	(6)		(1)	33	
Total company	173	295		526	926	
Timeshare						
Fractional	(4)	6		(9)	17	
Residential	(17)	5		(27)	30	
Total joint venture	(21)	11		(36)	47	
Total Timeshare segment contract sales	$ 152	$ 306	-50%	$ 490	$ 973	-50%

Twelve Weeks. Timeshare segment contract sales, including sales made by our timeshare joint venture projects, represent sales of timeshare interval, fractional ownership, and residential ownership products before the adjustment of percentage-of-completion accounting. Timeshare segment contract sales decreased by $154 million (50 percent) compared to the third quarter of 2008 to $152 million from $306 million. The decrease in Timeshare segment contract sales in the third quarter of 2009, compared to the year-ago quarter, reflected a $119 million decrease in timeshare contract sales, a $21 million decrease in fractional contract sales, and a $14 million decrease in residential contract sales. Sales of timeshare intervals decreased significantly as a result of weak demand, and we recorded cancellation allowances of $24 million in anticipation that a portion of contract revenue previously recorded under the percentage-of-completion method for certain residential and fractional projects will not be realized due to contract cancellations prior to closing (see the Other Charges caption in the Restructuring Costs and Other Charges section for additional information). Various sales promotions, including pricing adjustments, during the 2009 third quarter partially offset the impact of weak demand.

The $133 million decrease in Timeshare segment revenues to $330 million from $463 million primarily reflected a $130 million decrease in Timeshare sales and services revenue. The decrease in Timeshare sales and services revenue, compared to the year-ago quarter, primarily reflected lower revenue for timeshare intervals, and to a lesser extent residential projects and the Asia points program and unfavorable reportability due to projects that became reportable in the 2008 third quarter. Partially offsetting the decrease was higher revenue from projects that started sales or became reportable subsequent to the 2008 third quarter. Timeshare segment revenues for the third quarters of 2009 and 2008 included $11 million and $13 million, respectively, of interest income associated Timeshare segment notes receivable which was recorded in our Condensed Consolidated Statements of Income in the Timeshare sales and services revenue line.

Segment losses of $681 million in the third quarter of 2009 decreased by $730 million from segment income of $49 million in the third quarter of 2008, and reflected $685 million of impairments, $614 million of which were reported in the Timeshare strategy-impairment charges caption and $71 million of which were reported in the Timeshare strategy-impairment charges (non-operating) caption of our Consolidated Statements of Income (see the Timeshare strategy-impairment charges section for more information on the impairments), $31 million of lower Timeshare sales and services revenue net of direct expenses, a $11 million decrease in net losses attributable to noncontrolling interests, $7 million of restructuring costs, and $6 million in lower joint venture equity earnings, partially offset by $10 million of lower general, administrative, and other expenses.

The $31 million decrease in Timeshare sales and services revenue net of direct expenses primarily reflected $27 million of lower development revenue net of product, marketing and selling costs and $9 million of lower servicing revenue, net of servicing expenses, partially offset by $5 million of other revenue, net of expenses. Lower development revenue net of product, marketing and selling costs primarily reflected lower revenue, net of product, marketing, and selling costs for timeshare intervals, partially offset by favorable reportability for several projects that started sales or reached revenue recognition reportability thresholds subsequent to the third quarter of 2008 and a favorable variance from a $22 million pretax charge ($10 million net of noncontrolling interest benefit) recorded in the 2008 third quarter related to the impairment of a fractional and whole ownership real estate project held for development by a joint venture that we consolidate. The decrease in revenue associated with our Asia points program was almost entirely offset by lower costs associated with the program. The $9 million decrease in servicing revenue, net of servicing costs, primarily reflected higher rental expenses.

Restructuring costs totaling $7 million reflected $5 million in facilities exit costs and $2 million in severance costs as a result of restructuring initiatives continued in the third quarter of 2009 (see the Restructuring Costs and Other Charges section for additional information).

The $10 million decrease in general, administrative, and other expenses reflected $7 million of cost savings generated from the restructuring efforts initiated in 2008, which resulted in the elimination of certain positions and other cost reductions and a $4 million favorable variance due to development cancellations in the prior year quarter.

Joint venture equity earnings decreased by $6 million and primarily reflected decreased earnings from a joint venture, attributable to weak demand in 2009 for a residential project, and $1 million of contract cancellation allowances recorded at one joint venture in the third quarter of 2009 (see the Other Charges caption in the Restructuring Costs and Other Charges section for additional information).

The $11 million decrease in net losses attributable to noncontrolling interests primarily related to a $12 million noncontrolling interest benefit recorded in the 2008 third quarter related to an impairment of a joint venture we consolidate.

Cost reimbursements revenue and expenses associated with Timeshare segment properties totaled $65 million in the 2009 third quarter and $67 million in the 2008 third quarter.

Thirty-six Weeks. Timeshare segment contract sales decreased by $483 million (50 percent) compared to the first three quarters of 2008 to $490 million from $973 million. The decrease in Timeshare segment contract sales in the first three quarters of 2009, compared to the year-ago period, reflected a $357 million decrease in timeshare contract sales, a $91 million decrease in residential contract sales, and a $35 million decrease in fractional contract sales. Sales of fractional and residential units and timeshare intervals decreased significantly as a result of weak demand, as well as cancellation allowances of $55 million we recorded in anticipation that a portion of contract revenue previously recorded under the percentage-of-completion method for certain residential and fractional projects will not be realized due to contract cancellations prior to closing (see the Other Charges caption in the Restructuring Costs and Other Charges section for additional information).

The $364 million decrease in Timeshare segment revenues to $962 million from $1,326 million primarily reflected a $352 million decrease in Timeshare sales and services revenue and a $9 million decrease in cost reimbursements revenue. The decrease in Timeshare sales and services revenue, compared to the year-ago quarter, primarily reflected lower demand for timeshare intervals and to a lesser extent, residential products and the Asia points program, as well as lower revenue from projects with limited available inventory in the first three quarters of 2009, lower financing revenue, and lower services revenue. Partially offsetting the decrease was higher revenue from projects that became reportable subsequent to the 2008 third quarter. Timeshare segment revenues for the first three quarters of 2009 and the first three quarters of 2008 included $34 million and $42 million, respectively, of interest income and note sale losses of $1 million for the first three quarters of 2009 versus note sale gains of $28 million for the first three quarters of 2008.

