SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 1998 Commission File No. 001-14625

HOST MARRIOTT CORPORATION

Maryland	53-0085950
(State of Incorporation)	(I.R.S. Employer Identification Number)

10400 Fernwood Road
Bethesda, Maryland 20817
(301) 380-9000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value (227,669,276 shares outstanding as of March 19, 1999)	New York Stock Exchange Chicago Stock Exchange
Purchase Share rights for Series A Junior Participating Preferred Stock, $.01 par value	Pacific Stock Exchange Philadelphia Stock Exchange

The aggregate market value of shares of common stock held by non-affiliates at March 19, 1999 was $2,561,000,000.

Indicate by check mark whether the registrant (i) 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, and (ii) has been subject to such filing requirements for the past 90 days. Yes [X] No [_]

Document Incorporated by Reference
Notice of 1999 Annual Meeting and Proxy Statement

FORWARD-LOOKING STATEMENTS

Certain matters discussed herein are forward-looking statements. Certain, but not necessarily all, of such forward-looking statements can be identified by the use of forward-looking terminology, such as "believes," "expects," "may," "will," "should," "estimates" or "anticipates" or the negative thereof or other variations thereof or comparable terminology. All forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual transactions, results, performance or achievements to be materially different from any future transactions, results, performance or achievements expressed or implied by such forward-looking statements. Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that our expectations will be attained or that any deviations will not be material. We undertake no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances. The following risk factors should be considered by prospective investors who should carefully consider the material risks described below.

We do not control our hotel operations and are dependent on the managers and lessees of our hotels

Because federal income tax laws restrict real estate investment trusts and "publicly traded" partnerships from deriving revenues directly from operating a hotel, we operate virtually none of our hotels. Instead, we lease virtually all of our hotels to subsidiaries of Crestline which, in turn, retain managers to manage our hotels pursuant to management agreements. Thus, we are dependent on the lessees but, under the hotel leases, we have little influence over how the lessees operate our hotels. Similarly, we are dependent on the managers, principally Marriott International, Inc., but we have virtually no influence over how the managers manage our hotels. We have no recourse if we believe that the hotel managers do not maximize the revenues from our hotels, which in turn will maximize the rental payments we receive under the leases. We may seek redress under most leases only if the lessee violates the terms of the lease and then only to the extent of the remedies set forth in the lease.

Each lessee's ability to pay rent accrued under its lease depends to a large extent on the ability of the hotel manager to operate the hotel effectively and to generate gross sales in excess of its operating expenses. Our rental income from the hotels may therefore be adversely affected if the managers fail to provide quality services and amenities and competitive room rates at our hotels or fail to maintain the quality of the hotel brand names. Although the lessees have primary liability under the management agreements while the leases are in effect, we remain liable under the leases for all obligations that the lessees do not perform. We may terminate a lease if the lessee defaults, but terminating the lease could, unless another suitable lessee is found, impair our ability to qualify as a REIT for federal income tax purposes and the ability of the operating partnership (as defined in the business and properties section) to qualify as a partnership for federal income tax purposes unless another suitable lessee is found. As described below, our inability to qualify as a REIT or the operating partnership's inability to qualify as a partnership for federal income tax purposes would have a material adverse effect on us.

We do not control certain assets held by the non-controlled subsidiaries

We own economic interests in certain taxable corporations, which we refer to as non-controlled subsidiaries. These non-controlled subsidiaries hold various assets which, under our credit facility may not exceed, in the aggregate, 15% of the value of our assets. These assets consist primarily of interests in certain partnerships and hotels which are not leased, and certain FF&E (as defined below) used in our hotels. Ownership of these assets by us could jeopardize our REIT status and the operating partnership's status as a partnership for federal income tax purposes. Although we own approximately 95% of the total economic interests of the non-controlled subsidiaries, all of the voting common stock, representing approximately 5% of the total economic interests, is owned by Host Marriott Statutory Employee/Charitable Trust, the beneficiaries of which are a trust formed for the benefit of a number of our employees and the J. Willard and Alice S. Marriott Foundation. These voting stockholders elect the directors who are responsible for overseeing the operations of the non-controlled subsidiaries. The directors are currently employees of the operating partnership, although this is not required. As a result, we have no control over the operation or management of the hotels or other assets owned by the non-

controlled subsidiaries, even though we depend upon the non-controlled subsidiaries for a significant portion of our revenues. Also, the activities of non-controlled subsidiaries could cause us to be in default under our principal debt facilities.

We are dependent on the ability of Crestline and the lessees to meet their rent payment obligations

The lessees' rent payments are the primary source of our revenues. Crestline guarantees the obligations of its subsidiaries under the hotel leases, but Crestline's liability is limited to a relatively small portion of the aggregate rent obligation of its subsidiaries. Crestline's and each of its subsidiaries' ability to meet its obligations under the leases will determine the amount of our revenue and, likewise, our ability to meet our obligations. We have no control over Crestline or any of its subsidiaries and cannot assure you that Crestline or any of its subsidiaries will have sufficient assets, income and access to financing to enable them to satisfy their obligations under the leases or to make payments of fees under the management agreements. Although the lessees have primary liability under the management agreements while the leases are in effect, we and our subsidiaries remain liable under the management agreements for all obligations that the lessees do not perform. Because of our dependence on Crestline, our credit rating will be affected by its creditworthiness.

Our revenues and the value of our properties could be adversely affected by conditions affecting the lodging industry

If our assets do not generate income sufficient to pay our expenses, service our debt and maintain our properties, we will be unable to make expected distributions to our stockholders. Factors that could adversely affect our revenues and the economic performance and value of our properties include:

- changes in the national, regional and local economic climate,
- local conditions such as an oversupply of hotel properties or a reduction in demand for hotel rooms,
- the attractiveness of our hotels to consumers and competition from comparable hotels,
- the quality, philosophy and performance of the managers of our hotels, primarily Marriott International, Inc.,
- the ability of any hotel lessee to maximize rental payments,
- changes in room rates and increases in operating costs due to inflation and other factors and
- the need to periodically repair and renovate our hotels.

Our expenses may remain constant even if our revenues drop

The expenses of owning a property are not necessarily reduced when circumstances such as market factors and competition cause a reduction in income from the property. If a property is mortgaged and we are unable to meet the mortgage payments, the lender could foreclose and take the property. Our financial condition and ability to service debt and make distributions to our stockholders could be adversely affected by:

- interest rate levels,
- the availability of financing,
- the cost of compliance with government regulation, including zoning and tax laws and
- changes in laws and governmental regulations, including those governing usage, zoning and taxes.

New acquisitions may fail to perform as expected or we may be unable to make acquisitions on favorable terms

We intend to acquire additional full service hotels and other types of real estate. Newly acquired properties may fail to perform as expected, which could adversely affect our financial condition. We may underestimate the costs necessary to bring an acquired property up to standards established for its intended market position. We expect to acquire hotels and other types of real estate with cash from secured or unsecured financings and

proceeds from offerings of equity or debt, to the extent available. We may not be in a position or have the opportunity in the future to make suitable property acquisitions on favorable terms. Competition for attractive investment opportunities may increase prices for hotel properties, thereby decreasing the potential return on our investment. In addition, in order to maintain our status as a REIT we must lease virtually all of the properties we acquire. We cannot guarantee that the leases for newly acquired hotels will be as favorable to us as the existing leases.

Competition for acquisitions may result in increased prices for hotels

Other major investors with significant capital compete with us for attractive investment opportunities. These competitors include other REITs and hotel companies, investment banking firms and private institutional investment funds. This competition may increase prices for hotel properties, thereby decreasing the potential return on our investment.

The seasonality of the hotel industry may affect the ability of the lessees to make timely rent payments

The seasonality of the hotel industry may, from time to time, affect either the amount of rent that accrues under the hotel leases or the ability of the lessees to make timely rent payments under the leases. A lessee's or Crestline's inability to make timely rent payments to us could adversely affect our financial condition and ability to service debt and make distributions to our stockholders.

We may be unable to sell properties when appropriate because real estate investments are illiquid

Real estate investments generally cannot be sold quickly. We may not be able to vary our portfolio promptly in response to economic or other conditions. This inability to respond promptly to changes in the performance of our investments could adversely affect our financial condition and ability to service debt and make distributions to our stockholders. In addition, sales of appreciated real property could generate material adverse tax consequences, which may make it disadvantageous for us to sell hotels.

We may be unable to renew leases or find other lessees

Our current hotel leases have terms generally ranging from seven to ten years. There can be no assurance that upon expiration of our leases, our hotels will be relet to the current lessees, or if relet, will be relet on terms favorable to us. If our hotels are not relet, we will be required to find other lessees who meet certain requirements of the management agreements and of the federal income tax rules that govern REITs. We cannot assure you that we would be able to find satisfactory lessees or that the terms of any new leases would be favorable. Failure to find satisfactory lessees could cause us to lose our REIT status, and cause the operating partnership to be considered a "publicly traded partnership" taxable as a "C" corporation. Under these circumstances the operating partnership would have to pay substantial federal income taxes as well as distribute more cash to us to enable us to meet our tax burden. This would significantly impair, if not eliminate, our ability to raise additional capital. Failure to enter leases on satisfactory terms could also result in reduced cash available for servicing debt and for distributions to stockholders.

A significant number of our hotels are subject to ground leases

As of December 31, 1998, we leased 54 of our hotels pursuant to ground leases. These ground leases generally require increases in ground rent payments every five years. Our ability to make cash distributions to our stockholders could be adversely affected to the extent that the rents payable by the lessees under the leases do not increase at the same or a greater rate as the increases under the ground leases. In addition, if we were to sell a hotel encumbered by a ground lease, the buyer would have to assume the ground lease, which could result in a lower sales price.

Some potential losses are not covered by insurance

We carry comprehensive liability, fire, flood, extended coverage and rental loss (for rental losses extending up to 12 months) insurance with respect to all of our hotels. We believe the policy specifications and insured limits of these policies are of the type customarily carried for similar hotels. Certain types of losses, such as from earthquakes and environmental hazards, however, may be either uninsurable or too expensive to justify insuring against. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a hotel, as well as the anticipated future revenue from the hotel. In such an event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property.

Leases and management agreements could impair the sale or other disposition of our hotels

Each lease with a subsidiary of Crestline generally requires us to make a termination payment to the lessee if we terminate the lease prior to the expiration of its term. A termination payment is required even if we terminate a lease because of a change in the federal income tax laws that either would make continuation of the lease jeopardize our REIT status or would enable us to operate our hotels ourselves. The termination fee generally is equal to the fair market value of the lessee's leasehold interest in the remaining term of the lease, which could be a significant amount. In addition, if we decide to sell a hotel, we may be required to terminate its lease, and the payment of the termination fee under such circumstances could impair our ability to sell the hotel and would reduce the net proceeds of any sale.

Under the terms of the management agreements, we generally may not sell, lease or otherwise transfer the hotels unless the transferee assumes the related management agreements and meets certain other conditions. Our ability to finance, refinance or effect a sale of any of the properties managed by Marriott International or another manager may, depending upon the structure of such transactions, require the manager's consent. If Marriott International or other manager did not consent, we would be prohibited from consummating the financing, refinancing or sale without breaching the management agreement.

The acquisition contracts relating to certain hotels limit our ability to sell or refinance such hotels

For reasons relating to federal income tax considerations of the former owners of certain of our hotels, we have agreed to restrictions on selling certain hotels or repaying or refinancing the mortgage debt thereon for lock-out periods which vary depending on the hotel. We anticipate that, in certain circumstances, we may agree to similar restrictions in connection with future hotel acquisitions. As a result, even if it were in our best interests to sell such hotels or refinance their mortgage debt, it may be difficult or impossible to do so during their respective lock-out periods.

Marriott International's and Crestline's operation of their respective businesses could result in decisions not in our best interest

Marriott International, a public company in the business of hotel management, manages a significant number of our hotels. In addition, Marriott International manages hotels owned by others that compete with our hotels. As a result, Marriott International may make decisions regarding competing lodging facilities which it manages that would not necessarily be in our best interests. Further, J.W. Marriott, Jr., a member of our Board of Directors, and Richard E. Marriott, our Chairman of the Board and J.W. Marriott, Jr.'s brother, serve as directors, and, in the case of J.W. Marriott, Jr., also an officer, of Marriott International. J.W. Marriott, Jr. and Richard E. Marriott also beneficially owned approximately 10.6% and 10.4%, respectively, as of January 1, 1999 of the outstanding shares of common stock of Marriott International, and approximately 5.7% and 6.0%, respectively, as of March 24, 1999 of the outstanding shares of common stock of Crestline, but neither serves as an officer or director of Crestline. As a result, J.W. Marriott, Jr. and Richard E. Marriott have potential conflicts of interest as directors of Host Marriott when making decisions regarding Marriott International, including decisions relating to the management agreements involving the hotels, Marriott International's management of competing lodging properties and Crestline's leasing and other businesses.

Our Board of Directors and Marriott International's Board of Directors follow appropriate policies and procedures to limit the involvement of Messrs. J.W. Marriott, Jr. and Richard E. Marriott in conflict situations, including requiring them to abstain from voting as directors of either company or their subsidiaries on certain matters which present a conflict between the companies. If appropriate, these policies and procedures will apply to other directors and officers.

Provisions of our charter and bylaws could inhibit changes in control that could be beneficial to our stockholders

Certain provisions of our charter and bylaws may delay or prevent a change in control or other transaction that could provide our stockholders with a premium over the then-prevailing market price of their shares or which might otherwise be in their best interests. These include a staggered Board of Directors and the ownership limit described below. Also, any future class or series of stock may have certain voting provisions that could delay or prevent a change in control or other transaction that might involve a premium price or otherwise be good for our stockholders.

The Marriott International purchase right may discourage a takeover that could be beneficial to our stockholders

Marriott International has the right to purchase up to 20% of each class of our outstanding voting shares at the then fair market value upon the occurrence of specified certain change of control events. We refer to this right as the Marriott International purchase right. The Marriott International purchase right will continue in effect until June 2017, subject to certain limitations intended to protect the our REIT status. The Marriott International purchase right may have the effect of discouraging someone from attempting to take us over, because any person considering acquiring a substantial or controlling block of our common stock will face the possibility that its ability to obtain or exercise control would be impaired or made more expensive by the exercise of the Marriott International purchase right.

We have adopted Maryland law limitations on changes in control

Maryland corporate law prohibits certain "business combinations" between a Maryland corporation and any person who owns 10% or more of the voting power of the corporation's then outstanding shares of stock (an "Interested Stockholder") or an affiliate of the Interested Stockholder unless a business combination is approved by the board of directors any time before an Interested Stockholder first becomes an Interested Stockholder. The prohibition lasts for five years after the Interested Stockholder becomes an Interested Stockholder. Thereafter, any such business combination must be approved by stockholders under certain special voting requirements. We will be subject to such provisions although we may elect to "opt-out" in the future. As a result, a change in control or other transaction that could provide our stockholders with a premium over the then-prevailing market price of their shares or which might otherwise be in their best interests may be prevented or delayed. Our Board of Directors has exempted from this statute the acquisition of shares by Marriott International pursuant to the terms of the Marriott International purchase right as well as any other transactions involving us and Marriott International or our respective subsidiaries, or J.W. Marriott, Jr. or Richard E. Marriott, provided that, if any such transaction is not in the ordinary course of business, it must be approved by a majority of our directors present at a meeting at which a quorum is present, including a majority of the disinterested directors, in addition to any vote of stockholders required by other provisions of Maryland corporate law.

Maryland control share acquisition law could delay or prevent a change in control

Under Maryland corporate law, unless a corporation elects not to be subject thereto, "control shares" acquired in a "control share acquisition" have no voting rights except to the extent approved by stockholders by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares owned by the acquiror and by officers or directors who are employees of the corporation. "Control shares" are voting shares which would entitle the acquiror to exercise voting power in electing directors within certain specified ranges of voting power.

A "control share acquisition" means the acquisition of control shares, subject to certain exceptions. We are subject to these control share provisions of Maryland law and, as a result, a change in control or other transaction that could provide our stockholders with a premium over the then-prevailing market price of their shares or which might otherwise be in their best interests may be delayed or prevented. Our bylaws contain an exemption from this statute for any shares acquired by Marriott International, together with its successors and permitted assignees, pursuant to the Marriott International purchase right.

We have adopted a rights agreement which could delay or prevent a change in control

Our rights agreement provides, among other things, that upon the occurrence of certain events, stockholders will be entitled to purchase shares of our stock, subject to the ownership limit. These purchase rights would cause substantial dilution to a person or group that acquires or attempts to acquire 20% or more of our common stock on terms not approved by the Board of Directors and, as a result, could delay or prevent a change in control or other transaction that could provide our stockholders with a premium over the then-prevailing market price of their shares or which might otherwise be in their best interests.

We have a stock ownership limit primarily for REIT tax purposes

Primarily to facilitate maintenance of our REIT qualification, our charter imposes an ownership limit on our common stock and preferred stock. The attribution provisions of the federal tax laws that are used in applying the ownership limit are complex. They may cause one stockholder to be considered to own the stock of a number of related stockholders. As a result, these provisions may cause a stockholder whose direct ownership of stock does not exceed the ownership limit to, in fact, exceed the ownership limit.

The ownership limit could delay or prevent a change in control and, therefore, could adversely affect stockholders' ability to realize a premium over the then-prevailing market price for the common stock in connection with such transaction.

The large number of shares available for future sale could adversely affect the market price of our publicly traded securities

In connection with our REIT conversion at the end of 1998, we reserved approximately 96.4 million shares of our common stock for future issuance of which approximately 20 million shares were issued in February 1999. Such common stock will be freely transferable upon receipt. The balance of the reserved common stock may be issued upon the redemption of units of limited partnership interest in our operating partnership. These limited partnership units will become redeemable at various times over the next year, with approximately 23.9 million limited partnership units becoming redeemable beginning on July 1, 1999, pursuant to each holder's right under the operating partnership's partnership agreement to redeem them for shares of our common stock or, at our election, the cash equivalent thereof. In addition, we have reserved a substantial number of shares of our common stock for issuance pursuant to benefit plans or outstanding options, and such shares of our common stock will be available for sale in the public markets from time to time. Moreover, we may issue additional shares of our common stock in the future. We cannot predict the effect that future sales of shares of our common stock, or the perception that such sales could occur, will have on the market prices of our equity securities.

Our FFO and cash distributions will affect the market price of our publicly traded securities

We believe that the market value of a REIT's equity securities is based primarily upon the market's perception of the REIT's growth potential, including its prospects for accretive acquisitions and development, and its current and potential future cash distributions, and is secondarily based upon the real estate market value of the underlying assets. For that reason, our common stock may trade at prices that are higher or lower than the net asset value per share. To the extent we retain operating cash flow for investment purposes, working capital reserves or other purposes, these retained funds, while increasing the value of our underlying assets, may not correspondingly increase the market price of our common stock. Our failure to meet the market's expectations with regard to future FFO and cash distributions would likely adversely affect the market price of our publicly traded securities.

Market interest rates may have an effect on the value of our publicly traded securities

One of the factors that investors consider important in deciding whether to buy or sell shares of a REIT is the distribution rate on such shares, as a percentage of the price of such shares relative to market interest rates. If market interest rates go up, prospective purchasers of our equity securities may expect a higher dividend yield. Higher interest rates would not, however, result in more funds for us to distribute and, in fact, would likely increase our borrowing costs and potentially decrease cash available for distribution to the extent that our indebtedness has floating interest rates. Thus, higher market interest rates could cause the market price of our publicly traded securities to go down.

We are dependent on external sources of capital

To qualify as a REIT, we must distribute to our stockholders each year at least 95% of our net taxable income, excluding any net capital gain. Because of these distribution requirements, it is not likely that we will be able to fund all future capital needs, including acquisitions, from income from operations. We therefore will have to rely on third-party sources of capital, which may or may not be available on favorable terms or at all. Our access to third-party sources of capital depends upon a number of factors, including general market conditions, the market's perception of our growth potential, our current and potential future earnings and cash distributions and the market price of our common stock. Moreover, additional equity offerings may result in substantial dilution of stockholders' interests, and additional debt financing may substantially increase our leverage.

Our degree of leverage could limit our ability to obtain additional financing

Our debt-to-total market capitalization ratio was approximately 59% as of December 31, 1998. We have a policy of incurring debt only if, immediately following such incurrence, our debt-to-total market capitalization ratio on a pro forma basis would be 60% or less. Our degree of leverage could affect our ability to obtain financing in the future for working capital, capital expenditures, acquisitions, development or other general corporate purposes and to refinancing borrowings on favorable terms. Our leveraged capital structure also makes us more vulnerable to a downturn in our business or in the economy generally. Moreover, there are no limitations in our organizational documents that limit the amount of indebtedness that we may incur, although our existing debt instruments contain certain restrictions on the amount of indebtedness that we may incur. Accordingly, our Board of Directors could alter or eliminate the 60% policy without stockholder approval to the extent permitted by our debt agreements. If this policy were changed, we could become more highly leveraged, resulting in an increase in debt service payments that could adversely affect our cash flow and consequently our ability to service our debt and make distributions to stockholders.

Rental revenues from hotels are subject to prior rights of lenders

The mortgages on certain of our hotels require that rent payments under the leases on such hotels be used first to pay the debt service on such mortgage loans. Consequently, only the cash flow remaining after debt service will be available to satisfy other obligations, including property taxes and insurance, FF&E reserves for the hotels and capital improvements, and debt service on unsecured debt, and to make distributions to stockholders.

We depend on our key personnel

We depend on the efforts of our executive officers and other key personnel. While we believe that we could find replacements for these key personnel, the loss of their services could have a significant adverse effect on our operations. We do not intend to obtain key-man life insurance with respect to any of our personnel.

The REIT conversion could result in litigation

Over the last several years, business reorganizations involving the combination of several partnerships into a single entity have occasionally given rise to investor lawsuits. These lawsuits have involved claims against the

general partners of the participating partnerships, the partnerships themselves and related persons involved in the structuring of, or benefiting from, the conversion or reorganization, as well as claims against the surviving entity and its directors and officers. If any lawsuits are filed in connection with the partnership mergers or other transactions in connection with our REIT Conversion, such lawsuits could result in substantial damage claims against us, as successor to the liabilities of our predecessors. Such lawsuits, if successful, could adversely affect our financial condition and our ability to service our debt and make distributions to stockholders.

Joint venture investments have additional risks

Instead of purchasing hotel properties directly, we may invest as a co-venturer. Joint venturers often share control over the operation of the joint venture assets. Actions by a co-venturer could subject such assets to additional risk. Our co-venturer in an investment might have economic or business interests or goals that are inconsistent with our interests or goals, or be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives. Although we generally will seek to maintain sufficient control of any joint venture to permit our objectives to be achieved, we might not be able to take action without the approval of our joint venture partners. Also, our joint venture partners could take actions binding on the joint venture without our consent. A joint venture partner could go bankrupt, leaving us liable for its share of joint venture liabilities. Also, the requirement that we lease our assets to qualify as a REIT may make it more difficult for us to enter into joint ventures in the future.

The year 2000 problem may adversely impact our business and financial condition

Year 2000 issues have arisen because many existing computer programs and chip-based embedded technology systems use only the last two digits to refer to a year, and therefore do not properly recognize a year that begins with "20" instead of the familiar "19." If not corrected, many computer applications could fail or create erroneous results. Our potential year 2000 problems include issues relating to our in-house hardware and software computer systems, as well as issues relating to third parties with which we have a material relationship or whose systems are material to the operations of our hotels.

In-House systems

Since October of 1993, we have invested in the implementation and maintenance of accounting and reporting systems and equipment that are intended to enable us to provide adequately for our information and reporting needs and which are also year 2000 compliant. Substantially all of our in-house systems have already been certified as year 2000 compliant through testing and other mechanisms. We have not delayed any systems projects due to the year 2000 issue. We have engaged a third party to review our year 2000 in-house compliance.

Third-Party systems

We rely upon operational and accounting systems provided by third parties, primarily the managers of our hotels, to provide the appropriate property-specific operating systems, including reservation, phone, elevator, security, HVAC and other systems, and to provide us with financial information. We will continue to monitor the efforts of these third parties to become year 2000 compliant and will take appropriate steps to address any non-compliance issues.

Risks

We believe that future costs associated with year 2000 issues for its in-house systems will be insignificant and therefore not impact our business, financial condition and results of operations. However, the actual effect that year 2000 issues will have on our business will depend significantly on whether other companies and governmental entities properly and timely address year 2000 issues and whether broad-based or systemic failures occur. We cannot predict the severity or duration of any such failures, which could include disruptions in passenger transportation or transportation systems generally, loss of utility and/or telecommunications services, the loss or disruption of hotel reservations made on centralized reservation systems and errors or failures in financial transactions or payment processing systems such as credit cards.

Moreover, we are dependent upon Crestline to interface with third parties in addressing year 2000 issues at our hotels leased to its subsidiaries. Due to the general uncertainty inherent with respect to year 2000 issues and our dependence on third parties, including Crestline, we are unable to determine at this time whether the consequences of year 2000 failures will have a material impact on us. Although our joint year 2000 compliance program with Crestline is expected to significantly reduce uncertainties arising out of year 2000 issues and the possibility of significant interruptions of normal operations, we cannot assure you that this will be the case.

Environmental problems are possible and can be costly

We believe that our properties are in compliance in all material respects with applicable environmental laws. Unidentified environmental liabilities could arise, however, and could have a material adverse effect on our financial condition and performance. Federal, state and local laws and regulations relating to the protection of the environment may require a current or previous owner or operator of real estate to investigate and clean up hazardous or toxic substances or petroleum product releases at such property. The owner or operator may have to pay a governmental entity or third parties for property damage and for investigation and clean-up costs incurred by such parties in connection with the contamination. These laws typically impose clean-up responsibility and liability without regard to whether the owner or operator knew of or caused the presence of the contaminants. Even if more than one person may have been responsible for the contamination, each person covered by the environmental laws may be held responsible for all of the clean-up costs incurred. In addition, third parties may sue the owner or operator of a site for damages and costs resulting from environmental contamination emanating from that site. Environmental laws also govern the presence, maintenance and removal of asbestos. These laws require that owners or operators of buildings containing asbestos properly manage and maintain the asbestos, that they notify and train those who may come into contact with asbestos and that they undertake special precautions, including removal or other abatement, if asbestos would be disturbed during renovation or demolition of a building. These laws may impose fines and penalties on building owners or operators who fail to comply with these requirements and may allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos fibers.

Compliance with other government regulations can also be costly.

Our hotels are subject to various forms of regulation, including Title III of the Americans with Disabilities Act, building codes and regulations pertaining to fire safety. Compliance with such laws and regulations could require substantial capital expenditures. We do not believe, however, that substantial non-budgeted capital expenditures will be required with respect to our existing hotels based on existing laws and regulations. Such regulations may be changed from time to time, or new regulations adopted, resulting in additional or unexpected costs of compliance. Any such increased costs could reduce the cash available for servicing of debt and distributions to stockholders.

We intend to qualify as a REIT, but we cannot guarantee that we will qualify

We intend to operate to qualify as a REIT for tax purposes beginning in 1999. If we qualify as a REIT, we generally will not be taxed on income that we distribute to our stockholders so long as we distribute currently at least 95% of our net taxable income, excluding net capital gain. We cannot guarantee, however, that we will qualify as a REIT in 1999 or in any future year. Many of the REIT requirements are highly technical and complex. The determination that we are a REIT requires an analysis of various factual matters and circumstances that may not be totally within our control. For example, to qualify as a REIT, at least 95% of our gross income must be income specified in the REIT tax laws, such as "rents from real property." We are also required to distribute to shareholders at least 95% of our REIT taxable income, excluding capital gains. The fact that we hold our assets through the operating partnership and its subsidiaries further complicates the application of the REIT requirements. Even a technical or inadvertent mistake could jeopardize our REIT status. Furthermore, Congress and the IRS might make changes to the tax laws and regulations, and the courts might issue new rulings that make it more difficult, or impossible, for us to remain qualified as a REIT. In addition, it is possible that

even if we do qualify as a REIT, new tax rules will change the way we are taxed. If we fail to qualify as a REIT, we will be subject to federal income tax at regular corporate rates. In this event, we may cause the operating partnership to distribute adequate amounts to us and its other unitholders to permit us to pay our tax liabilities and our ability to raise additional capital could be impaired. This would significantly reduce the cash we would have available to service debt. Furthermore, our failure to qualify as a REIT could create a default under some of our debt instruments, including our credit facility. If we fail to qualify as a REIT, then unless certain specific statutory provisions apply, we will be disqualified from treatment as a REIT for the next four taxable years.

If the operating partnership is treated as a corporation, we will fail to qualify as a REIT

The operating partnership intends to qualify as a partnership for federal income tax purposes. However, it will be treated as a corporation, instead of a partnership, for federal income tax purposes if it is a "publicly traded partnership" unless at least 90% of its income is qualifying income as defined in the tax code. The income requirements applicable to REITs and the definition of qualifying income for purposes of this 90% test are similar in most, but not all, respects. Qualifying income for the 90% test generally includes passive income, such as specified types of real property rents, dividends and interest. However, real property rent will not be qualifying income if the operating partnership or one or more actual or constructive owners of 5% of the operating partnership actually or constructively own 10% or more of the tenant. The partnership agreement of the operating partnership contains ownership restrictions intended to prevent the disqualification of income based on these ownership restrictions. We believe that it will meet this qualifying income test, but we cannot guarantee that it will. If it were to be taxed as a corporation, it would incur substantial tax liabilities, we would fail to qualify as a REIT for tax purposes, we may require it to distribute adequate amounts to us to permit us to pay our tax liabilities, and our and its ability to raise additional capital could be impaired.

The operating partnership may need to borrow money or issue additional equity in order for us to qualify as a REIT

A REIT must distribute to its shareholders at least 95% of its net taxable income, excluding any net capital gain. The source of the distributions we make to our stockholders will be money distributed to us by the operating partnership. We intend to meet this 95% requirement, but there are a number of reasons why the operating partnership's cash flow alone may be insufficient for us to meet this requirement. First, as a result of some of the transactions of certain of our predecessor entities, the operating partnership and its subsidiaries, we expect to recognize large amounts of taxable income in future years for which the operating partnership will have no corresponding cash flow or earnings before interest, taxes, depreciation and other non cash items which is referred to as EBITDA. This type of income is often referred to as "phantom income." Second, in order to qualify as a REIT in 1999, we need to distribute to our stockholders, prior to the end of 1999, all of the "earnings and profits" that accumulated prior to 1999. If we do not meet this requirement by virtue of the distributions declared in connection with the REIT Conversion, we will be required to make further distributions prior to the end of 1999. The operating partnership may not have cash flow that corresponds to these distributions. Third, the seasonality of the hospitality industry could cause a further mismatch of our income and cash flow.

In addition, even if a REIT meets the 95% requirement, it may still be subject to a 4% nondeductible excise tax. This excise tax applies to the amount by which certain of the REIT's distributions in a given calendar year are less than the sum of 85% of its ordinary income, 95% of its capital gain net income and any undistributed taxable income from prior years. We intend to make distributions to our stockholders so that we will not be subject to this excise tax, but for the reasons described above, the operating partnership's cash flow alone may be insufficient for it to distribute to us the funds we will need.

The operating partnership's partnership agreement requires it to distribute enough cash to us for us to meet the 95% distribution requirement and avoid the 4% excise tax, and the operating partnership has to make proportionate distributions to its other equityholders. If its cash flow alone is insufficient for it to distribute to us the money we need to meet the 95% distribution requirement or to avoid the 4% excise tax, it may need to issue additional equity or borrow money. We cannot guarantee that these sources of funds will be available to it on favorable terms or even at all. Any problems the operating partnership has in borrowing money could be

exacerbated by two factors. First, it will need to distribute most if not all of our earnings to us and other holders of its partnership units. Therefore, it will be unable to retain these earnings. Accordingly, it generally will need to refinance its maturing debt with additional debt or equity and rely on third-party sources to fund future capital needs. Second, its borrowing needs will be increased if we are required to pay taxes or liabilities attributable to prior years. If the operating partnership is unable to raise the money necessary to permit us to meet the 95% distribution requirement, we will fail to qualify as a REIT. If the operating partnership is able to raise the money, but only on unfavorable terms, then our financial performance may be damaged.