Segment losses of $733 million in the first three quarters of 2009 increased by $856 million from $123 million of segment income in the first three quarters of 2008, and reflected $685 million of impairments, $614 million of which were reported in the Timeshare strategy impairment charges caption and $71 million of which were reported in the Timeshare strategy impairment charges (non-operating) caption of our Consolidated Statements of Income (see Timeshare strategy-impairment charges section for more information on the impairments), $128 million of lower Timeshare sales and services revenue net of direct expenses, $38 million of restructuring costs, $15 million in lower joint venture equity earnings, and a $10 million decrease in net losses attributable to noncontrolling interests, partially offset by $22 million of lower general, administrative, and other expenses.

The $128 million decrease in Timeshare sales and services revenue net of direct expenses primarily reflected $74 million of lower development revenue net of product costs and marketing and selling costs, $42 million of lower financing revenue net of financing expenses, and $15 million of lower services revenue net of expenses. Lower development revenue net of product, marketing and selling costs primarily reflected lower revenue for timeshare intervals and to a lesser extent, lower revenue net of costs for our Asia points program, an $8 million charge related to an issue with a state tax authority, and a net $3 million impact from contract cancellation allowances (see the Other Charges caption in the Restructuring Costs and Other Charges section for additional information), partially offset by favorable reportability for several projects that reached revenue recognition reportability thresholds subsequent to the third quarter of 2008 and a favorable variance from a $22 million pretax charge ($10 million net of noncontrolling interest benefit) recorded in the 2008 third quarter as noted in the Twelve Weeks discussion.

The $42 million decrease in financing revenue, net of financing costs, primarily reflected a $30 million decrease in note sale gains, as gains in the 2008 period totaled $28 million, while losses in the 2009 period totaled $1 million, a $22 million charge in the first three quarters of 2009 related to the reduction in the valuation of residual interests and $8 million of lower interest income due to the earlier timing of the note sale in the current year as compared with the prior year as well as lower note origination volumes in the current year, and $5 million of increased other revenue, net of expenses, partially offset by $13 million of increased residual interest accretion reflecting incremental accretion from the second quarter 2008 and first quarter 2009 note sales. The $22 million charge for the reduction in the value of residual interests consisted of a $19 million unfavorable impact related to seven previously securitized pools reaching performance triggers as a result of increased defaults in the first two quarters of 2009, partially offset by a $3 million benefit for the release of three of the seven performance triggers in the 2009 third quarter due to improved loan performance, and a $6 million net unfavorable impact from changes in assumptions related to discount, default and prepayment rates used in our

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estimate of the fair market value (see the Other Charges caption in the Restructuring Costs and Other Charges section for more information).

The $15 million decrease in services revenue net of expenses was driven by lower rental revenue due to the weak demand and increased rental expenses.

Restructuring costs totaling $38 million reflected $27 million in facilities exit costs, $10 million in severance costs, and $1 million in development cancellations as a result of restructuring initiatives continued through the first three quarters of 2009 (see the Restructuring Costs and Other Charges section for additional information).

The $22 million decrease in general, administrative, and other expenses reflected $27 million in cost savings primarily generated from the restructuring efforts initiated in 2008, which resulted in the elimination of certain positions and other cost reductions and a $4 million favorable variance due to development cancellations in the prior year, partially offset by a $7 million write-off of capitalized software development costs related to a project for which we have decided not to pursue further development.

Joint venture equity earnings decreased by $15 million and primarily reflected decreased earnings from a joint venture, attributable to weak demand in the first three quarters of 2009 for a residential project, and $3 million of contract cancellation allowances recorded at one joint venture in the first three quarters of 2009 (see the Other Charges caption in the Restructuring Costs and Other Charges section for additional information on the write-off of capitalized software costs and contract cancellation allowances).

The $10 million decrease in net losses attributable to noncontrolling interests primarily related to a $12 million noncontrolling interest benefit recorded in the 2008 third quarter related to an impairment of a joint venture we consolidate.

Cost reimbursements revenue and expenses associated with Timeshare segment properties totaled $184 million in the first three quarters of 2009, compared to $193 million in the first three quarters of 2008.

SHARE-BASED COMPENSATION

Under our 2002 Comprehensive Stock and Cash Incentive Plan, we award: (1) stock options to purchase our Class A Common Stock; (2) share appreciation rights (SARs) for our Class A Common Stock; (3) restricted stock units of our Class A Common Stock; and (4) deferred stock units. We grant awards at exercise prices or strike prices that are equal to the market price of our Class A Common Stock on the date of grant.

During the first three quarters of 2009, we granted 0.8 million restricted stock units and 0.5 million Employee SARs, 5,600 Non-employee SARs, and 32,000 deferred stock units. See Footnote No. 5, Share-Based Compensation, earlier in this report for additional information.

NEW ACCOUNTING STANDARDS

See Footnote No. 2, New Accounting Standards, for information related to the adoption of new accounting standards in the first three quarters of 2009, none of which had a material impact on our financial statements. For the future adoption and impact on our financial statements of recently issued accounting standards, FAS No. 166, Accounting for Transfers of Financial Assets-an amendment of FASB Statement No. 140, and FAS No. 167, Amendments to FASB Interpretation No. 46(R), also see Footnote No. 2.

LIQUIDITY AND CAPITAL RESOURCES

Cash Requirements and Our Credit Facilities

Although we are predominantly a manager and franchisor of hotel properties, we depend on capital to buy, develop, and improve hotels, as well as to develop timeshare properties. In the fourth quarter of 2008, capital markets were disrupted and remain challenging due to the worldwide financial crisis. We monitor the status of the capital markets and regularly evaluate the effect that changes in capital market conditions may have on our ability to execute our announced growth plans. We also periodically evaluate opportunities to issue and sell additional debt or equity securities, obtain credit facilities from lenders, or repurchase, refinance, or otherwise restructure our long-term debt for strategic reasons, or to further strengthen our financial position.