We are required to distribute all of our prior earnings and profits, but we cannot guarantee that we will be able to do so

In order to qualify as a REIT for 1999, we are required to distribute to our stockholders, prior to the end of 1999, all of our earnings and profits that we accumulated prior to 1999. We believe that we will meet this requirement. However, it is very hard to determine the exact level of our pre-1999 earnings and profits because the determination depends on an extremely large number of factors. The complexity of the determination is compounded by the fact that we started accumulating earnings and profits in 1929. Also, it is difficult to value our distributions which have not been cash, such as the distribution of Crestline common stock we made in December 1998. Therefore, we cannot guarantee that we will meet this requirement. If we do not meet this requirement, then we will not qualify as a REIT at least for 1999.

We will qualify as a REIT only if the rent from the leases meets a number of tests, but we cannot guarantee that it will

A REIT's income must meet certain tests relating to its source. If the income meets the tests, it is called "good income." Almost all of our income will be rent from the hotel leases. This rent will be good income only if the leases are respected as true leases for federal income tax purposes. If the leases are treated as service contracts, joint ventures or some other type of arrangement, then this rent will not be good income and we will fail to qualify as a REIT.

In addition, the rent from any particular hotel lease will be good income only if we own less than 10% of the lessee of the hotel. For purposes of this test, we are treated as owning both any interests that we hold directly and the interests owned by a person who owns more than 10% of our stock. In determining who owns more than 10% of our stock, a person may be treated as owning the stock of another person who is either a relative or has common financial interests. We will not directly own more than 10% of any of the lessees. In addition, we intend to enforce the ownership limit in our charter, which restricts the amount of our capital stock that any person can own. If the ownership limit is effective, then no person will ever own more than 10% of our capital stock and we should never own more than 10% of the lessees. However, we cannot guarantee that the ownership limit will be effective. If the ownership limit is not effective, our ownership in the lessees may exceed the 10% limit. As a result, the rent from our leases would not be good income and we would fail to qualify as a REIT.

Furthermore, rent from any particular hotel lease will be good income only if no portion of the rent is based on the income or profits of the lessee of the hotel. The rent, however, can be based on the gross revenues of the lessees, unless the arrangement does not conform to normal business practice or is being used as a device to base rent on the income or profits of the lessees. The rent from the current leases, other than the Harbor Beach Resort lease, is based on the gross revenues of the lessees. We believe that the leases conform to normal business practice and, other than the Harbor Beach Resort lease, are not being used as a device to base rent on the income or profits of the lessees. We cannot guarantee that the IRS will agree with our position. If rent from leases in addition to the Harbor Beach Resort lease is found to be based on the income or profits of the lessees, the rent would not be good income and we would fail to qualify as a REIT.

Host Marriott will qualify as a REIT and, if we are a "publicly traded partnership," we would qualify as a partnership only if the personal property arrangements are respected by the IRS

Rent that is attributable to personal property is not good income under the REIT rules or the rules applicable to "publicly traded partnerships." Hotels contain significant personal property. Therefore, in order to protect our

ability to qualify as a REIT and the operating partnership's ability to qualify as a partnership, we sold an estimated $59 million of personal property associated with some of our hotels to the non-controlled subsidiaries. The non-controlled subsidiaries lease the personal property associated with each hotel directly to the lessee that is leasing the hotel. Under each personal property lease, the non-controlled subsidiary receives rent payments directly from the applicable lessee. We believe the amount of the rent represents the fair rental value of the personal property. If for any reason these lease arrangements are not respected by the IRS for federal income tax purposes and we were treated as the lessor, we would not qualify as a REIT and, if the operating partnership is considered a "publicly traded partnership," it likely would not qualify as a partnership.

We will be subject to taxes even if we qualify as a REIT

Even if we qualify as a REIT, we will be subject to some federal, state and local taxes on our income and property. For example, we will have to pay tax on income that we do not distribute. We also will be liable for any tax that the IRS successfully asserts against our predecessors for corporate income taxes for years prior to 1999. Furthermore, we will derive income from the non-controlled subsidiaries and they will be subject to regular corporate taxes.

In addition, we and our subsidiaries contributed a large number of assets to the operating partnership with a value that was substantially greater than our tax basis in the assets. We refer to these assets as assets with "built-in gain." We will be subject to tax on the built-in gain if the operating partnership sells these assets prior to the end of 2008. We also have substantial deferred tax liabilities that we or one of the non-controlled subsidiaries will recognize, without the receipt by us of any corresponding cash. Even if the operating partnership does not sell the built-in gain assets prior to the end of 2008, there are a number of other transactions that likely would cause us to be subject to the tax on the built-in gain. In connection with this gain, neither we nor the operating partnership will receive any corresponding cash.

Proposed legislation, if enacted, could require us to restructure our ownership of the non-controlled subsidiaries

The Clinton Administration's fiscal year 2000 budget proposal, announced February 1, 1999, includes a proposal that would limit a REIT's ability to own more than 10%, by vote or value, of the stock of another corporation. Currently, a REIT cannot own more than 10% of the outstanding voting securities of any one issuer. A REIT can, however, own more than 10% of the value of the stock of a corporation provided no more than 25% of the value of the REIT's assets consists of subsidiaries that conduct impermissible activities and that the stock of any one single corporation does not account for more than 5% of the total value of the REIT's assets. The budget proposal would allow a REIT to own all of the voting stock and value of a "taxable REIT subsidiary" provided all of a REIT's taxable subsidiaries do not represent more that 15% of the REIT's total assets. In addition, under the budget proposal, a "taxable REIT subsidiary" would not be entitled to deduct any interest on debt funded directly or indirectly by the REIT. The budget proposal, if enacted in its current form, may require that we restructure our ownership of the non-controlled subsidiaries because we currently own more than 10% of the value of the non-controlled subsidiaries. The budget proposal, if enacted in its current form, would be effective after the date of its enactment and would provide transition rules to allow corporations, like the non-controlled subsidiaries, to convert into "taxable REIT subsidiaries" tax-free. It is presently uncertain whether any proposal regarding REIT subsidiaries, including the budget proposal, will be enacted, or if enacted, what the terms of such proposal (including its effective date) will be.

Items 1 & 2. Business and Properties

We are a self-managed and self-administered real estate investment trust, or "REIT," owning full service hotel properties. Through our subsidiaries, we currently own 125 hotels, representing approximately 58,000 rooms located throughout the United States and Canada. These hotels are generally operated under the Marriott, Ritz-Carlton, Four Seasons, Swissotel and Hyatt brand names, which are among the most respected and widely recognized brand names in the lodging industry. As described more fully below, our hotels are held by our

subsidiaries and leased by our subsidiaries to lessees, principally subsidiaries of Crestline Capital Corporation. The hotels are managed on behalf of the lessees by subsidiaries of Marriott International and other companies.

We were formed as a Maryland corporation in 1998, under the name HMC Merger Corporation, as a wholly owned subsidiary of Host Marriott Corporation, a Delaware corporation, in connection with Host Marriott's efforts to reorganize its business operations to qualify as a REIT for federal income tax purposes. As part of this reorganization, which we refer to as the REIT conversion, and which is described below in more detail, on December 29, 1998, we merged with Host Marriott and changed our name to Host Marriott Corporation. As a result, we have succeeded to the hotel ownership business formerly conducted by Host Marriott, which is described more fully below.

The REIT conversion

During 1998, Host Marriott and its subsidiaries and affiliates consummated a series of transactions intended to enable us to qualify as a REIT for federal income tax purposes. As a result of these transactions the hotel ownership business formerly conducted by Host Marriott and its subsidiaries and other affiliates is conducted as an umbrella partnership REIT, or UPREIT through Host Marriott, L.P., a Delaware limited partnership in which we are the sole general partner, and its subsidiaries. In this Form 10-K, we refer to Host Marriott, L.P. as the operating partnership. We intend to elect to be treated as a REIT for federal income tax purposes effective January 1, 1999.

Certain of the transactions comprising the REIT conversion are described below.

Reorganization of lodging assets under the operating partnership. During 1998, Host Marriott reorganized its hotel ownership assets and certain other assets so that they were owned by the operating partnership and its subsidiaries. In exchange for the hotel ownership business, Host Marriott received a number of units of limited partnership interests in the operating partnership (which we refer to as "OP Units") equal to the number of then-outstanding shares of Host Marriott common stock, and the operating partnership and its subsidiaries assumed substantially all of the liabilities of Host Marriott and its subsidiaries.

As a result of this reorganization, our merger with Host Marriott and related transactions as described below, we are the sole general partner in the operating partnership and hold approximately 78% of the outstanding OP Units. Our hotel ownership business is conducted by the operating partnership and its subsidiaries.

Host Marriott did not transfer to the operating partnership (and the operating partnership therefore does not own) certain other assets formerly held by Host Marriott and its subsidiaries (principally consisting of 31 retirement communities and controlling interests in the entities that lease our hotels). Most of these assets are owned by Crestline, formerly a wholly owned subsidiary of Host Marriott. Crestline became a separate publicly traded company on December 29, 1998 as part of the shareholder distribution discussed below.

Acquisitions by the operating partnership. Prior to the REIT conversion, Host Marriott and several of its separate direct and indirect wholly owned subsidiaries were the sole general partners of eight publicly traded limited partnerships and four private partnerships in which Host Marriott or a subsidiary owned or held a controlling interest in 28 full-service hotels operating under the Marriott brand. The following table lists each of these partnerships and the hotel properties owned by it or in which it holds a controlling interest.

Partnership	Hotel Properties	Rooms
Public		
Atlanta Marriott Marquis II Limited Partnership (1)	Atlanta Marriott Marquis	1,671
Desert Springs Marriott Limited Partnership (1)	Desert Springs Resort and Spa	884
Hanover Marriott Limited Partnership (1)	Hanover, New Jersey	353

Partnership	Hotel Properties	Rooms
Public (continued)		
Marriott Diversified American Hotels Limited Partnership	Dayton, Ohio	399
	Fairview Park, Virginia	395
	Livonia, Michigan	224
	Fullerton, California	224
	Research Triangle Park, North Carolina	224
	Southfield, Michigan	226
Marriott Hotel Properties Limited Partnership (1)	Orlando World Center	1,503
	Harbor Beach Resort, Florida	624
Marriott Hotel Properties II Limited Partnership (1)	San Antonio Rivercenter	999
	New Orleans	1,292
	San Ramon, California	368
	Santa Clara, California	754
Mutual Benefit Chicago Marriott Suite Hotel Limited Partnership	Chicago O'Hare Suites	256
Potomac Hotel Limited Partnership	Albuquerque, New Mexico	411
	Greensboro/High Point, North Carolina	299
	Houston Medical Center	386
	Mountain Shadows Resort, Arizona	337
	Miami Biscayne Bay	605
	Raleigh Crabtree, North Carolina (2)	375
	Seattle Sea-Tac Airport	459
	Tampa Westshore (2)	309
Private		
HMC BN Limited Partnership (3)	Ritz-Carlton, Buckhead, Georgia	553
	Ritz-Carlton, Naples, Florida	463
Ivy Street Hotel Limited Partnership (3)	Atlanta Marriott Marquis	1,671
Times Square Marquis Hotel Limited Partnership (3)	New York Marriott Marquis	1,919
HMC/RGI Hartford Limited Partnership (3)	Hartford/Farmington	380

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(1) We owned or had a controlling interest in these partnerships prior to the REIT conversion. These properties were previously consolidated by Host Marriott.

(2) We consolidated these properties through our investments including the ownership of mortgage notes prior to the REIT conversion.

(3) We acquired substantially all of the unaffiliated partnership interests prior to the REIT conversion. These properties were previously consolidated by Host Marriott.

In addition to the partnerships listed above, we own controlling interests in certain private partnerships which we had previously consolidated. Certain of the minority partners in these partnerships retain the right to exchange their interests in these partnerships for OP Units subject to certain conditions. We estimate that as many as approximately 7 million OP Units could be issued at various points in time in the event that all such minority partners were to elect to exchange their partnership interests.

As part of the REIT conversion, the operating partnership, directly and through its subsidiaries, acquired all of the publicly-traded partnerships and the four private partnerships identified on the table above in exchange for approximately 25 million OP Units. Approximately 8.5 million of these OP Units have been converted into shares of our common stock. Additionally, certain limited partners of the publicly-traded partnerships elected to exchange OP Units for approximately $3 million aggregate principal amount unsecured notes due December 15, 2005 issued by the operating partnership.

The operating partnership also acquired on December 30, 1998 from the Blackstone Group, a Delaware limited partnership, and a series of funds controlled by affiliates of Blackstone Real Estate Partners (together, the "Blackstone Entities"), ownership of or a controlling interest in 12 upscale and luxury full-service hotels in the U.S. and a mortgage loan secured by a thirteenth hotel and certain other assets. As part of the Blackstone acquisition, the operating partnership also acquired a 25% interest in the U.S. Swissotel management company

which was sold in turn to Crestline at book value. In exchange for these assets, the operating partnership issued to the Blackstone Entities approximately 43.9 million OP Units, which OP Units are redeemable for cash (or at our option, our common shares), assumed debt and made cash payments totaling approximately $920 million and distributed approximately 1.4 million shares of Crestline common stock and other consideration to the Blackstone Entities. The actual number of OP Units to be issued to the Blackstone Entities will fluctuate based upon certain adjustments to be determined at the close of business on March 31, 1999. Based on current stock prices, the operating partnership will be required to issue to the Blackstone Entities in April 1999 approximately 3.7 million additional OP Units pursuant to such adjustments. As a result of the consummation of the Blackstone Acquisition, after all the adjustments the Blackstone Entities will own approximately 16.4% of the outstanding OP Units. The Blackstone hotel portfolio consists of two Ritz-Carlton, two Four Seasons, one Grand Hyatt, three Hyatt Regency and four Swissotel properties. John G. Schreiber, co-chairman of Blackstone Real Estate Partners' investment committee, is a member of our Board of Directors.

Contribution of assets to non-controlled subsidiaries. In connection with the REIT conversion, two taxable corporations were formed in which the operating partnership owns approximately 95% of the economic interest but none of the voting interest--Rockledge Hotel Properties, Inc. and Fernwood Hotel Assets, Inc. (we refer to these two subsidiaries as the non-controlled subsidiaries). The non-controlled subsidiaries hold various assets which were originally contributed by Host Marriott and its subsidiaries to the operating partnership, the direct ownership of which by the operating partnership or its other subsidiaries would jeopardize our status as a REIT and the operating partnership's status as a partnership for federal income tax purposes. These assets primarily consist of interests in certain partnerships or other interests in hotels which are not leased, and certain furniture, fixtures and equipment (also known as FF&E) used in the hotels and certain international hotels. The operating partnership has no control over the operation or management of the hotels or other assets owned by the non-controlled subsidiaries. The Host Marriott Statutory Employee/Charitable Trust, the beneficiaries of which are a trust formed for the benefit of certain employees of the operating partnership and the J. Willard and Alice S. Marriott Foundation, acquired all of the voting common stock of each non-controlled subsidiary, representing, in each case, the remaining approximately 5% of the total economic interests in each non-controlled subsidiary.

Leases of hotels. Under current federal income tax law, a REIT cannot derive income from the operation of hotels but can derive rental income by leasing hotels. Therefore, as part of the REIT conversion the operating partnership and its subsidiaries have leased virtually all of their hotel properties to certain subsidiaries of Crestline. Generally, there is a separate lessee for each hotel property or there is a separate lessee for each group of hotel properties that has separate mortgage financing or has owners in addition to the operating partnership and its wholly owned subsidiaries. Each lessee is generally a limited liability company whose purpose is limited to acting as lessee under an applicable lease. The lessees under leases of hotels that are managed by subsidiaries of Marriott International are owned 100% by a wholly owned subsidiary of Crestline, although Marriott International or its appropriate subsidiary has a non-economic voting interest on certain matters. The LLC operating agreement or the limited partnership agreement, as applicable, for such lessees provides that the Crestline subsidiary or general partner of the lessee will have full control over the management of the business of the lessee, except with respect to certain decisions for which the consent of members or partners and the manager will be required.