Our Credit Facility provides for $2.4 billion of aggregate effective borrowings and letters of credit, expires on May 14, 2012, and has supported our commercial paper program. Borrowings under the Credit Facility bear interest at the London Interbank Offered Rate (LIBOR) plus a fixed spread based on the credit ratings for our public debt. Additionally, we pay quarterly fees on the Credit Facility at a rate based on our public debt rating. For additional information on our Credit Facility, including participating financial institutions, see Exhibit 10, Amended and Restated Credit Agreement, to our Current Report on Form 8-K filed with the SEC on May 16, 2007.

The Credit Facility contains certain covenants, including a single financial covenant that limits the Company s maximum leverage (consisting of Adjusted Total Debt to Consolidated EBITDA, each as defined in the Credit Facility) to not more than 4 to 1. Our outstanding public debt does not contain a corresponding financial covenant or a requirement that we maintain certain financial ratios. We currently satisfy the covenants in our Credit Facility and public debt instruments, including the leverage covenant under the Credit Facility, and do not expect the covenants to restrict our ability to meet our anticipated borrowing and guarantee levels or increase those levels should we need to do so in the future.

We believe the Credit Facility, together with cash we expect to generate from operations, remains adequate to meet our short-term and long-term liquidity requirements, finance our long-term growth plans, meet debt service, and fulfill other cash requirements.

At September 11, 2009, our available borrowing capacity amounted to $1.706 billion and reflected borrowing capacity of $1.576 billion under our Credit Facility and our cash balance of $130 million. Borrowing capacity under our Credit Facility of $1.576 billion was calculated as $2.404 billion of allowable effective aggregate borrowings under our Credit Facility, less letters of credit outstanding totaling $118 million, and less Credit Facility borrowings outstanding of $710 million. We anticipate that this available capacity is adequate to fund our liquidity needs as noted earlier in this section. In addition, as noted earlier in this section, we continue to have ample flexibility under the Credit Facility s covenants, and accordingly expect undrawn bank commitments under the Credit Facility to remain available to us even if business conditions are considerably worse than we currently anticipate.

Until the 2008 fourth quarter, we regularly issued short-term commercial paper primarily in the United States and, to a much lesser extent, in Europe. Disruptions in the financial markets beginning in September 2008 significantly reduced liquidity in the commercial paper market. Accordingly, in the fourth quarter of 2008 we suspended issuing commercial paper and used funds borrowed under the Credit Facility to repay all of our previously issued commercial paper as it matured. Our Standard and Poor s commercial paper rating at the end of the 2009 third quarter was A3. Because the market for A3 commercial paper is currently very limited, it would be very difficult to rely on the use of this market as a meaningful source of liquidity, and we do not anticipate issuing commercial paper under these circumstances.

We classified outstanding commercial paper as long-term debt based on our ability and intent to refinance it on a long-term basis. We reserved unused capacity under our Credit Facility to repay outstanding commercial paper borrowings in the event that the commercial paper market was not available to us for any reason when outstanding borrowings matured. Given our borrowing capacity under the Credit Facility, fluctuations in the commercial paper market or the costs at which we can issue commercial paper have not affected our liquidity, and we do not expect them to do so in the future.

In 2009, the three major credit rating agencies reduced our long-term debt ratings to their lowest investment grade level. Although the agencies published outlooks indicate that they do not currently plan to reduce our debt ratings to below investment grade, we cannot assure you that our ratings will remain at their current levels. Any further downgrades of our long-term debt ratings by Standard & Poor s, Moody s Investor Service, Fitch Ratings, or other similar rating agencies could increase our cost of capital, limit our access to the capital markets, or permit access only on terms that are more restrictive than those of our outstanding debt.

Subsequent to the 2009 third quarter, on September 15, 2009, we made a $79 million cash payment of principal and interest to retire, at maturity, all of our then outstanding Series C Senior Notes. We do not have any further public debt maturities until June 15, 2012.

Cash and equivalents totaled $130 million at September 11, 2009, a decrease of $4 million from year-end 2008, reflecting activity for the thirty-six weeks ended September 11, 2009, as follows: debt repayments and repurchases ($418 million); capital expenditures ($112 million); dividend payments ($63 million); loan advances net of collections ($35 million); equity and cost method investments ($27 million); and contract acquisition costs ($26 million). Partially offsetting these outflows were cash inflows associated with the following: operating cash inflows ($597 million); other cash inflows ($69 million); common stock issuances ($10 million); and dispositions ($1 million).

Timeshare Cash Flows

In response to significantly lower demand for our timeshare products, we correspondingly reduced our projected investment in new development. See the Timeshare Strategy-Impairment Charges caption in this Management s Discussion and Analysis of Financial Condition and Results of Operation section for additional information. While our Timeshare segment has historically generated positive operating cash flow, year-to-year cash flow has varied based on the timing of both cash outlays for the acquisition and development of new resorts and cash received from purchaser financing. We include timeshare reportable sales we finance in cash from operations when we collect cash payments or the notes are sold for cash. The following table shows the net operating activity from our Timeshare segment (which does not include the portion of income from continuing operations from our Timeshare segment). It reflects note sale proceeds of $181 million and note sale losses of $1 million related to our sale of Timeshare notes receivable in the first quarter of 2009 and note sale proceeds of $237 million and note sale gains of $28 million mainly related to our sale of Timeshare notes receivable in the second quarter of 2008. Additionally, as discussed in more detail earlier in this report in the Timeshare Residual Interests Valuation caption in the Restructuring Costs and Other Charges section, seven previously securitized note pools reached performance triggers in 2009 as a result of increased defaults. As of the end of the 2009 third quarter, loan performance had improved sufficiently in three of these pools to cure the performance triggers. We expect that as compared to full year 2008, our cash inflows will be reduced by approximately $18 million as a result of the performance triggers.