The hotel management agreements to which Host Marriott or its subsidiaries were parties were assigned to the lessees for the term of the applicable leases. Although the lessees have primary liability under the management agreements while the leases are in effect, the operating partnership retains contingent liability under the management agreements for all obligations that the lessees do not perform. The operating partnership also remains primarily liable for certain obligations under the management agreements.

From time to time, legislation has been proposed that would have the effect of enabling a REIT to lease hotels to a wholly owned subsidiary corporation that could operate hotels directly, provided that the subsidiary contracts out the management functions to independent third parties. In the event that legislation is enacted that would have the effect of enabling the operating partnership to lease its hotels to a wholly owned subsidiary, then

Host Marriott, at its discretion, may elect to terminate the leases of its hotels with Crestline subsidiaries and pay certain termination fees.

The shareholder distributions. As part of the REIT conversion, Host Marriott made certain taxable distributions to its shareholders in which they received, for each share of common stock, (1) one-tenth of one share of common stock of Crestline and, (2) either $1 cash or 0.087 share of Host Marriott common stock at the election of the shareholder. The aggregate value of the Crestline common stock, the common stock and cash distributed to shareholders of Host Marriott was approximately $510 million.

Operations as a REIT

We are the sole general partner of the operating partnership and manage all aspects of the business of the operating partnership. This includes decisions with respect to, sales and purchases of hotels, the financing of the hotels, the leasing of the hotels, and capital expenditures for the hotels (subject to the terms of the leases and the management agreements described below).

Under current federal income tax law, REITs are restricted in their ability to derive revenues directly from the operations of hotels. Therefore, the operating partnership and its subsidiaries lease virtually all of their hotels to certain entities we refer to as the "lessees." The lessees pay rent to the operating partnership and its subsidiaries generally equal to a specified minimum rent plus rent based on specified percentages of different categories of aggregate sales at the relevant hotels to the extent such "percentage rent" would exceed the minimum rent. The lessees operate the hotels pursuant to management agreements with the managers. Each of the management agreements provides for certain base and incentive management fees, plus reimbursement of certain costs, as further described below. Such fee and cost reimbursements are the primary obligation of the lessees and not the operating partnership or its subsidiaries (although operating partnership or its subsidiaries remain liable under the management agreements and the obligation of the lessees to pay such fees could adversely affect the ability of the lessees to pay the required rent to the operating partnership or its subsidiaries). A summary of the material terms of these leases and management agreements is provided below.

The leases, through the sales percentage rent provisions, are designed to allow the operating partnership and its subsidiaries to participate in any growth above specified levels in room sales at the hotels, which management expects can be achieved through increases in room rates and occupancy levels. Although the economic trends affecting the hotel industry will be the major factor in generating growth in lease revenues, the abilities of the lessees and the managers will also have a material impact on future sales growth.

In addition to external growth generated by new acquisitions, the operating partnership intends to carefully and periodically review its portfolio to identify opportunities to selectively enhance existing assets to improve operating performance through major capital improvements. The leases of the operating partnership and its subsidiaries provide the operating partnership and its subsidiaries with the right to approve and finance major capital improvements.

Business Strategy

Our primary objective is to acquire upscale and luxury full service hotel lodging properties and achieve long-term sustainable growth in "Funds from Operations" (i.e., net income computed in accordance with generally accepted accounting principles, excluding gains or losses from debt restructuring and sales of properties, plus real estate related depreciation and amortization, and after adjustments for less than 100% owned partnerships and joint ventures) per common share and cash flow. Since the beginning of 1994 through the date hereof, we have grown our hotel portfolio, directly or through our respective subsidiaries, by 105 full-service hotels representing more than 48,000 rooms for an aggregate purchase price of approximately $6.2 billion. Based upon data provided by Smith Travel Research, we believe that our full-service hotels outperform the industry's average occupancy rate by a significant margin. Our full-service hotels averaged 78.8% occupancy for 1998, for comparable properties, compared to a 71.1% average occupancy for our competitive set. Our competitive set

refers to hotels in the upscale and luxury full-service segment of the lodging industry, the segment which is most representative of our full-service hotels, and consists of Marriott Hotels, Resorts and Suites; Crowne Plaza; Doubletree; Hyatt; Hilton; Radisson; Red Lion; Sheraton; Westin; and Wyndham.

One commonly used indicator of market performance for hotels is REVPAR, which measures daily room revenues generated on a per room basis. This does not include food and beverage or other ancillary revenues generated by the property. REVPAR represents the product of the average daily room rate charged and the average daily occupancy achieved. The relatively high occupancy rates of our hotels, along with increased demand for full-service hotel rooms, have allowed the managers of our hotels to increase average daily room rates by selectively raising room rates and by replacing certain discounted group business with higher-rate group and transient business. As a result, on a comparable basis, REVPAR for our full-service properties increased approximately 7.3% and 12.6% in 1998 and 1997, respectively.

Although competition for acquisitions has increased, we believe that the upscale and luxury full-service segments of the market offer opportunities to acquire assets at attractive multiples of cash flow and at discounts to replacement value. We intend to increase our pool of potential acquisition candidates by considering acquisitions of select non-Marriott and non-Ritz-Carlton hotels that offer long-term growth potential and are consistent with the overall quality of our current portfolio. We will focus on upscale and luxury full-service properties in difficult to duplicate locations with high barriers to entry, such as hotels located in downtown, airport and resort/convention locations, which are operated by quality managers. We believe this ability to acquire hotel properties operated by a variety of quality managers under long-term contracts represents a strategic advantage over a number of competitors. For example, in December 1998, we consummated the Blackstone Acquisition for approximately $1.55 billion in a combination of OP Units, assumed debt, and other consideration.

In certain circumstances, we have improved the results of under-performing hotels by converting them to the Marriott brand. In general, based upon data provided by Smith Travel Research, we believe that the Marriott brand has consistently outperformed the industry. Demonstrating the strength of the Marriott brand name, our comparable properties generated a 26% REVPAR premium over our competitive set for 1998. Accordingly, management anticipates that any additional full-service properties acquired in the future and converted from other brands to the Marriott brand should achieve higher occupancy rates and average room rates than has previously been the case for those properties as the properties begin to benefit from Marriott's brand name recognition, reservation system and group sales organization. Of our 105 full-service hotels acquired from the beginning of 1994 through the date hereof, sixteen were converted to the Marriott brand following their acquisition although such opportunities have been more limited recently.

We also plan to selectively develop new upscale and luxury full-service hotels in major urban markets and convention/resort locations with strong growth prospects, unique or difficult to duplicate sites, high barriers to entry for other new hotels and limited new supply. We intend to target only development projects that show promise of providing financial returns that represent a premium to acquisitions. In 1997, Host Marriott announced that it would develop the 717-room Tampa Convention Center Marriott for $104 million, including a $16 million subsidy provided by the City of Tampa.

We believe we are well qualified to pursue our acquisition and development strategy. Management has extensive experience in acquiring and financing lodging properties and believes its industry knowledge, relationships and access to market information provide a competitive advantage with respect to identifying, evaluating and acquiring hotel assets.

Recent Acquisitions, Dispositions and Developments

In January 1998, one of our subsidiaries acquired an additional interest in Atlanta Marquis, which owns an interest in the 1,671-room Atlanta Marriott Marquis Hotel, for approximately $239 million, including the assumption of approximately $164 million of mortgage debt. It previously owned a 1.3% general and limited partnership interest. As noted above, the remaining limited partner interests in Atlanta Marquis were acquired as part of the REIT conversion.

In March 1998, one of our subsidiaries acquired a controlling interest in the partnership that owns three hotels: the 359-room Albany Marriott, the 350-room San Diego Marriott Mission Valley and the 320-room Minneapolis Marriott Southwest for approximately $50 million. In the second quarter of 1998, one of our subsidiaries acquired the partnership that owns the 289-room Park Ridge Marriott in Park Ridge, New Jersey for $24 million. It previously owned a 1% managing general partner interest and a note receivable interest in such partnership. In addition, our subsidiary acquired the 281-room Ritz-Carlton, Phoenix for $75 million, the 397-room Ritz-Carlton, Tysons Corner in Virginia for $96 million and the 487-room Torrance Marriott near Los Angeles, California for $52 million. In the third quarter of 1998, Host Marriott acquired the 308-room Ritz-Carlton, Dearborn for approximately $65 million; a subsidiary of Host Marriott also acquired the 336-room Ritz-Carlton, San Francisco for approximately $161 million, and Host Marriott acquired the 404-room Memphis Crowne Plaza (which was converted to the Marriott brand upon acquisition) for approximately $16 million. These assets are currently held by the operating partnership and its subsidiaries.

As noted above, in December 1998, we completed acquisitions of eight public partnerships and interests in four private partnerships which own or control 28 properties and we consummated the Blackstone Acquisition. The Blackstone hotel portfolio is one of the premier collections of hotel real estate properties which includes: the 449-room Ritz-Carlton, Amelia Island; the 275-room Ritz-Carlton, Boston; the 793-room Hyatt Regency Burlingame at San Francisco Airport; the 469-room Hyatt Regency Cambridge, Boston; the 514-room Hyatt Regency Reston, Virginia; the 439-room Grand Hyatt Atlanta; the 365-room Four Seasons Philadelphia; the 246-room Four Seasons Atlanta; the 494-room Drake (Swissotel) New York; the 630-room Swissotel Chicago; the 498-room Swissotel Boston and the 348-room Swissotel Atlanta. Additionally, the transaction included: a $65.6 million first mortgage loan on the 285-room Four Seasons Beverly Hills; two office buildings in Atlanta--the offices at The Grand (97,879 sq. ft.) and the offices at the Swissotel (67,110 sq. ft.); and a 25% interest in the Swissotel U.S. management company (which was transferred to Crestline).

During 1997, we or our subsidiaries acquired, or purchased controlling interests in, 17 full-service hotels, containing 8,624 rooms, for an aggregate purchase price of approximately $765 million (including the assumption of approximately $418 million of debt). Our subsidiaries also completed the acquisition of the 504-room New York Marriott Financial Center following the acquisition of the mortgage on the hotel for $101 million in late 1996.

In 1997, we or our subsidiaries acquired, or obtained controlling interests in, five affiliated partnerships, adding 10 hotels to our portfolio. In January 1997, a subsidiary of Host Marriott acquired a controlling interest in MHP. MHP owns the 1,503-room Marriott Orlando World Center and a 50.5% interest in the 624-room Marriott Harbor Beach Resort. In April, a subsidiary of Host Marriott acquired a controlling interest in the 353-room Hanover Marriott. In the fourth quarter, a subsidiary of Host Marriott acquired the Chesapeake Hotel Limited Partnership. This partnership owns the 430-room Boston Marriott Newton; the 681-room Chicago Marriott O'Hare; the 595-room Denver Marriott Southeast; the 588-room Key Bridge Marriott in Virginia; the 479-room Minneapolis Airport Marriott in Minnesota; and the 221-room Saddle Brook Marriott in New Jersey. In December 1997, a subsidiary obtained a controlling interest in the partnership that owns the 884-room Marriott's Desert Springs Resort and Spa in California and acquired the remaining interests in December 1998 as part of the REIT conversion.

In addition to investments in partnerships in which we already held minority interests, we have been successful in adding properties to our portfolio through partnership arrangements with either the seller of the property or the incoming managers (typically Marriott International or a Marriott franchisee). We have the financial flexibility and, due to our existing private partnership investment portfolio, the administrative infrastructure in place to accommodate such arrangements. We view this ability as a competitive advantage and expect to enter into similar arrangements to acquire additional properties in the future.

Through subsidiaries, we currently own four Canadian properties, with 1,636 rooms, and will continue to evaluate other attractive acquisition opportunities in Canada. In addition, the overbuilding and economic stress currently being experienced in some European and Pacific Rim countries may eventually lead to additional

international acquisition opportunities. We will acquire international properties only when such acquisitions achieve satisfactory returns after adjustments for currency and country risks and tax consequences.

We may also expand certain existing hotel properties where strong performance and market demand exists. Expansions to existing properties create a lower risk to us as the success of the market is generally known and development time is significantly shorter than new construction. We recently began construction on a 500-room expansion and an additional 15,000 square feet of meeting space to the 1,503-room Marriott Orlando World Center, which is due to be completed in early 2000. In July 1998, a subsidiary purchased a 13-acre parcel of land for the development of a 295-room Ritz-Carlton that will serve as an extension of the 463-room Ritz-Carlton, Naples, which was purchased in September 1996. The existing hotel just completed room, restaurant and public space refurbishment and is in the process of adding a world-class spa. In addition, a subsidiary of one of the non-controlled subsidiaries has entered into a joint venture through which it owns 49% of the surrounding newly developed 27-hole world-class Greg Norman designed golf course development. The golf course joint venture was transferred to a non-controlled subsidiary in connection with the REIT conversion. The total investment by the operating partnership in expansions and improvements of the Ritz-Carlton, Naples property is expected to be approximately $97 million.

In February 1999, we sold the Minneapolis/Bloomington Marriott for $35 million and recorded a gain on the sale of approximately $13 million. We also may selectively dispose of other hotel assets where we believe we can earn higher returns on our invested capital.

Hotel Lodging Industry

The lodging industry posted strong gains in 1998 as higher average daily rates drove increases in revenue per available room, or REVPAR. Over the last five years, the lodging industry has benefited from a favorable supply/demand imbalance, driven in part by low construction levels in our submarkets combined with high gross domestic product (GDP) growth. Recently, however, supply has begun to moderately outpace demand, causing slight declines in occupancy rates in the upscale and luxury full-service segments in which we operate. According to Smith Travel Research, supply in our competitive set increased 1.2% for the year ended December 31, 1998 versus the same period one year ago while demand in our competitive set decreased 0.3% for the same period. At the same time, occupancy declined 1.5% in our competitive set for the year ended December 31, 1998 versus the same period one year ago.

These declines in occupancy, however, were more than offset by increases in average daily rates which generated higher REVPAR. According to Smith Travel Research, for the year ended December 31, 1998, average daily rate and REVPAR for our competitive set increased 6.5% and 5.0%, respectively, versus the same period one year ago. The current amount of excess supply in the lodging industry is relatively moderate and much less severe than that experienced in the lodging industry beginning in 1989, in part because of the greater financial discipline and lending practices imposed by financial institutions and public markets today relative to those during the late 1980's.

Within the upscale and luxury full-service segment, our hotels have outperformed the overall sector. The attractive locations of our hotels, the limited availability of new building sites for new construction of competing full-service hotels, and the lack of availability of financing for new full-service hotels has allowed us to maintain REVPAR and average daily rate premiums over our competitors in these service segments. On a comparable basis, average daily rates for our full service hotels increased 6.9% during 1998 compared with 1997. The increase in average daily rate helped generate a strong increase in comparable hotel REVPAR of 7.3% for the same period. Furthermore, because our lodging operations have a high fixed-cost component, increases in REVPAR generally yield greater percentage increases in EBITDA. While we do not benefit directly from increases in EBITDA levels at our properties due to the structure of our leases, we should benefit from such increases due to expected higher market valuations of our properties based on such elevated EBITDA levels.

We believe that the current environment of excess supply will most likely continue over the next twelve to eighteen months, although any excess supply is expected to be moderate given the fact that demand is expected to grow at the same 1% to 2% rate as projected GDP and new construction has been limited by capital constraints. Given the relatively long lead time to develop urban, convention and resort hotels, we believe that growth in room supply in upscale and luxury full-service sub-markets in which we operate will remain moderate through the year 2000. However, there can be no assurance that growth in supply will remain moderate or that REVPAR and EBITDA will continue to improve.

Hotel Lodging Properties

Our lodging portfolio currently consists of 125 upscale and luxury full service hotels with approximately 58,000 rooms. Our hotel lodging properties represent quality assets in the upscale and luxury full-service lodging segments. All but thirteen of our hotel properties are currently operated under the Marriott or Ritz-Carlton brand names.