	Thirty-Six Weeks Ended	
($ in millions)	**September 11, 2009**	**September 5, 2008**
Timeshare segment development in excess of cost of sales	$ (29)	$ (212)
New Timeshare segment mortgages, net of collections	(90)	(401)
Note repurchases	(58)	(37)
Financially reportable sales (in excess of) less than closed sales	2	68
Note sale losses (gains)	1	(28)
Note sale proceeds	181	237
Collection on retained interests in notes sold and servicing fees	59	74
Other cash (outflows)/inflows	(12)	26
Net cash inflows (outflows) from Timeshare segment activity	$ 54	$ (273)

We estimate that, for the 20-year period from 2009 through 2028, the cost of completing improvements and currently planned amenities for our owned timeshare properties will be approximately $2.9 billion. See the Restructuring Costs and Other Charges caption earlier in this section for information about the weak demand environment.

Asset Securitizations

See the discussion under the Future Adoption of Accounting Standards caption regarding the expected impact in 2010 on asset securitizations as a result of the adoption of FAS Nos. 166 and 167.

At the end of the third quarter of 2009, $1,168 million of principal due from timeshare interval and fractional owners remained outstanding in 13 special purpose entities formed in connection with our timeshare note sales. Delinquencies of more than 90 days amounted to $16 million. The impact to us from delinquencies, and our maximum exposure to loss as a result of our involvement with these special purpose entities, is limited to our residual interests, which we value based on a discounted cash flow model, as discussed in Footnote No. 6, Fair Value Measurements. Please see the Timeshare Residual Interests Valuation caption within the Restructuring Costs and Other Charges section of this Management s Discussion and Analysis of Financial Condition and Results of Operations section for additional information on the risks associated with our residual interests. Under the terms of our timeshare note sales, we have the right, at our option, to repurchase defaulted mortgage notes at par. The transaction documents typically limit such repurchases to ten percent of the transaction s initial mortgage balance, but during the third quarter investors in two of our outstanding note sale transactions agreed to increase the applicable limit to 15 percent. In cases where we have chosen to exercise this repurchase right, we have been able to resell the timeshare units underlying the defaulted loans without incurring material losses although we may not be able to do so in the future.

Cash flows between us and third-party purchasers during the thirty-six weeks ended September 11, 2009, and September 5, 2008, were as follows: net proceeds to us from new timeshare note sales of $181 million and $237 million, respectively; voluntary repurchases by us of defaulted notes (over 150 days overdue) of $58 million and $37 million, respectively; servicing fees received by us of $5 million and $5 million, respectively; and cash flows received from our retained interests of $54 million and $69 million, respectively.

We earned contractually specified servicing fees for the twelve weeks ended September 11, 2009, and September 5, 2008, totaling $2 million and $2 million, respectively, which we reflected within the changes in fair value to the servicing assets. Contractually specified late and ancillary fees earned for the twelve weeks ended September 11, 2009, and September 5, 2008, totaled $2 million for both periods. We reflect servicing fees and late and ancillary fees within the Timeshare sales and services line item on our Condensed Consolidated Statements of Income.

We earned contractually specified servicing fees for the thirty-six weeks ended September 11, 2009, and September 5, 2008, totaling $5 million and $5 million, respectively, which we reflected within the changes in fair value to the servicing assets. Contractually specified late and ancillary fees earned for the thirty-six weeks ended September 11, 2009, and September 5, 2008, totaled $5 million for each period.

In March 2009, prior to the end of our first quarter, we completed a private placement of approximately $205 million of floating-rate Timeshare Loan Backed Notes with a bank-administered commercial paper conduit. We contributed approximately $284 million of notes receivable originated by our Timeshare segment in connection with the sale of timeshare interval and fractional ownership products to a newly formed special purpose entity. On the same day, the special purpose entity issued approximately $205 million of the entity s notes. In connection with the private placement of notes receivable, we received proceeds of approximately $181 million, net of costs, and retained $94 million of residual interests in the special purpose entity, which included $81 million of notes we effectively owned after the transfer and $13 million related to the servicing assets and interest only strip. We measured all residual interests at fair market value on the date of the transfer. The notes effectively owned after the transfer require accounting treatment as notes receivable and are carried at the basis established at the date of transfer unless we deem them non-recoverable in the future. If that were to occur, we would record a valuation allowance.

As of September 11, 2009, the value of the notes that we effectively owned from the 2009 note sales was approximately $82 million, which we classified as Other assets in our Condensed Consolidated Balance Sheets. During the thirty-six weeks ended September 11, 2009, we recorded approximately $6 million of interest income associated with these notes, $3 million of which we recognized during the third quarter.

We used the following key assumptions in measuring the fair value of the residual interests, including servicing assets, in our 13 outstanding Timeshare note sales as of September 11, 2009: an average discount rate of 17.07 percent; an average expected annual prepayment rate, including defaults, of 15.56 percent; an expected weighted average life of prepayable notes receivable, excluding prepayments and defaults, of 57 months; and an expected weighted average life of prepayable notes receivable, including prepayments and defaults, of 37 months. Our key assumptions are based on our experience with Timeshare segment notes receivable that we originate.

Less favorable conditions in the asset securitization markets have significantly reduced our gain from Timeshare segment note sales during the past two years to a loss in the first quarter of 2009, as the trusts that purchased our mortgage notes have had to issue debt at higher relative interest rates and lower overall amounts in proportion to the amounts of mortgage notes purchased. As a result, in the second quarter 2008 and the first quarter 2009 transactions, we retained larger residual interests in the applicable trusts than we had in prior transactions. In the first quarter 2009 note sale, the bank administered conduit that purchased our AAA mortgage notes provided $205 million in funding, in which the floating rate was swapped into a fixed rate of 9.87 percent, compared to the following rates for the AAA notes issued by the trusts in the following note sales (after taking into account the impact of the corresponding swaps): 7.19 percent in the 2008 second quarter notes sale, 5.91 percent in the 2007 fourth quarter note sale, and 5.54 percent in the 2007 second quarter note sale. In addition, while the trusts in the fourth quarter of 2007 and second quarter of 2007 securitizations each also issued 15.5 percent of the total principal amount of their asset backed notes at less than AAA ratings, we concluded that the market for lower rated notes during both the second quarter of 2008 and the first quarter of 2009 was insufficient to permit issuance of AA, A, and BBB+ rated notes at attractive spreads. Accordingly, we decided to retain larger residual interests, or principal-only strips, in the associated trusts for each transaction.