To maintain the overall quality of our lodging properties, each property undergoes refurbishments and capital improvements on a regularly scheduled basis. Typically, refurbishing has been provided at intervals of five years, based on an annual review of the condition of each property. For the fiscal years 1998, 1997 and 1996, we spent $165 million, $129 million and $87 million, respectively, on capital improvements to existing properties. As a result of these expenditures, we will be able to maintain high quality rooms at our properties.

Our hotels average nearly 465 rooms. Thirteen of our hotels have more than 750 rooms. Hotel facilities typically include meeting and banquet facilities, a variety of restaurants and lounges, swimming pools, gift shops and parking facilities. Our hotels primarily serve business and pleasure travelers and group meetings at locations in downtown and suburban areas, near airports and at resort convention locations throughout the United States. The properties are generally well situated in locations where there are significant barriers to entry by competitors including downtown areas of major metropolitan cities at airports and resort/convention locations where there are limited or no development sites. Marriott International serves as the manager for 99 of our 125 hotels and all but 13 are part of Marriott International's full-service hotel system. The Marriott brand name has consistently delivered occupancy and REVPAR premiums over other brands. Based upon data provided by Smith Travel Research, our comparable properties have an eight percentage point occupancy premium and a 26% REVPAR premium over the competitive set for 1998.

The average age of our properties is sixteen years, although several of the properties have had substantial, more recent renovations or major additions. In 1998, a subsidiary substantially completed a two-year $25 million dollar capital improvement program at the New Orleans Marriott which included renovations to all guest rooms, refurbishment of ballrooms and restaurant updates. In early 1998, a subsidiary of Host Marriott completed a $15 million capital improvement program at the Denver Marriott Tech Center. The program included replacement of guestroom interiors, remodeling of the lobby, ballroom, meeting rooms and corridors, as well as renovations to the exterior of the building.

A number of our full-service hotel acquisitions such as the Memphis Marriott which was acquired in 1998 were converted to the Marriott brand upon acquisition. The conversion of these properties to the Marriott brand is intended to increase occupancy and room rates as a result of Marriott International's nationwide marketing and reservation systems, its Marriott Rewards program, group sales force, as well as customer recognition of the Marriott brand name. The invested capital with respect to these properties is primarily used for the improvement of common areas, as well as upgrading soft and hard goods (i.e., carpets, drapes, paint, furniture and additional amenities). The conversion process typically causes periods of disruption to these properties as selected rooms and common areas are temporarily taken out of service. Historically, the conversion properties have shown improvements as the benefits of Marriott International's marketing and reservation programs, group sales force and customer service initiatives take hold. In addition, these properties have generally been integrated into Marriott International's systems covering purchasing and distribution, insurance, telecommunications and payroll processing.

The chart below sets forth performance information for our comparable hotels:

	1998	1997
Comparable Full-Service Hotels(1)		
Number of properties	78	78
Number of rooms	38,589	38,589
Average daily rate	$142.67	$133.45
Occupancy percentage	78.8%	78.5%
REVPAR	$112.39	$104.79
REVPAR % change	7.3%	--

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(1) Consists of the 78 properties owned directly or indirectly by us for the entire 1998 and 1997 fiscal years, respectively. These properties, for the respective periods, represent the "comparable properties". Properties held for less than all of the periods discussed above, respectively, are not considered comparable.

The chart below sets forth certain performance information for our hotels:

	1998	1997	1996
Number of properties	126(1)	95	79
Number of rooms	58,445(1)	45,718	37,210
Average daily rate	$140.35	$133.74	$119.94
Occupancy percentage	77.7%	78.4%	77.3%
REVPAR	$109.06	$104.84	$ 92.71

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(1) Number of properties and rooms as of December 31, 1998 and includes 25 properties (9,965 rooms) acquired in the public partnerships merger and the Blackstone Acquisition.

The following table presents full service hotel information by geographic region for 1998:

Geographic Region	Number of Hotels	Average Number of Guest Rooms	Average Occupancy(1)	Average Daily Rate(1)	REVPAR(1)
Atlanta	11	486	72.3%	$139.25	$100.67
Florida	13	513	78.9%	141.22	111.45
Mid-Atlantic	17	364	76.5%	122.56	93.75
Midwest	17	369	74.5%	114.71	85.41
New York	12	631	85.2%	183.21	156.18
Northeast	11	379	78.9%	107.93	85.13
South Central	18	497	77.0%	123.94	95.46
Western	27	491	78.1%	150.80	117.76
Average--All regions	126	463	78.0%	140.38	109.44

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(1) The operating results of the 25 properties acquired through the Blackstone Acquisition and the merger of the public partnerships are not included.

During 1995 and 1996, we divested virtually all of our limited-service hotel properties through the sale and leaseback of 53 Courtyard properties and 18 Residence Inn properties. During 1998, limited-service properties represented less than 2% of our EBITDA from hotel properties and we expect this percentage to continue to decrease as we continue to acquire full service properties. These 71 properties that we lease continue to be reflected in our revenues. The Courtyard and Residence Inn properties are subleased to subsidiaries of Crestline under sublease agreements and are managed by Marriott International under long-term management agreements. The owners of the 71 limited-services properties that we lease have not yet consented to the subleases but have agreed to waive any defaults under the related leases until April 23, 1999, to provide us with additional time to obtain such consents (which could require modifications in the terms of the sublease and structural or other changes related thereto). If such consents are not obtained, we may be required to terminate the subleases and

contribute to a non-controlled subsidiary our equity interests in the subsidiaries leasing the properties. This change would have the effect of reducing our revenues by $297 million and $282 million for 1998 and 1997, respectively, and increasing our net income by approximately $5 million and $4 million for 1998 and 1997, respectively.

The following table sets forth as of March 1, 1999, the location and number of rooms relating to each of our 125 hotels. All of the properties are leased to a subsidiary of Crestline and operated under Marriott brands by Marriott International, unless otherwise indicated.

Location	Rooms
Alabama	
Grand Hotel Resort and Golf Club	306
Arizona	
Mountain Shadows Resort	337
Scottsdale Suites	251
The Ritz-Carlton, Phoenix	281
California	
Coronado Island Resort(1)(2)	300
Costa Mesa Suites	253
Desert Springs Resort and Spa	884
Fullerton(2)	224
Hyatt Regency, Burlingame(3)	793
Manhattan Beach(1)(2)(4)	380
Marina Beach(1)(2)	368
Newport Beach	570
Newport Beach Suites	250
Ontario Airport(4)	299
Sacramento Airport(2)(3)(7)	85
San Diego Marriott Hotel and Marina(2)(6)	1,355
San Diego Mission Valley(4)(7)	350
San Francisco Airport	684
San Francisco Fisherman's Wharf(4)	285
San Francisco Moscone Center(2)	1,498
San Ramon(2)	368
Santa Clara(2)	754
The Ritz-Carlton, Marina del Rey(2)	306
The Ritz-Carlton, San Francisco	336
Torrance	487
Colorado	
Denver Southeast(2)	595
Denver Tech Center(1)	625
Denver West(2)	307
Marriott's Mountain Resort at Vail(1)	349
Connecticut	
Hartford/Farmington	380
Hartford/Rocky Hill(2)	251
Florida	
Fort Lauderdale Marina(2)	580
Harbor Beach Resort(2)(5)(6)(7)	624
Jacksonville(2)(4)	256
Miami Airport(2)	782
Miami Biscayne Bay(2)	605
Orlando World Center	1,503
Palm Beach Gardens(4)	279
Singer Island Holiday Inn(3)	222
Tampa Airport(2)	295
Tampa Westshore(2)	309
The Ritz-Carlton, Amelia Island	449
The Ritz-Carlton, Naples	463
Georgia	
Atlanta Marriott Marquis(6)	1,671
Atlanta Midtown Suites(2)	254
Georgia (Continued)	
Atlanta Norcross	222
Atlanta Northwest	400
Atlanta Perimeter(2)	400
Four Seasons, Atlanta(3)	246
Grand Hyatt, Atlanta(3)	439
JW Marriott Hotel at Lenox(2)	371
Swissotel, Atlanta(3)	348
The Ritz-Carlton, Atlanta(2)	447
The Ritz-Carlton, Buckhead	553
Illinois	
Chicago/Deerfield Suites	248
Chicago/Downers Grove Suites	254

Chicago/Downtown Courtyard	334
Chicago O'Hare(2)	681
Chicago O'Hare Suites(2)	256
Swissotel, Chicago(3)	630
Indiana	
South Bend(2)	300
Louisiana	
New Orleans	1,290
Maryland	
Bethesda(2)	407
Gaithersburg/Washingtonian Center	284
Massachusetts	
Boston/Newton	430
Hyatt Regency, Cambridge(3)	469
Swissotel, Boston(3)	498
The Ritz-Carlton, Boston	275
Michigan	
The Ritz-Carlton, Dearborn	308
Detroit Livonia	224
Detroit Romulus	245
Detroit Southfield	226
Minnesota	
Minneapolis City Center(2)	583
Minneapolis Southwest(4)(7)	320
Missouri	
Kansas City Airport(2)	382
New Hampshire	
Nashua	251
New Jersey	
Hanover	353
Newark Airport(2)	590
Park Ridge(2)	289
Saddle Brook	221
New Mexico	
Albuquerque(2)	411
New York	
Albany(4)(7)	359
New York Marriott Financial Center	504
New York Marriott Marquis(2)(6)	1,919
Marriott World Trade Center(1)(2)	820
Swissotel, The Drake(3)	494

Location	Rooms
North Carolina	
Charlotte Executive Park(4)	298
Greensboro/Highpoint(2)	299
Raleigh Crabtree Valley	375
Research Triangle Park	224
Ohio	
Dayton	399
Oklahoma	
Oklahoma City	354
Oklahoma City Waterford(1)(4)	197
Oregon	
Portland	503
Pennsylvania	
Four Seasons, Philadelphia(3)	365
Philadelphia Convention Center(2)	1,200
Philadelphia Airport(2)	419
Pittsburgh City Center(1)(2)(4)	400
Tennessee	
Memphis(1)(2)	404
Texas	
Dallas/Fort Worth Airport	492
Dallas Quorum(2)	547
El Paso(2)	296
Houston Airport(2)	566
Houston Medical Center(2)	386
JW Marriott Houston	503
Plaza San Antonio(1)(2)(4)	252
San Antonio Rivercenter(2)	999
San Antonio Riverwalk(2)	500
Utah	
Salt Lake City(2)	510
Virginia	
Dulles Airport(2)	370
Fairview Park(2)	395
Hyatt Regency, Reston(3)	514
Key Bridge(2)	588
Norfolk Waterside(2)(4)	404
Pentagon City Residence Inn	300
The Ritz-Carlton, Tysons Corner(2)	397
Washington Dulles Suites	254
Westfields(1)	335
Williamsburg(1)	295
Washington	
Seattle SeaTac Airport	459
Washington, DC	
Washington Metro Center(1)	456
Canada	
Calgary(1)	380
Toronto Airport	423
Toronto Eaton Center(2)	459
Toronto Delta Meadowvale(3)	374
TOTAL	57,975

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(1) This property was converted to the Marriott brand after acquisition.
(2) The land on which this hotel is built is leased under one or more long-term lease agreements.
(3) This property is not operated under the Marriott brand and is not managed by Marriott International.
(4) This property is operated as a Marriott franchised property.
(5) This property is leased to Marriott International.
(6) This property is not wholly owned by the operating partnership.
(7) This property is not leased to Crestline.

Investments in Affiliated Partnerships

The operating partnership and certain of its subsidiaries also manage our partnership investments and conduct the partnership services business. As previously discussed, in connection with the REIT conversion, the non-controlled subsidiaries were formed to hold various assets. The direct ownership of those assets by us or the operating partnership could jeopardize our status as a REIT or the operating partnership's treatment as a partnership for federal income tax purposes. Substantially all our general and limited partner interests in partnerships owning 220 limited-service hotels were held by the non-controlled subsidiaries at year end. Additionally, of the 20 full-service hotels in which we had general and limited partner interests 13 were acquired by the operating partnership, two were sold, four were transferred to

the non-controlled subsidiary and one was retained.

The managing general partner of the partnership retained is responsible for the day-to-day management of the partnership operations, which generally includes payment of partnership obligations from partnership funds, preparation of financial reports and tax returns and communications with lenders, limited partners and regulatory bodies. As the general partner, we are reimbursed for the cost of providing these services subject to limitations in certain cases.

The partnership hotel is currently operated under a management agreement with Marriott International or its subsidiaries. As the general partner, we oversee and monitor Marriott International and its subsidiaries' performance pursuant to these agreements.

Cash distributions provided from these partnerships including distributions related to partnerships sold, transferred or acquired in 1998 are tied to the overall performance of the underlying properties and the overall level of debt. Distributions from these partnerships to us were $2 million in 1998 and $5 million in each of 1997 and 1996. All debt of these partnerships is nonrecourse to us and our subsidiaries, except that we are contingently liable under various guarantees of debt obligations of certain of the limited-service partnerships.

Marketing

As of March 1, 1999, 99 of our 125 hotel properties were managed by Marriott International as Marriott or Ritz-Carlton brand hotels. Thirteen of the 26 remaining hotels are operated as Marriott brand hotels under franchise agreements with Marriott International. We believe that these Marriott-managed and franchised properties will continue to enjoy competitive advantages arising from their participation in the Marriott International hotel system. Marriott International's nationwide marketing programs and reservation systems as well as the advantage of the strong customer preference for Marriott brands should also help these properties to maintain or increase their premium over competitors in both occupancy and room rates. Repeat guest business in the Marriott hotel system is enhanced by the Marriott Rewards program, which expanded the previous Marriott Honored Guest Awards program. Marriott Rewards membership includes more than 7.5 million members.

The Marriott reservation system provides Marriott reservation agents complete descriptions of the rooms available for sale and up-to-date rate information from the properties. The reservation system also features connectivity to airline reservation systems, providing travel agents with access to available rooms inventory for all Marriott and Ritz-Carlton lodging properties. In addition, software at Marriott's centralized reservations centers enables agents to immediately identify the nearest Marriott or Ritz-Carlton brand property with available rooms when a caller's first choice is fully occupied. Our website (www.hostmarriott.com) currently permits users to connect to the Marriott reservation system to reserve rooms in its hotels.

Competition

Our hotels compete with several other major lodging brands in each segment in which they operate. Competition in the industry is based primarily on the level of service, quality of accommodations, convenience of locations and room rates. Although the competitive position of each of our hotel properties differs from market to market, we believe that our properties compare favorably to their competitive set in the markets in which they operate on the basis of these factors. The following table presents key participants in segments of the lodging industry in which we compete:

Segment	Representative Participants
Luxury Full-Service	Ritz-Carlton; Four Seasons
Upscale Full-Service	Crown Plaza; Doubletree; Hyatt; Hilton; Marriott Hotels, Resort and Suites; Radisson; Red Lion; Sheraton; Swissotel; Westin; Wyndham

Other Real Estate Investments

We have lease and sublease activity relating primarily to Host Marriott's former restaurant operations. Additionally, as part of the Blackstone Acquisition, we acquired 165,000 square feet of office space in two buildings in Atlanta. Prior to the REIT conversion, we owned 12 undeveloped parcels of vacant land, totaling approximately 83 acres, originally purchased primarily for the development of hotels or senior living communities, which are now owned by one of the non-controlled subsidiaries.

Employees

We are managed by our Board of Directors and we have no employees who are not employees of the operating partnership.

Currently, the operating partnership has approximately 175 management employees, and approximately 16 other employees which are covered by a collective bargaining agreement that are subject to review and renewal on a regular basis. We believe that we and our managers have good relations with labor unions and have not experienced any material business interruptions as a result of labor disputes.

Environmental and Regulatory Matters

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such property. Such laws may impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. In addition, certain environmental laws and common law principles could be used to impose liability for release of asbestos-containing materials, and third parties may seek recovery from owners or operators of real properties for personal injury associated with exposure to released asbestos-containing materials. Environmental laws also may impose restrictions on the manner in which property may be used or business may be operated, and these restrictions may require expenditures. In connection with our current or prior ownership or operation of hotels, we may be potentially liable for any such costs or liabilities. Although we are currently not aware of any material environmental claims pending or threatened against us, no assurance can be given that a material environmental claim will not be asserted against us.