Contractual Obligations

There have been no significant changes to our Contractual Obligations table in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations of our 2008 Form 10-K, other than those resulting from changes in the amount of outstanding debt and purchase commitments as described in the following two paragraphs.

As of the end of the 2009 third quarter, debt had decreased by $435 million to $2,660 million compared to $3,095 million at year-end 2008, and reflected the repurchase of $119 million in book value ($122 million in principal amount) of Senior Notes across multiple series, a decrease in other debt of $60 million, and a $259 million decrease in borrowings under our Credit Facility, partially offset by other debt increases of $3 million. At the end of the 2009 third quarter, future debt payments plus interest totaled $3,269 million and are due as follows: $130 million in 2009; $161 million in 2010; $111 million in 2011; $1,159 million in 2012; $480 million in 2013; and $1,228 million thereafter.

We have two commitments aggregating to $139 million to purchase units upon completion of construction for use in our Asia Pacific points and the Ritz-Carlton Destination Club programs. We have already made deposits totaling $21 million in conjunction with these commitments and expect to make the remaining payments of $118 million in 2010.

Share Repurchases

We did not purchase any shares of our Class A Common Stock during the thirty-six weeks ended September 11, 2009, and do not expect to repurchase shares during the remainder of 2009.

Dividends

On May 1, 2009, the Board of Directors declared the issuance of a stock dividend of a 0.00369 share of common stock for each outstanding share of common stock of the Company, payable on July 30, 2009, to shareholders of record on June 25, 2009. On August 6, 2009, the Board of Directors declared the issuance of a stock dividend of a 0.00379 share of common stock for each outstanding share of common stock of the Company, payable on September 3, 2009, to shareholders of record on August 20, 2009. As a result, we retroactively adjusted shares outstanding using a factor of 0.00360 for the 2009 second quarter stock dividend and 0.00370 for the 2009 third quarter stock dividend, adjusted downward to reflect cash that was paid in lieu of fractional shares to shareholders as of the dates of record, for all periods presented to reflect 2.6 million of additional shares that were issued in the 2009 third quarter.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts and related disclosures. We have discussed those estimates that we believe are critical and require the use of complex judgment in their application in our 2008 Form 10-K. Since the date of our 2008 Form 10-K, there have been no material changes to our critical accounting policies or the methodologies or assumptions we apply under them.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

Our exposure to market risk has not materially changed since January 2, 2009.

Item 4. *Controls and Procedures*

Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Exchange Act)), and management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management s control objectives. You should note that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Based upon the foregoing evaluation, our Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective and operating to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and to provide reasonable assurance that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

There were no changes in internal control over financial reporting that occurred during the third quarter of 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. ***Legal Proceedings***

From time to time, we are subject to certain legal proceedings and claims in the ordinary course of business, including adjustments proposed during governmental examinations of the various tax returns we file. While management presently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not materially harm the company s financial position, cash flows, or overall trends in results of operations, legal proceedings are subject to inherent uncertainties, and unfavorable rulings could occur that could have individually or in aggregate, a material adverse effect on our business, financial condition, or operating results.

Item 1A. ***Risk Factors***

We are subject to various risks that could have a negative effect on the Company and its financial condition. You should understand that these risks could cause results to differ materially from those expressed in forward-looking statements contained in this report and in other Company communications. Because there is no way to determine in advance whether, or to what extent, any present uncertainty will ultimately impact our business, you should give equal weight to each of the following:

Lodging and Timeshare Industry Risks

Our industries are highly competitive, which may impact our ability to compete successfully with other hotel and timeshare properties for customers. We generally operate in markets that contain numerous competitors. Each of our hotel and timeshare brands competes with major hotel chains in national and international venues and with independent companies in regional markets. Our ability to remain competitive and to attract and retain business and leisure travelers depends on our success in distinguishing the quality, value, and efficiency of our lodging products and services from those offered by others. If we are unable to compete successfully in these areas, this could limit our operating margins, diminish our market share, and reduce our earnings.

We are subject to the range of operating risks common to the hotel, timeshare, and corporate apartment industries. The profitability of the hotels, vacation timeshare resorts, and corporate apartments that we operate or franchise may be adversely affected by a number of factors, including:

(1) the availability of and demand for hotel rooms, timeshare interval, fractional ownership, and residential products, and apartments;

(2) pricing strategies of competitors;

(3) international, national, and regional economic and geopolitical conditions;

(4) the impact of war, actual or threatened terrorist activity and heightened travel security measures instituted in response to war, terrorist activity or threats;

(5) the desirability of particular locations and changes in travel patterns;

(6) travelers fears of exposure to contagious diseases, such as H1N1 Flu, Avian Flu and Severe Acute Respiratory Syndrome (SARS);

(7) the occurrence of natural disasters, such as earthquakes, tsunamis, and hurricanes;

(8) taxes and government regulations that influence or determine wages, prices, interest rates, construction procedures, and costs;

(9) the costs and administrative burdens associated with compliance with applicable laws and regulations, including, among others, franchising, timeshare, lending, privacy, marketing and sales, licensing, labor, employment, immigration and environmental laws, and regulations applicable under the U.S. Department of the Treasury s Office of Foreign Asset Control and the Foreign Corrupt Practices Act;

(10) the availability and cost of capital to allow us and potential hotel owners and joint venture partners to fund investments;

(11) regional and national development of competing properties;

(12) increases in wages and other labor costs, energy, healthcare, insurance, transportation and fuel, and other expenses central to the conduct of our business or the cost of travel for our customers, including recent increases in energy costs and any resulting increase in travel costs or decrease in airline capacity;

(13) organized labor activities, which could cause the diversion of business from hotels involved in labor negotiations, loss of group business, and/or increased labor costs; and

(14) foreign currency exchange fluctuations.

Any one or more of these factors could limit or reduce the demand or the prices our hotels are able to obtain for hotel rooms, timeshare units, residential units, and corporate apartments or could increase our costs and therefore reduce the profit of our lodging businesses. Reduced demand for hotels could also give rise to losses under loans, guarantees, and noncontrolling equity investments that we have made in connection with hotels that we manage. Even where such factors do not reduce demand, property-level profit margins may suffer if we are unable to fully recover increased operating costs from our guests. Similarly, our fee revenue could be impacted by weak property-level revenue or profitability.

Our hotel management and franchise agreements may also be subject to premature termination in certain circumstances, such as the bankruptcy of a hotel owner or franchisee, or a failure under some agreements to meet specified financial or performance criteria that are subject to the risks described in this section, which the Company fails or elects not to cure. A significant loss of agreements due to premature terminations could hurt our financial performance or our ability to grow our business.

Current general economic conditions and the slowdown in the lodging and timeshare industries will continue to impact our financial results and growth. The present weak economic conditions in the United States, Europe and much of the rest of the world and the uncertainty over the duration of that weakness and the prospects for recovery will continue to have a negative impact on the lodging and timeshare industries. As a result of current economic conditions, we are experiencing reduced demand for our hotel rooms and timeshare products. Accordingly, our financial results have been impacted by the economic slowdown, and we expect that our future financial results and growth will be further harmed until a meaningful recovery is well underway.

Operational Risks

Our lodging operations are subject to international, national, and regional conditions. Because we conduct our business on a national and international platform, our activities are susceptible to changes in the performance of regional and global economies. In recent years, our business has been hurt by decreases in travel resulting from recent economic conditions, the military action in Iraq, and the heightened travel security measures that have resulted from the threat of further terrorism. Our future economic performance is similarly subject to the economic environment in the United States and other regions, which has become increasingly uncertain with recent failures and near failures of a number of large financial service companies, the current worldwide economic weakness, the resulting unknown pace of business travel, and the occurrence of any future incidents in the countries where we operate.

New branded hotel products that we launch in the future may not be successful. We may in the future launch additional branded hotel products. We cannot assure that these brands will be accepted by hotel owners, potential franchisees, or the traveling public, that we will recover the costs we incurred in developing the brands, or that the brands will be successful. In addition, each of these new brands involves cooperation and/or consultation with a third party, including some shared control over product design and development, sales and marketing, and brand standards. Disagreements with these third parties regarding areas of consultation or shared control could slow the development of these new brands and/or impair our ability to take actions we believe to be advisable for the success and profitability of such brands.

Risks relating to natural disasters, contagious disease, terrorist activity, and war could reduce the demand for lodging, which may adversely affect our revenues. So called Acts of God, such as hurricanes, earthquakes, and other natural disasters and the spread of contagious diseases, such as H1N1 Flu, Avian Flu, and SARS, in locations where we own, manage or franchise significant properties, and areas of the world from which we draw a large number of customers can cause a decline in the level of business and leisure travel and reduce the demand for lodging. Actual or threatened war, terrorist activity, political unrest, civil strife, and other geopolitical uncertainty can have a similar effect. Any one or more of these events may reduce the overall demand for hotel rooms, timeshare units, and corporate apartments or limit the prices that we are able to obtain for them, both of which could adversely affect our profits.

Unresolved disputes with the owners of the hotels that we manage or franchise may result in litigation. Consistent with our focus on management and franchising, we own very few of our lodging properties. The nature of our responsibilities under our management agreements to manage each hotel and enforce the standards required for our brands under both management and franchise agreements may be subject to interpretation and will from time to time give rise to disagreements. Such disagreements may be more likely as hotel returns are depressed as a result of current economic conditions. We seek to resolve any disagreements in order to develop and maintain positive relations with current and potential hotel owners and joint venture partners but are not always able to do so. Failure to resolve such disagreements has resulted in litigation, and could do so in the future.

Damage to, or other potential losses involving, properties that we own, manage or franchise may not be covered by insurance. We have comprehensive property and liability insurance policies with coverage features and insured limits that we believe are customary. Market forces beyond our control may nonetheless limit the scope of insurance coverage that we can obtain and our ability to obtain coverage at reasonable rates. Certain types of losses, generally of a catastrophic nature, such as earthquakes, hurricanes and floods, or terrorist acts, may be uninsurable or too expensive to justify obtaining insurance. As a result, we may not be successful in obtaining insurance without increases in cost or decreases in coverage levels. In addition, in the event of a substantial loss, the insurance coverage we carry may not be sufficient to pay the full market value or replacement cost of our lost investment or that of hotel owners or in some cases could result in certain losses being totally uninsured. As a result, we could lose some or all of the capital we have invested in a property, as well as the anticipated future revenue from the property, and we could remain obligated for guarantees, debt, or other financial obligations related to the property.

Development and Financing Risks

While we *are predominantly a manager and franchisor of hotel properties, we depend on capital to buy, develop, and improve hotels and to develop timeshare properties, and we or our hotel owners may be unable to access capital when necessary.* In order to fund new hotel investments, as well as refurbish and improve existing hotels, both the Company and current and potential hotel owners must periodically spend money. The availability of funds for new investments and improvement of existing hotels depends in large measure on capital markets and liquidity factors over which we can exert little control. Ongoing instability in the financial markets following the 2008 worldwide financial crisis and the contraction of available liquidity and leverage have impaired the capital markets for hotel and real estate investments. As a result, many current and prospective hotel owners are finding hotel financing on commercially viable terms to be difficult or impossible to obtain. In addition, the bankruptcy of Lehman Brothers and the financial condition of other lenders have prevented some projects that are in construction or development, including a few in which the Company has noncontrolling equity investments, from drawing on existing financing commitments, and replacement financing may not be available or may only be available on less favorable terms. Delays, increased costs, and other impediments to restructuring such projects will reduce our ability to realize fees, recover loans and guarantee advances, or realize equity investments from such projects. Our ability to recover loan and guarantee advances from hotel operations or from owners through the proceeds of hotel sales, refinancing of debt or otherwise may also affect our ability to recycle and raise new capital. In addition, any further downgrade of our credit ratings by Standard & Poor s, Moody s Investor Service, Fitch Ratings, or other rating agencies could reduce our availability of capital or increase our cost of capital.

Our growth strategy depends upon third-party owners/operators, and future arrangements with these third parties may be less favorable. Our present growth strategy for development of additional lodging facilities entails entering into and maintaining various arrangements with property owners. The terms of our management agreements, franchise agreements, and leases for each of our lodging facilities are influenced by contract terms offered by our competitors, among other things. We cannot assure you that any of our current arrangements will continue or that we will be able to enter into future collaborations, renew agreements, or enter into new agreements in the future on terms that are as favorable to us as those that exist today.