The Leases

In order for us to qualify as a REIT and for the operating partnership to be treated as a partnership for federal income tax purposes, neither we nor the operating partnership may operate our hotels or related properties. Accordingly, we lease the hotels to the lessees, which are primarily wholly owned, indirect subsidiaries of Crestline.

Lessees. There generally is a separate lessee for each hotel or group of hotels that is owned by a separate subsidiary of the operating partnership. Each lessee is generally a Delaware limited liability company, whose purpose is limited to acting as lessee under the applicable lease(s).

For those hotels where it is the manager, Marriott International or a subsidiary has a non-economic membership interest in the lessee entitling it to certain voting rights but no economic rights. The operating agreements for such lessees provide that the Crestline member of the lessee has full control over the management of the business of the lessee, except with respect to certain decisions for which the consent of the members or partners and the manager are required. These decisions are:

- dissolving, liquidating, consolidating, merging, selling or leasing all or substantially all of the assets of the lessee;
- engaging in any other business or acquiring any assets or incurring any liabilities not reasonably related to the conduct of the lessee's business;
- instituting voluntary bankruptcy or similar proceedings or consenting to involuntary bankruptcy or similar proceedings;
- terminating the management agreement relating to the lessee's hotel, other than by reason of a breach by the manager or upon exercise of express termination rights in the management agreement;
- challenging the status or rights of the manager or the enforceability of the manager's consent rights; or
- incurring debt in excess of certain limits.

Upon any termination of the applicable management agreement, these special voting rights of Marriott International (or its subsidiary) will cease.

Lease terms. Each lease has a fixed term ranging generally from seven to ten years, depending upon the lease, subject to earlier termination upon the occurrence of certain contingencies described in the lease, including, particularly, the provisions described below under "--Damage or Destruction," "--Termination of the Leases upon Disposition of Full-Service Hotels" and "--Termination of the Leases upon Changes in Tax Laws".

Minimum rent; percentage rent; additional charges. Each lease requires the lessee to pay (1) minimum rent in a fixed dollar amount per annum plus (2) to the extent it exceeds minimum rent, percentage rent based upon specified percentages of aggregate sales from the applicable hotel, including room sales, food and beverage sales and other income ("Gross Revenues"), in excess of specified thresholds.

Minimum rent is a fixed dollar amount specified in each lease less the FF&E adjustment (which is described under "--Personal Property Limitation" below). Any amounts other than minimum rent and percentage rent due to the lessor under the leases are referred to as "additional charges".

The amount of minimum rent and the percentage rent thresholds are to be adjusted each year. The annual adjustment with respect to minimum rent equals a percentage of any increase in the Consumer Price Index, or CPI, during the previous twelve months. The annual adjustment with respect to percentage rent thresholds is a specified percentage equal to the weighted average of a percentage of any increase in CPI plus a specified percentage of any increase in a regional labor cost index agreed upon by the lessor and the lessee during the previous twelve months. Neither minimum rent nor percentage rent thresholds will be decreased because of the annual adjustment.

Rental payments will be made on a fiscal year basis. The "fiscal year" means the fiscal year used by the manager. Payments of rent are to be made within two business days after the required payment date under the management agreement for each accounting period. "Accounting period" means, for those hotels where Marriott International is the manager, any of the thirteen four-week accounting periods which are used in the manager's accounting system. Rent payable for each accounting period will be the sum of (1) the excess (if any) of (x) the greater of cumulative minimum rent year-to-date or cumulative percentage rent year-to-date over (y) the total amount of minimum rent and percentage rent paid year-to-date plus (2) any additional charges due. If the total amount of minimum rent and percentage rent paid year-to-date, as of any rent payment date, is greater than both cumulative minimum rent year-to-date and cumulative percentage rent year-to-date, then the lessor must remit the difference to the lessee.

The leases generally provide for a rent adjustment in the event of damage, destruction, partial taking, certain capital expenditures or an FF&E adjustment.

Lessee expenses. Each lessee is responsible for paying all of the expenses of operating the applicable hotel(s), including all personnel costs, utility costs and general repair and maintenance of the hotel(s). The lessee also is responsible for all fees payable to the applicable manager, including base and incentive management fees, chain services payments and franchise or system fees, with respect to periods covered by the term of the lease. The lessee is not obligated to bear the cost of any capital improvements or capital repairs to the hotels or the other expenses to be borne by the lessor, as described below.

Lessor expenses. The lessor (typically, the operating partnership or its subsidiary) is responsible for the following expenses: real estate taxes, personal property taxes (to the extent the lessor owns the personal property), casualty insurance on the structures, ground lease rent payments, required expenditures for FF&E (including maintaining the FF&E reserve, to the extent such is required by the applicable management agreement) and capital expenditures.

The consent of the lessor is required for any capital expenditures (except in an emergency or where the owner's consent is not required under the management agreement) or a change in the amount of the FF&E reserve payment.

Crestline guarantee. Crestline and certain of its subsidiaries have entered into a limited guarantee of the lease and management agreement obligations of each lessee. For each of four identified "pools" of hotels, the cumulative limit of the guarantee at any time is 10% of the aggregate rents under all leases in such pool paid with respect to the preceding thirteen full accounting periods (with an annualized amount based upon the minimum rent for those leases that have not been in effect for thirteen full accounting periods). In the event of a payment default under any lease or failure of Crestline to maintain certain minimum net worth or debt service coverage ratios, the obligations under the guarantees of leases in each pool are secured by excess cash flow of each lessee in such pool. Such excess cash flow will be collected, held in a cash collateral account, and disbursed in accordance with agreed cash management procedures.

Security. The obligations of the lessee are secured by a pledge of all personal property (tangible and intangible) of the lessee related to or used in connection with the operation of the hotels (including any cash and receivables from the manager or others held by the lessee as part of working capital).

Working capital. Each lessor sold the existing working capital, including inventory and fixed asset supplies (as defined in the Uniform System of Accounts for Hotels) and receivables due from the manager, net of accounts payable and accrued expenses to the applicable lessee upon the commencement of the lease at a price equal to the fair market value of such assets. The purchase price is represented by a note evidencing a loan that bears interest at a rate per annum equal to the long-term applicable federal rate in effect on the commencement of the lease. Interest owed on the working capital loan is due simultaneously with each periodic rent payment and the amount of each payment of interest will be credited against such rent payment. The principal amount of the working capital loan will be payable upon termination of the lease. At the termination or expiration of the lease, the lessee will sell to the lessor the then existing working capital at a price equal to the value of such assets at that time. The lessor will pay the purchase price of the working capital by offsetting the purchase price against the outstanding principal balance of the working capital loan. To the extent that the value of the working capital delivered to the lessor exceeds the value of the working capital delivered by the lessor to the lessee at the commencement of the lease, the lessor will pay to the lessee an amount equal to the difference in cash. To the extent that the value of the working capital delivered to the lessor is less than the value of the working capital delivered by the lessor to the lessee at the commencement of the lease, the lessee will pay to the lessor an amount equal to the difference in cash.

Termination of leases upon disposition of full-service hotels. In the event the applicable lessor enters into an agreement to sell or otherwise transfer any full-service hotel free and clear of the applicable lease, the lessor must pay the lessee a termination fee equal to the fair market value of the lessee's leasehold interest for the remaining term of the lease. For purposes of determining the fair market value, a discount rate of 12% will be used, and the annual income for each remaining year of the lease will be assumed to be the average annual income generated by the lessee during the three fiscal years preceding the termination date or if the hotel has not been in operation for at least three fiscal years, then the average during the preceding fiscal years that have elapsed, and if the hotel has not been in operation for at least twelve months, then the assumed annual income shall be determined on a pro forma basis. Alternatively, the lessor would be entitled to (1) substitute a comparable hotel or hotels (in terms of economics and quality for the lessor and the lessee as agreed to by the lessee) for any hotel that is sold or (2) sell the hotel subject to the lease (subject to the lessee's reasonable approval if the sale is to an entity that does not have sufficient financial resources and liquidity to fulfill the "owner's" obligations under the management agreement and the lessor's obligations under the lease, or does not satisfy specified character standards) without being required to pay a termination fee. In addition, the lessors collectively and the lessees collectively each have the right to terminate up to twelve leases without being required to pay any fee or other compensation as a result of such termination, but the lessors are permitted to exercise such right only in connection with sales of hotels to an unrelated third party or the transfer of a hotel to a joint venture in which the operating partnership does not have a two-thirds or greater interest.

Termination of the leases upon changes in tax laws. In the event that changes in the federal income tax laws allow the lessors, or subsidiaries or affiliates of the lessors, to directly operate the hotels without jeopardizing our status as a REIT, the lessors have the right to terminate all, but not less than all, of the leases

(excluding leases of hotels that must still be leased following the tax law change) in return for paying the lessees the fair market value of the remaining terms of the leases, valued in the same manner as provided above under "--Termination of Leases upon Disposition of Hotels". The payments are payable in cash or, subject to certain conditions, shares of our common stock, at the election of the lessor and us.

Damage or Destruction. If a hotel is partially or totally destroyed and is no longer suitable for use as a hotel (as reasonably determined by the lessor), the lease of such hotel will automatically terminate and the insurance proceeds will be retained by the lessor, except for any proceeds attributable to personal property owned by the lessee or business interruption insurance. In this event, no termination fee will be owed to the lessee. If a hotel is partially destroyed but is still suitable for use as a hotel (as reasonably determined by the lessor), the lessee, subject to the lessor agreeing to release the insurance proceeds to fund the cost of repair and restoration, must apply the insurance proceeds to restore the hotel to its preexisting condition. The lessor must fund any shortfall in insurance proceeds less than or equal to five percent of the estimated cost of repair. The lessor may fund such deficiency, in its sole discretion, in the event the sum of (a) the insurance proceeds and (b) that portion of the insurance deductible, if any, which is greater than 5% of the cost of repair, is less than 95% of the cost of the repair, provided that if the lessor elects not to fund such shortfall, the lessee may terminate the lease and the lessor must pay to the lessee a termination fee equal to the lessee's operating profit for the immediately preceding fiscal year. The term "lessee's operating profit" shall mean for any fiscal year an amount equal to revenues due to the lessee from the leased property after the payment of all expenses relating to the operation or leasing of the leased property less rent paid to the lessor. If and to the extent any damage or destruction results in a reduction of gross revenues which would otherwise be realizable from the operation of the hotel, the lessor will receive all loss of income insurance and the lessee will have no obligation to pay rent, for any accounting period until the effects of the damage are restored, in excess of the greater of (1) one-thirteenth of the total rent paid in the fiscal year prior to the casualty or (2) percentage rent calculated for the current accounting period.

Events of default. Except as otherwise provided below, and subject to the notice and, in some cases, cure periods in the lease, the lease may be terminated without penalty by the applicable lessor if any of the following events of default (among others) occur:

- Failure to pay rent within ten days after the due date;

- Failure to comply with, or observe any of, the terms of the lease (other than the failure to pay rent) for 30 days after notice from the lessor, including failure to properly maintain the hotel (other than by reason of the failure of the lessor to perform its obligations under the lease), such period to be extended for up to an additional 90 days if such default cannot be cured with due diligence within 30 days;

- Acceleration of maturity of certain indebtedness of the lessee with a principal amount in excess of $1,000,000;

- Failure of Crestline to maintain minimum net worth or debt service coverage ratio requirements;

- Filing of any petition for relief, bankruptcy or liquidation by or against the lessee;

- The lessee voluntarily ceases to operate the hotel for 30 consecutive days, except as a result of a casualty, condemnation or emergency situation;

- A change in control of Crestline, the lessee or any subsidiary of Crestline that is a direct or indirect parent of the lessee. Unless the change in control involves an adverse party which would include a competitor in the hotel business, a party without adequate financial resources, a party that has been convicted of a felony (or controlled by such a person), or a party who would jeopardize our qualification as a REIT, the lessor must pay a termination fee equal to the lessee's operating profit from the hotel for the immediately preceding fiscal year; or

- The lessee, the lessee's direct parent or Crestline defaults under the assignment of management agreement, the guarantees described above, the non-competition agreement described below or certain other related agreements between the parties or their affiliates.

Assignment of lease. A lessee is permitted to sublet all or part of the hotel or assign its interest under its lease, without the consent of the lessor, to any wholly owned and controlled single purpose subsidiary of Crestline, provided that Crestline continues to meet the minimum net worth test and all other requirements of the lease. Transfers to other parties are permitted if approved by the lessor.

Subordination to qualifying mortgage debt. The rights of each lessee are expressly subordinate to qualifying mortgage debt and any refinancing thereof. A default under the loan documents may result in the termination of the lease by the lender. The lender is not required to provide a non-disturbance agreement to the lessee.

The lessor is obligated to compensate the lessee, on a basis equal to the lease termination provision described in "--Termination of Leases upon Disposition of Hotels" above, if the lease is terminated because of a non-monetary default under the terms of a loan that occurs because of an action or omission by the lessor (or its affiliates) or a monetary default where there is not an uncured monetary event of default of the lessee. In addition, if any loan is not refinanced in a timely manner, and the loan amortization schedule is converted to a cash flow sweep structure, the lessee has the right to terminate the lease after a twelve-month cure period and the lessor would owe a termination fee as provided above. During any period of time that a cash flow sweep structure is in effect, the lessor must compensate the lessee for any lost revenue resulting from such cash flow sweep. The operating partnership has guaranteed these obligations.

Personal property limitation. If a lessor reasonably anticipates that the average tax basis of the items of the lessor's FF&E and other personal property that are leased to the applicable lessee will exceed 15% of the aggregate average tax basis of the real and personal property subject to the applicable lease, the following procedures would apply, subject to obtaining lender consent where required:

- The lessor would acquire any replacement FF&E that would cause the applicable limits to be exceeded, and immediately thereafter the lessee would be obligated either to acquire such excess FF&E from the lessor or to cause a third party to purchase such FF&E.

- The lessee would agree to give a right of first opportunity to a non-controlled subsidiary of the operating partnership to acquire the excess FF&E and to lease the excess FF&E to the lessee at an annual rental equal to the market leasing factor times the cost of the excess FF&E. If such non-controlled subsidiary does not agree to acquire the excess FF&E and to enter into such lease, then the Lessee may either acquire the excess FF&E itself or arrange for another third party to acquire such excess FF&E and to lease the same to the lessee.

- The annual rent under the applicable lease would be reduced in accordance with a formula based on market leasing rates for the excess FF&E.

Certain actions under the leases. The leases prohibit the lessee from taking the following actions with respect to the management agreement without notice to the lessor and, if the action would have a material adverse effect on the lessor, the consent of the lessor:

- terminate the management agreement prior to the expiration of the term thereof;

- amend, modify or assign the management agreement;

- waive (or fail to enforce) any right of the "owner" under the management agreement;

- waive any breach or default by the manager under the management agreement (or fail to enforce any right of the "owner" in connection therewith);

- agree to any change in the manager or consent to any assignment by the manager; or

- take any other action which reasonably would be expected to materially adversely affect the lessor's rights or obligations under the management agreement for periods following the termination of the lease (whether upon the expiration of its term or upon earlier termination as provided for therein).

Change in manager. A lessee is permitted to change the manager or the brand affiliation of a hotel only with the approval of the applicable lessor, which approval may not be unreasonably withheld. Any replacement manager must be a nationally recognized manager with substantial experience in managing hotels of comparable quality. No such replacement can extend beyond the term of the lease without the consent of the lessor, which consent may be withheld in the lessor's sole discretion.

The Management Agreements

General

The lessees lease the hotels from the operating partnership or its subsidiaries. Upon leasing the hotels, the lessees assumed substantially all of the obligations of such subsidiaries under the management agreements between those entities and the subsidiaries of Marriott International and other companies that currently manage the hotels. As a result of their assumptions of obligations under the management agreements, the lessees have substantially all of the rights and obligations of the "owners" of the hotels under the management agreements for the period during which the leases are in effect (including the obligation to pay the management and other certain fees thereunder) and hold the operating partnership harmless with respect thereto. The subsidiaries of the operating partnership remain liable for all obligations under the management agreements. See "--Management Services Provided by Marriott International and Affiliates," "--Assignment of Management Agreements".

Management services provided by Marriott International and affiliates

General. Under each management agreement related to a Marriott International-managed hotel, the manager provides complete management services to the applicable lessees in connection with its management of such lessee's hotels.

Operational services. The managers have sole responsibility and exclusive authority for all activities necessary for the day-to-day operation of the hotels, including establishment of all room rates, the processing of reservations, procurement of inventories, supplies and services, periodic inspection and consultation visits to the hotels by the managers' technical and operational experts and promotion and publicity of the hotels. The manager receives compensation from the lessee in the form of a base management fee and an incentive management fee, which are normally calculated as percentages of gross revenues and operating profits, respectively.

Executive supervision and management services. The managers provide all managerial and other employees for the hotels; review the operation and maintenance of the hotels; prepare reports, budgets and projections; provide other administrative and accounting support services, such as planning and policy services, financial planning, divisional financial services, risk planning services, product planning and development, employee planning, corporate executive management, legislative and governmental representation and certain in-house legal services; and protect the "Marriott" trademark and other tradenames and service marks. The manager also provides a national reservations system.

Chain services. The management agreements require the manager to furnish chain services that are furnished generally on a central or regional basis to hotels in the Marriott hotel system. Such services include: (1) the development and operation of computer systems and reservation services, (2) regional management and administrative services, regional marketing and sales services, regional training services, manpower development and relocation costs of regional personnel and (3) such additional central or regional services as may from time to time be more efficiently performed on a regional or group level. Costs and expenses incurred in providing such services are allocated among all hotels in the Marriott hotel system managed by the manager or its affiliates and each applicable lessee is required to reimburse the manager for its allocable share of such costs and expenses.

Working capital and fixed asset supplies. The lessee is required to maintain working capital for each hotel and fund the cost of fixed asset supplies, which principally consist of linen and similar items. The applicable lessee also is responsible for providing funds to meet the cash needs for the operations of the hotels if at any time the funds available from operations are insufficient to meet the financial requirements of the hotels.

Use of affiliates. The manager employs the services of its affiliates to provide certain services under the management agreements. Certain of the management agreements provide that the terms of any such employment must be no less favorable to the applicable lessee, in the reasonable judgment of the manager, than those that would be available from the manager.

FF&E replacements. The management agreements generally provide that once each year the manager will prepare a list of FF&E to be acquired and certain routine repairs that are normally capitalized to be performed in the next year and an estimate of the funds necessary therefor. Under the terms of the leases, the lessor is required to provide to the applicable lessee all necessary FF&E for the operation of the hotels (including funding any required FF&E replacements). For purposes of funding the FF&E replacements, a specified percentage (generally 5%) of the gross revenues of the hotel is deposited by the manager into a book entry account. These amounts are treated under the leases as paid by the lessees to the lessor and will be credited against their rental obligations. If the manager determines that more than 5% of the gross revenues of the hotel is required to fund repairs for a certain period, the manager may increase the percentage of gross revenues to be deposited into the FF&E reserve account for such periods. In such event, the lessor may elect to fund such increases through annual increases in the amount deposited by the manager in the FF&E reserve account or to make a lump-sum contribution to the FF&E reserve account of the additional amounts required. If the lessor adopts the first election, the deductions are credited against the rental obligations of the lessee. If the lessor fails to elect either option within thirty days of the request for additional funds or fails to pay the lump-sum within 60 days of its election to do so, the manager may terminate the management agreement. Under certain circumstances, the manager may make repairs in addition to those set forth on its list, but in no event may it expend more than the amount in the FF&E reserve account without the consent of the operating partnership and the lessee.

Under certain of the management agreements, the lessor must approve the FF&E replacements, including any FF&E replacements proposed by the manager that are not contained on the annual list which was approved by the lessor and the lessee. If the manager and the lessor agree, the lessor would acquire or otherwise provide the FF&E replacements set forth on the approved list. If the lessor and the manager are unable to agree on the list within 60 days of its submission, the lessor would be required to make only those FF&E replacements specified on such list that are no more extensive than the system standards for FF&E replacements that the manager requires for Marriott hotels. For purposes of funding the FF&E replacements required to be paid for by the operating partnership, each management agreement and the lessor's loan agreements require the lessor to deposit a designated amount into the FF&E reserve account periodically. The lessees have no obligation to fund the FF&E reserve accounts (and any amounts deposited therein by the manager from funds otherwise due the lessee under the management agreement will be credited against the lessee's rental obligation).

Under each lease, the lessor is responsible for the costs of FF&E replacements and for decisions with respect thereto (subject to its obligations to the lessee under the lease).

Building alterations, improvements and renewals. The management agreements require the manager to prepare an annual estimate of the expenditures necessary for major repairs, alterations, improvements, renewals and replacements to the structural, mechanical, electrical, heating, ventilating, air conditioning, plumbing and vertical transportation elements of each hotel. Such estimate must be submitted to the lessor and the lessee for their approval. In addition to the foregoing, the management agreements generally provide that the manager may propose such changes, alterations and improvements to the hotel as are required, in the manager's reasonable judgment, to keep the hotel in a competitive, efficient and economical operating condition or in accordance with Marriott standards. The cost of the foregoing is paid from the FF&E reserve account; to the extent that there are insufficient funds in such account, the operating partnership is required to pay any shortfall. Under the management agreements (and the leases), neither the lessor nor the lessee may unreasonably withhold consent to repairs and other changes which are required under applicable law or any of the manager's "life-safety" standards and, if the lessor and the lessee fail to approve any of the other proposed repairs or other changes within 75 days of the request therefor, the manager may terminate the management agreement. Under certain of the other management agreements, if the lessor and the manager are unable to agree on the estimate within 60 days of its submission, the lessor is required to make only those expenditures that are no more extensive than the

manager requires for Marriott hotels generally, as the case may be. Under the terms of the leases, the lessor is responsible for the costs of the foregoing items and for decisions with respect thereto (subject to its obligations to the lessees under the leases).

Service marks. During the term of the management agreements, the service mark "Marriott" and other symbols, logos and service marks currently used by the manager and its affiliates may be used in the operation of the hotels. Marriott International (or its applicable affiliates) intends to retain its legal ownership of these marks. Any right to use the service marks, logo and symbols and related trademarks at a hotel will terminate with respect to that hotel upon termination of the management agreement with respect to such hotel.

Termination fee. Certain of the management agreements provide that if the management agreement is terminated prior to its full term due to casualty, condemnation or the sale of the hotel, the manager would receive a termination fee as specified in the specific management agreement. Under the leases, the responsibility for the payment of any such termination fee as between the lessee and the lessor depends upon the cause for such termination.

Termination for failure to perform. Most of the management agreements may be terminated based upon a failure to meet certain financial performance criteria, subject to the manager's right to prevent such termination by making certain payments to the lessee based upon the shortfall in such criteria.

Events of default. Events of default under the management agreements include, among others, the following:

- the failure of either party to make payments pursuant to the management agreement within ten days after written notice of such nonpayment has been made;

- the failure of either party to perform, keep or fulfill any of the covenants, undertakings, obligations or conditions set forth in the management agreement and the continuance of such default for a period of 30 days after notice of said failure or, if such default is not susceptible of being cured within 30 days, the failure to commence said cure within 30 days or the failure thereafter diligently to pursue such efforts to completion;

- if either party files a voluntary petition in bankruptcy or insolvency or a petition for reorganization under any bankruptcy law or admits that it is unable to pay its debts as they become due;

- if either party consents to an involuntary petition in bankruptcy or fails to vacate, within 90 days from the date of entry thereof, any order approving an involuntary petition by such party; or

- if an order, judgment or decree by any court of competent jurisdiction, on the application of a creditor, adjudicating either party as bankrupt or insolvent or approving a petition seeking reorganization or appointing a receiver, trustee, or liquidator of all or a substantial part of such party's assets is entered, and such order, judgment or decree continues unstayed and in effect for any period of 90 days.

As described above, all fees payable under the management agreements are obligations of the lessees, to be paid by the lessees for so long as the leases remain in effect. The lessees' obligations to pay these fees, however, could adversely affect the ability of one or more lessees to pay base rent or percentage rent payable under the leases, even though such amounts otherwise are due and owing to the lessor. Moreover, the operating partnership remains obligated to the manager to the extent the lessee fails to pay these fees.

Assignment of management agreements. The management agreements applicable to each hotel have been assigned to the applicable lessee for the term of the lease of such hotel. The lessee is obligated to perform all of the obligations of the lessor under the management agreement during the term of its lease, other than certain retained obligations including, without limitation, payment of real property taxes, property casualty insurance and ground rent, and maintaining a reserve fund for FF&E replacements and capital expenditures, for which the lessor retains responsibility. Although the lessee has assumed obligations of the lessor under the management agreement, the lessor is not released from its obligations and, if the lessee fails to perform any obligations, the

manager will be entitled to seek performance by or damages from the lessor. If the lease is terminated for any reason, any new or successor lessee must meet certain requirements for an "approved lessee" or otherwise be acceptable to Marriott International. The requirements for an "approved lessee" include that the entity:

- has sufficient financial resources and liquidity to fill the obligations under the management agreement;
- is not in control of or controlled by persons who have been convicted of felonies;
- is not engaged, or affiliated with any person or entity engaged in the business of operating a branded hotel chain having 5,000 or more guest rooms in competition with Marriott International; and
- must be a single purpose entity in which Marriott International has a non-economic membership interest with the same rights as it has in the current lessee.

Any new lease must be in substantially the same form as the current lease or otherwise be acceptable to Marriott International.

Non-competition agreements

Pursuant to a non-competition agreement entered into in connection with the leases, Crestline has agreed, among other things, that until the earlier of December 31, 2008 and the date on which it is no longer a lessee for more than 25% of the number of the hotels owned by us on December 29, 1998, it will not (1) own, operate or otherwise control (as owner or franchisor) any full-service hotel brand or franchise, or purchase, finance or otherwise invest in full-service hotels, or act as an agent or consultant with respect to any of the foregoing activities, or lease or manage full-service hotels (other than hotels owned by the operating partnership) if its economic return therefrom would be more similar to returns derived from ownership interests in such hotels except for acquisitions of property used in hotels as to which a subsidiary of Crestline is the lessee, investments in full-service hotels which represent an immaterial portion of a merger or similar transaction or a minimal portfolio investment in another entity, limited investments (whether debt or equity) in full-service hotels as to which a subsidiary of Crestline is the lessee or activities undertaken with respect to its business of providing asset management services to hotel owners, or (2) without our consent, manage any of the hotels owned by the operating partnership, other than to provide asset management services.

We have agreed with Crestline, among other things, that, (1) until December 31, 2003, we will not purchase, finance or otherwise invest in senior living communities, or act as an agent or consultant with respect to any of the foregoing activities (except for acquisitions of communities which represent an immaterial portion of a merger or similar transaction or for minimal portfolio investments in other entities) and (2) until the earlier of December 31, 2008 and the date on which subsidiaries of Crestline are no longer lessees for more than 25% of the number of the hotels owned by Host Marriott on December 29, 1998, we will not lease, as tenant or subtenant, limited- or full-service hotel properties from any "real estate investment trust" within the meaning of Sections 856 through 859 of the Internal Revenue Code where it will not be the operator or manager of the hotel (other than through a contractual arrangement with a non-affiliated party) and where its rental payments qualify as "rents from real property" within the meaning of Section 856(d) of the Internal Revenue Code, or purchase, finance or otherwise invest in persons or entities which engage in any of the foregoing activities, or act as an agent or consultant with respect to any of the foregoing activities (except for acquisitions of entities which engage in any of the foregoing activities where the prohibited activities represent an immaterial portion of a merger or similar transaction, or minimal portfolio investments in other entities which engage in any of the foregoing activities, or certain leasing arrangements existing on December 29, 1998 or entered into in the future between us and certain other related parties, or by our management of any hotels in which it has an equity interest). In addition, both Crestline and we have agreed not to hire or attempt to hire any of the other company's senior employees at any time prior to December 31, 2000.

We entered into a noncompetition agreement with Marriott International that defines our rights and obligations with respect to certain businesses operated by each of us. Crestline became an additional party to this agreement at the time its shares were distributed to our stockholders. At that time, we also entered into an

agreement with Crestline under which we agreed with Crestline about the allocation between us of the rights to engage in certain activities permitted under the agreement with Marriott International. In general, until October 8, 2000, we and our subsidiaries are prohibited from entering into or acquiring any business that competes with the hotel management business (i.e., managing, operating or franchising full-service or limited-service hotels) as conducted by Marriott International. Pursuant to this agreement, we cannot (1) operate any hotel under a common name with any other hotel we operate or with any hotel operated by Crestline, (2) have a manager (other than Marriott International or one of its affiliates) manage any limited-service hotel for us under a common name with any other limited-service hotel managed by such manager for use or for Crestline, (3) have a manager (other than Marriott International or one of its affiliates) manage more than the greater of (a) 10 full-service hotels under a common name which is a brand other than "Delta," "Four Seasons," "Holiday Inn," "Hyatt" and "Swissotel" (the "Existing Brands") or (b) 25% of any system operated by such manager under a common name which is not an Existing Brand, (4) have a manager (other than Marriott International or one of its affiliates) manage more than the greater of (a) 5 full-service hotels under a common name which is an Existing Brand or (b) 12.5% of any system operated by such manager under a common name which is an Existing Brand, (5) franchise as franchisor any limited-service hotel under a common name with any other limited-service hotel for which we or Crestline is a franchisor or (6) franchise as franchisor more than 10 full-service hotels under a common name.

Item 3. Legal Proceedings

In connection with the REIT Conversion, the operating partnership assumed all liability arising under legal proceedings filed against us and will indemnify us as to all such matters. We believe all of the lawsuits in which we are a defendant, including the following lawsuits, are without merit and we intend to defend vigorously against such claims; however, no assurance can be given as to the outcome of any of the lawsuits.

Texas Multi-Partnership Lawsuit. On March 16, 1998, limited partners in several limited partnerships sponsored by us filed a lawsuit, Robert M. Haas, Sr. and Irwin Randolph Joint Tenants, et al. v. Marriott International, Inc., et al., Case No. 98-CI-04092, in the 57th Judicial District Court of Bexar County, Texas, alleging that the defendants conspired to sell hotels to the partnerships for inflated prices and that they charged the partnerships excessive management fees to operate the partnerships' hotels. The plaintiffs further allege that the defendants committed fraud, breached fiduciary duties and violated the provisions of various contracts. The plaintiffs are seeking unspecified damages. On March 18, 1999, two limited partners in Courtyard by Marriott Limited Partnership filed a class action petition in intervention seeking to convert the lawsuit into a class action. The court has not yet ruled on this petition.

Atlanta Marquis. Certain limited partners of Atlanta Marriott Marquis Limited Partnership ("AMMLP") filed a putative class action lawsuit, Hiram and Ruth Sturm v. Marriott Marquis Corporation, et al., Case No. 97-CV-3706, in the U.S. District Court for the Northern District of Georgia, on December 12, 1997 against AMMLP's general partner, its directors and us, regarding the merger of AMMLP into a new partnership as part of the refinancing of AMMLP's debt. The plaintiffs allege that the defendants misled the limited partners in order to induce them to approve the AMMLP merger, violated securities regulations and federal roll-up regulations and breached their fiduciary duties to the partners. The plaintiffs sought to enjoin, or in the alternative, rescind the AMMLP merger and damages. The partnership agreement includes provisions which require AMMLP to indemnify the general partners against losses, expenses and fees. On November 13, 1998, the court dismissed all of the federal securities law claims and retained jurisdiction over the state law claims for breach of fiduciary duty and breach of contract.

Another limited partner of AMMLP sought similar relief and filed a separate lawsuit, styled Poorvu v. Marriott Marquis Corporation, et al., Civil Action No. 16095-NC, on December 19, 1997, in Delaware State Chancery Court. The defendants have filed an answer to the complaint.