Our ability to grow our management and franchise systems is subject to the range of risks associated with real estate investments. Our ability to sustain continued growth through management or franchise agreements for new hotels and the conversion of existing facilities to managed or franchised Marriott brands is affected, and may potentially be limited, by a variety of factors influencing real estate development generally. These include site availability, financing, planning, zoning and other local approvals, and other limitations that may be imposed by market and submarket factors, such as projected room occupancy, changes in growth in demand compared to projected supply, territorial restrictions in our management and franchise agreements, costs of construction, and anticipated room rate structure.

Our development activities expose us to project cost, completion, and resale risks. We develop new hotel, timeshare interval, fractional ownership, and residential properties, both directly and through partnerships, joint ventures, and other business structures with third parties. As demonstrated by the third quarter 2009 impairment charges associated with our Timeshare business, our ongoing involvement in the development of properties presents a number of risks, including that: (1) continued weakness in the capital markets may limit our ability, or that of third parties with whom we do business, to raise capital for completion of projects that have commenced or for development of future properties; (2) properties that we develop could become less attractive due to further decreases in demand for residential, fractional or interval ownership, increases in mortgage rates and/or decreases in mortgage availability, market absorption or oversupply, with the result that we may not be able to sell such properties for a profit or at the prices or selling pace we anticipate, potentially requiring additional changes in our pricing strategy that could result in further charges; (3) construction delays, cost overruns, lender financial defaults, or so called Acts of God such as earthquakes, hurricanes, floods or fires may increase overall project costs or result in project cancellations; and (4) we may be unable to recover development costs we incur for these projects that are not pursued to completion.

Development activities that involve our co-investment with third parties may result in disputes that could increase project costs, impair project operations, or increase project completion risks. Partnerships, joint ventures, and other business structures involving our co-investment with third parties generally include some form of shared control over the operations of the business and create additional risks, including the possibility that other investors in such ventures could become bankrupt or otherwise lack the financial resources to meet their obligations, or could have or develop business interests, policies or objectives that are inconsistent with ours. Although we actively seek to minimize such risks before investing in partnerships, joint ventures or similar structures, actions by another investor may present additional risks of project delay, increased project costs, or operational difficulties following project completion. Such disputes may also be more likely in the current difficult business environment.

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Other Risks Associated with Timeshare and Residential Properties

Disruption in the credit markets will likely continue to impair our ability to sell the loans that our Timeshare business generates. Our Timeshare business provides financing to purchasers of our timeshare and fractional properties, and we periodically sell interests in those loans in the securities markets. Earlier in the year, disruption in the credit markets impaired the timing and volume of the timeshare loans that we sell, as well as the financial terms of such sales. Deteriorating market conditions resulted in the delay of a planned fourth quarter 2008 sale to the 2009 first quarter with terms that were less favorable to us than they were historically and higher sales costs to us than we had originally anticipated. Deterioration in financial market conditions could delay our planned fourth quarter 2009 or future sales, sharply increase their cost to us, or prevent us from selling our timeshare notes entirely. Delays in note sales or increases in sale costs could reduce or postpone future gains, result in losses on such sales, cause us to reduce spending in order to maintain our leverage and return targets, and could also result in increased borrowing to provide capital to replace proceeds from such sales.

Risks associated with development and sale of residential properties that are associated with our lodging and timeshare properties or brands may reduce our profits. In certain hotel and timeshare projects we participate, through noncontrolling interests and/or licensing fees, in the development and sale of residential properties associated with our brands, including luxury residences, and condominiums under our Ritz-Carlton and Marriott brands. Such projects pose additional risks beyond those generally associated with our lodging and timeshare businesses, which may reduce our profits or compromise our brand equity, including the following:

- Recent decreases in residential real estate, vacation home prices, and demand generally will continue to reduce our profits and could result in losses on residential sales, increase our carrying costs due to a slower pace of sales than we anticipated, and could make it more difficult to convince future hotel development partners of the value added by our brands;

- Increases in interest rates, reductions in mortgage availability, or increases in the costs of residential ownership could prevent potential customers from buying residential products or reduce the prices they are willing to pay; and

- Residential construction may be subject to warranty and liability claims, and the costs of resolving such claims may be significant.

Technology, Information Protection, and Privacy Risks

A failure to keep pace with developments in technology could impair our operations or competitive position. The lodging and timeshare industries continue to demand the use of sophisticated technology and systems, including those used for our reservation, revenue management and property management systems, our Marriott Rewards program, and technologies we make available to our guests. These technologies and systems must be refined, updated, and/or replaced with more advanced systems on a regular basis. If we are unable to do so as quickly as our competitors or within budgeted costs and time frames, our business could suffer. We also may not achieve the benefits that we anticipate from any new technology or system, and a failure to do so could result in higher than anticipated costs or could impair our operating results.

An increase in the use of third-party Internet services to book online hotel reservations could adversely impact our revenues. Some of our hotel rooms are booked through Internet travel intermediaries such as Expedia.com®, Travelocity.com®, and Orbitz.com®, as well as lesser-known online travel service providers. These intermediaries initially focused on leisure travel, but now also provide offerings for corporate travel and group meetings. Although Marriott s Look No Further® Best Rate Guarantee has greatly reduced the ability of intermediaries to undercut the published rates at our hotels, intermediaries continue to use a variety of aggressive online marketing methods to attract customers, including the purchase, by certain companies, of trademarked online keywords such as Marriott from Internet search engines such as Google® and Yahoo® to steer customers toward their Web sites (a practice currently being challenged by various trademark owners in federal court). Although Marriott has successfully limited these practices through contracts with key online intermediaries, the number of intermediaries and related companies that drive traffic to intermediaries Web sites is too large to permit us to eliminate this risk entirely. Our business and profitability could be harmed if online intermediaries succeed in significantly shifting loyalties from our lodging brands to their travel services, diverting bookings away from Marriott.com, or through their fees increasing the overall cost of internet bookings for our hotels.

Failure to maintain the integrity of internal or customer data could result in faulty business decisions, damage of reputation and/or subject us to costs, fines, or lawsuits. Our businesses require collection and retention of large volumes of internal and customer data, including credit card numbers and other personally identifiable information of our customers as they are entered into, processed by, summarized by, and reported by our various information systems and those of our service providers. We also maintain personally identifiable information about our employees. The integrity and protection of that customer, employee, and company data is critical to us. If that data is inaccurate or incomplete, we could make faulty decisions. Our customers and employees also have a high expectation that their personal information will be adequately protected by ourselves or our service providers, and the regulatory environment surrounding information, security and privacy is increasingly demanding, in both the United States and other jurisdictions in which we operate. A significant theft, loss, or fraudulent use of customer, employee, or company data by us or by a service provider could adversely impact our reputation and could result in remedial and other expenses, fines, and litigation.

Changes in privacy law could adversely affect our ability to market our products effectively. We rely on a variety of direct marketing techniques, including telemarketing, email marketing, and postal mailings. Any further restrictions in laws such as the Telemarketing Sales Rule, CANSPAM Act, and various U.S. state laws, or new federal laws, regarding marketing and solicitation or international data protection laws that govern these activities could adversely affect the continuing effectiveness of telemarketing, email, and postal mailing techniques and could force further changes in our marketing strategy. If this occurs, we may not be able to develop adequate alternative marketing strategies, which could impact the amount and timing of our sales of timeshare units and other products. We also obtain access to potential customers from travel service providers or other companies with whom we have substantial relationships and market to some individuals on these lists directly or by including our marketing message in the other company s marketing materials. If access to these lists was prohibited or otherwise restricted, our ability to develop new customers, and introduce them to our products could be impaired.

Other Risks

Changes in tax and other laws and regulations could reduce our profits or increase our costs. Our businesses are subject to regulation under a wide variety of U.S. federal and state and foreign laws, regulations and policies. In response to the recent economic crisis and the current recession, we anticipate that many of the jurisdictions in which we do business will review tax and other revenue raising laws, regulations and policies, and any resulting changes could impose new restrictions, costs or prohibitions on our current practices and reduce our profits. In particular, U.S. and foreign governments may revise tax laws, regulations or official interpretations in ways that could have a significant impact on us, including modifications that could reduce the profits that we can effectively realize from our non-U.S. operations or that could require costly changes to those operations or the way in which they are structured. For example, our current effective tax rate reflects the fact that income we earn and reinvest outside the United States is generally taxed at local rates, which are often much lower than U.S. tax rates. If changes in tax laws, regulations or interpretations were to significantly increase the tax rates on our non-U.S. income, our effective tax rate could increase, our profits could be reduced, and if such increases were a result of our status as a U.S. company, could place us at a disadvantage to our non-U.S. competitors if those competitors remain subject to lower local tax rates.

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If we cannot attract and retain talented associates, our business could suffer. We compete with other companies both within and outside of our industry for talented personnel. If we are not able to recruit, train, develop, and retain sufficient numbers of talented associates, we could experience increased associate turnover, decreased guest satisfaction, low morale, inefficiency, or internal control failures. Insufficient numbers of talented associates could also limit our ability to grow and expand our businesses.

Delaware law and our governing corporate documents contain, and our Board of Directors could implement, anti-takeover provisions that could deter takeover attempts. Under the Delaware business combination statute, a stockholder holding 15 percent or more of our outstanding voting stock could not acquire us without Board of Director s consent for at least three years after the date the stockholder first held 15 percent or more of the voting stock. Our governing corporate documents also, among other things, require supermajority votes in connection with mergers and similar transactions. In addition, our Board of Directors could, without stockholder approval, implement other anti-takeover defenses, such as a stockholder rights plan to replace the stockholder s rights plan that expired in March 2008.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

(a) Unregistered Sale of Securities

None.

(b) Use of Proceeds

None.

(c) Issuer Purchases of Equity Securities

None.

Item 3. *Defaults Upon Senior Securities*

None.

Item 4. *Submission of Matters to a Vote of Security Holders*

None.

Item 5. *Other Information*

None.

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Item 6. ***Exhibits***

Exhibit No.	Description	Incorporation by Reference (where a report is indicated below, that document has been previously filed with the SEC and the applicable exhibit is incorporated by reference thereto)
3(i)	Restated Certificate of Incorporation of the Company.	Exhibit No. 3(i) to our Form 8-K filed August 22, 2006 (File No. 001-13881).
3(ii)	Amended and Restated Bylaws.	Exhibit No. 3(i) to our Form 8-K filed November 12, 2008 (File No. 001-13881).
10	Marriott International, Inc. Executive Deferred Compensation Plan, Amended and Restated as of January 1, 2009.	Exhibit No. 99 to our Form 8-K filed August 6, 2009 (File No. 001-13881).
12	Statement of Computation of Ratio of Earnings to Fixed Charges.	*Filed with this report.*
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).	*Filed with this report.*
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).	*Filed with this report.*
32	Section 1350 Certifications.	*Furnished with this report.*
101.INS	XBRL Instance Document.	*Submitted electronically with this report.*
101.SCH	XBRL Taxonomy Extension Schema Document.	*Submitted electronically with this report.*
101.CAL	XBRL Taxonomy Calculation Linkbase Document.	*Submitted electronically with this report.*
101.LAB	XBRL Taxonomy Label Linkbase Document.	*Submitted electronically with this report.*
101.PRE	XBRL Taxonomy Presentation Linkbase Document.	*Submitted electronically with this report.*

Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income for the twelve weeks and thirty-six weeks ended September 11, 2009, and September 5, 2008, respectively; (ii) the Condensed Consolidated Balance Sheets at September 11, 2009, and January 2, 2009; and (iii) the Condensed Consolidated Statements of Cash Flows for the thirty-six weeks ended September 11, 2009, and September 5, 2008, respectively. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MARRIOTT INTERNATIONAL, INC.

9th day of October, 2009

/s/ William J. Shaw
William J. Shaw
Director and Vice Chairman

/s/ Carl T. Berquist
Carl T. Berquist
Executive Vice President and Chief Financial Officer