Courtyard II. A group of partners in Courtyard by Marriott II Limited Partnership ("CBM II") filed a lawsuit, Whitey Ford, et al. v. Host Marriott Corporation, et al., Case No. 96-CI-08327, on June 7, 1996, in the

285th Judicial District Court of Bexar County, Texas, against us, Marriott International and others alleging breach of fiduciary duty, breach of contract, fraud, negligent misrepresentation, tortious interference, violation of the Texas Free Enterprise and Antitrust Act of 1983 and conspiracy in connection with the formation, operation and management of CBM II and its hotels. The plaintiffs are seeking unspecified damages. On January 29, 1998, two other limited partners filed a petition in intervention seeking to convert the lawsuit into a class action. The defendants have filed an answer, the class has been certified, class counsel has been appointed, and discovery is underway. On March 11, 1999, Palm Investors, L.L.C., the assignee of a number of limited partnership units acquired through various tender offers, filed a plea in intervention to bring additional claims relating to the 1993 split of Marriott Corporation and to the 1995 refinancing of CBM II's indebtedness. This plea also seeks the addition of Ernst & Young, L.L.P. and E&Y Kenneth Leventhal Real Estate Services Co. as additional defendants for their appraisal role in the 1995 refinancing. The original plaintiffs subsequently filed a second amended complaint on March 19, 1999.

MHP II. Limited partners of Marriott Hotel Properties II Limited Partnership ("MHP II") are asserting putative class claims in lawsuits filed in Palm Beach County Circuit Court on May 10, 1996, Leonard Rosenblum, as Trustee of the Sylvia Bernice Rosenblum Trust, et al. v. Marriott MHP Two Corporation, et al., Case No. CL-96-4087-AD, and, in Delaware State Chancery Court on April 24, 1996, Cary W. Salter, Jr., et al. v. MHP II Acquisition Corp., et al., respectively, against us and certain of our affiliates alleging that the defendants violated their fiduciary duties and engaged in fraud and coercion in connection with the tender offer for MHP II units.

The defendants removed the Florida action to the United States District Court for the Southern District of Florida and, after hearings on various procedural motions, the District Court remanded the case to state court on July 25, 1998. The defendants then filed motions to dismiss Rosenblum's fifth amended complaint or, in the alternative, to deny class certification in the state court case. The state court held a hearing on these motions on October 27, 1998 but did not issue a ruling at that time. Thereafter, and prior to any ruling on the defendants' motions, Rosenblum filed a motion seeking leave to file a sixth amended complaint adding allegations relating to the partnership merger of MHP II and adding additional plaintiffs. On February 2, 1999, the court granted Rosenblum's motion to file an amended complaint and denied as moot the defendants' motion to dismiss the earlier complaint.

On June 12, 1996, the Delaware Chancery Court entered an order denying the Delaware plaintiffs' application to enjoin the tender offer for MHP II units. The Delaware plaintiffs subsequently moved to voluntarily dismiss the Delaware action. The Chancery Court granted this motion, but with the proviso that the plaintiffs could only refile in the Florida federal action. After the District Court's remand of the Rosenblum case to Florida state court, two of the three original Delaware plaintiffs asked the Chancery Court to reconsider its order granting their voluntary dismissal. The Chancery Court refused to allow the plaintiffs to join the Rosenblum action in Florida and, instead, reinstated the Delaware case, now styled In Re Marriott Hotel Properties II Limited Partnership Unitholders Litigation, Consolidated Civil Action No. 14961. On January 29, 1999, Cary W. Slater alone filed an Amended Consolidated Class Action Complaint in the Delaware action, adding allegations relating to the partnership merger of MHP II. As a result of these recent developments in the Delaware case, the defendants filed a motion to stay the Florida action. The Florida court denied this motion, and the defendants have appealed to the Fourth District Court of Appeal of Florida.

Potomac Hotel Limited Partnership. On July 15, 1998, one limited partner in Potomac Hotel Limited Partnership, or PHLP, filed a class action lawsuit styled Michael C. deBerardinis v. Host Marriott Corporation, Civil Action No WMN 98-2263, in the United States District Court for the District of Maryland. The plaintiff alleged that we misled PHLP's limited partners in order to induce them into approving the sale of one of PHLP's hotels, violated the securities regulations by issuing a false and misleading consent solicitation and breached fiduciary duties and the partnership agreement. The complaint sought unspecified damages. On February 16, 1999, the District Court dismissed the federal securities claims with prejudice and the state law claims without prejudice. On March 9, 1999, the plaintiff filed a class action complaint in Montgomery County, Maryland

Circuit Court in a case styled Michael C. deBerardinis v. Host Marriott Corporation, Civil No. 197694-V, to further pursue the state law claims.

Item 4. Submission of matters to a vote of security holders

On December 15, 1998, a special meeting of the stockholders of our predecessor, Host Marriott Corporation (a Delaware corporation) was held. At this meeting, the stockholders approved an agreement and plan of merger which included, among other things, the re-incorporation from Delaware to Maryland by means of a merger of Host Marriott Corporation with and into us. The stockholders present, either in person or by proxy, voted as follows: 168,147,578 for the agreement and plan of merger; 587,073 against the agreement and plan of merger; and 952,151 abstained.

PART II

Item 5. Market for our common stock and related stockholder matters

Our common stock is listed on the New York Stock Exchange, the Chicago Stock Exchange, the Pacific Stock Exchange and the Philadelphia Stock Exchange and is traded under the symbol "HMT." The following table sets forth, for the fiscal periods indicated, the high and low sales prices per share of the common stock as reported on the New York Stock Exchange Composite Tape. We did not declare any cash dividends on the common stock during the two fiscal years ended January 2, 1998. Host Marriott declared a special stock and cash dividend on December 18, 1998, in conjunction with the REIT conversion, and payable in February 1999 to stockholders of record on December 28, 1998. (See Note 2 to the consolidated financial statements for further discussion). The common stock prices listed below have not been adjusted for the special stock dividend as the effect is immaterial. On December 29, 1998, we spun off to our shareholders one share of Crestline for every ten shares of our common stock held. Crestline primarily represented the assets and liabilities of our senior living communities. (See Note 2) As a result of the REIT conversion, we are required to use available funds to pay dividends to the extent of 95% of taxable income in order to maintain our REIT qualification. We have indicated an intent to pay dividends equal to 100% of taxable income for each year. Payment of these dividends is expected to be funded by distributions from the operating partnership. To the extent that the operating partnership's cash flow is not sufficient to make distributions to holders of OP Units in an amount sufficient so that we can pay such dividends, the operating partnership may be required to borrow money to pay such dividends. As of March 19, 1999, there were approximately 53,000 holders of record of common stock and approximately 2,900 holders of record of OP Units (each of which is convertible into common stock on a one-for-one basis or the cash equivalent thereof, at our option, beginning at various times in the future, but no later than January 2000).

	High	Low
1997		
1st Quarter	$18 3/4	$15 3/4
2nd Quarter	18 1/8	15 1/4
3rd Quarter	20 13/16	17 1/2
4th Quarter	23 3/4	18 1/16
1998		
1st Quarter	$20 9/16	$17 1/2
2nd Quarter	22 1/8	17
3rd Quarter	19	12 9/16
4th Quarter	15 7/16	10

For several technical reasons relating to the federal income tax law, our ability to qualify as a REIT under the Internal Revenue Code is facilitated by limiting the number of shares of our stock that a person may own. Primarily because the Board of Directors believes it is desirable for us to qualify as a REIT, our Articles of Incorporation provide that, subject to certain limited exceptions, no person or persons acting as a group may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, more than

- 9.8% of the lesser of the number or value of shares of common stock outstanding; or
- 9.8% of the lesser of the number or value of the issued and outstanding preferred or other shares of any class or series of our stock.

The Board of Directors has the authority to increase the ownership limit from time to time, but does not have the authority to do so to the extent that after giving effect to such increase, five beneficial owners of capital stock could beneficially own in the aggregate more than 49.5% of the outstanding capital stock. These limitations on the ownership of our stock could have the effect of delaying, deferring or preventing a takeover or other transaction in which holders of some, or a majority, of the common stock might receive a premium for their common stock over the then prevailing market price or which such holders might believe to be otherwise in their best interest.

Item 6. Selected Financial Data

The following table presents certain selected historical financial data which has been derived from our audited consolidated financial statements for the five most recent fiscal years ended December 31, 1998. The 1998 and 1997 financial information reflects the discontinued operations related to the spin-off of Crestline in conjunction with the REIT conversion.

	Fiscal Year				
	1998(3)	1997(3)	1996(1)	1995(2)	1994(3)
	(in millions, except per share data)				
Income Statement Data:					
Revenues	$3,513	$2,823	$1,957	$1,362	$1,011
Operating profit before minority interest, corporate expenses and interest	661	432	233	114	152
Income (loss) from continuing operations	194	47	(13)	(62)	(13)
Income (loss) before extraordinary items	195	47	(13)	(123)	(19)
Net income (loss)(4)	47	50	(13)	(143)	(25)
Basic earnings (loss) per common share:(5)					
Income (loss) from continuing operations	.90	.22	(.06)	(.36)	(.08)
Income (loss) before extraordinary items	.91	.22	(.06)	(.72)	(.12)
Net income (loss)(4)	.22	.23	(.06)	(.84)	(.15)
Diluted earnings (loss) per common share:(5)					
Income (loss) from continuing operations	.84	.22	(.06)	(.36)	(.08)
Income (loss) before extraordinary items	.85	.22	(.06)	(.72)	(.12)
Net income (loss)(4)	.27	.23	(.06)	(.84)	(.15)
Cash dividends declared per common share	1.00	--	--	--	--
Balance Sheet Data:					
Total assets(6)	$8,268	$6,141	$5,152	$3,557	$3,366
Debt	5,131	3,466	2,647	2,178	1,871

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(1) Fiscal year 1996 includes 53 weeks.

(2) Operating results for 1995 include a $10 million pre-tax charge to write down the carrying value of five limited service properties to their net realizable value and a $60 million pre-tax charge to write down an undeveloped land parcel to its estimated sales value. In 1995, we recognized a $20 million extraordinary loss, net of taxes, on the extinguishment of debt.

(3) In 1998, we recognized a $148 million extraordinary loss, net of taxes, on the extinguishment of debt. In 1997, we recognized a $3 million extraordinary gain, net of taxes, on the extinguishment of certain debt. In 1994, we recognized a $6 million extraordinary loss, net of taxes, on the required redemption of senior notes.

(4) We recorded income from discontinued operations, net of taxes, of $6 million in 1998, as a result of the Distribution. We also recorded a loss from discontinued operations, net of taxes, of $61 million in 1995 and $6 million in 1994, as a result of the spin-off of Host Marriott Services Corporation. The 1995 loss from discontinued operations includes a pre-tax charge of $47 million for the adoption of SFAS No. 121, "Accounting For the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of," a pre-tax $15 million restructuring charge and an extraordinary loss of $10 million, net of taxes, on the extinguishment of debt.

(5) Basic earnings (loss) per common share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding plus other dilutive securities. Diluted earnings (loss) per share has not been adjusted for the impact of the Convertible Preferred Securities for 1997 and 1996 and for the comprehensive stock plan and warrants for 1994 through 1996, as they are anti-dilutive.

(6) Total assets includes $236 million related to Net Investment in Discontinued Operations for 1997.

Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition

Lack of Comparability Following the REIT Conversion

Because substantially all of our hotels are leased due to the REIT conversion, we do not believe that the historical results of operations are comparable to what our results of operations following the REIT conversion. Therefore, in addition to the historical presentation, we have presented a discussion of the results of operation on a pro forma basis as if the REIT conversion had occurred on the first day of each respective year.

Results of Operations

Our historic revenues primarily represent gross property-level sales from our hotels, net gains (losses) on property transactions and equity in the earnings of affiliates.

On November 20, 1997, the Emerging Issues Task Force (or EITF) of the Financial Accounting Standards Board reached a consensus on EITF 97-2, "Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangements." EITF 97-2 addresses the circumstances in which a management entity may include the revenues and expenses of a managed entity in its financial statements.

We considered the impact of EITF 97-2 on our financial statements and determined that EITF 97-2 required us to include property-level sales and operating expenses of our hotels in the statements of operations. We have given retroactive effect to the adoption of EITF 97-2 in the accompanying consolidated statements of operations. Application of EITF 97-2 to the consolidated financial statements for the fiscal years ended December 31, 1998, January 2, 1998 and January 3, 1997 increased both revenues and operating expenses by approximately $2.1 billion, $1.7 billion and $1.2 billion, respectively, and had no impact on operating profit, net income or earnings per share.

Our hotel operating costs and expenses have been, to a great extent, fixed. Therefore, we have derived substantial operating leverage from increases in revenue. This operating leverage was somewhat diluted, however, by the impact of base management fees which were calculated as a percentage of sales, variable ground lease payments and incentive management fees tied to operating performance above certain established levels. Successful hotel performance resulted in certain of our properties reaching levels which allowed the manager to share in the growth of profits in the form of higher management fees.

For the periods discussed below, our hotel properties experienced substantial increases in REVPAR. REVPAR is a commonly used indicator of market performance for hotels which represents the combination of the average daily room rate charged and the average occupancy achieved. REVPAR does not include food and beverage or other ancillary revenues generated by the property. The REVPAR increase primarily reflects strong percentage increases in room rates, while occupancy increases have been more moderate. Increases in average room rates have generally been achieved by the managers through shifting occupancies away from discounted group business to higher-rated group and transient business and by selectively increasing room rates. This has been made possible by increased travel due to improved economic conditions and by the favorable supply/demand characteristics existing in the upscale and luxury full-service segments of the lodging industry.

1998 Compared to 1997 (Historical)

Revenues. Revenues increased $0.7 billion, or 24%, to $3.5 billion for 1998 from $2.8 billion for 1997. Our revenue and operating profit were impacted by improved results for comparable full-service hotel properties, the addition of 18 full-service hotel properties during 1997 and 36 full-service hotel properties during 1998 and the gain on the sale of two hotel properties in 1998.

Hotel sales, which are gross hotel sales, including room sales, food and beverage sales, and other ancillary sales such as telephone sales, increased $0.6 billion, or 23%, to over $3.4 billion in 1998, reflecting the REVPAR

increases for comparable units and the addition of full-service hotels in 1997 and 1998. Improved results for our full-service hotels were driven by strong increases in REVPAR for our 78 comparable units of 7.3% to $112.39 for 1998. Results were further enhanced by approximately one percentage point increase in the house profit margin for comparable full-service properties. Average room rates increased nearly 6.9% for our comparable full-service hotels.

As discussed in Note 2 to the financial statements, we spun off our senior living communities. We have accounted for these revenues and expenses as discontinued operations and has shown the amount, net of taxes, below income from continuing operations. Revenues generated from our 31 senior living communities totaled $241 million for 1998 compared to $111 million for 1997, as the assets were purchased in the third quarter of 1997.

Revenues were also impacted by the gains on the sales of two hotels. The New York East Side Marriott was sold for $191 million resulting in a pre-tax gain of approximately $40 million. The Napa Valley Marriott was sold for $21 million resulting in a pre-tax gain of approximately $10 million.

Operating Costs and Expenses. Operating costs and expenses principally consisted of property-level operating costs, depreciation, management fees, real and personal property taxes, ground, building and equipment rent, insurance and certain other costs. Operating costs and expenses increased $0.5 billion to $2.9 billion, primarily representing increased hotel operating costs. Hotel operating costs increased $0.5 billion to $2.8 billion for 1998, primarily due to the addition of 54 full-service hotel properties during 1997 and 1998 and increased management fees and rentals tied to improved property results. As a percentage of hotel revenues, hotel operating costs and expenses decreased slightly to 82% for 1998 from 84% of revenues for 1997, due to the significant increases in REVPAR discussed above, offset by increases in management fees and property-level operating costs, including higher labor costs in certain markets.

Operating Profit. As a result of the changes in revenues and operating costs and expenses discussed above, our operating profit increased $0.2 billion, or 53%, to $0.7 billion for 1998. For 1998, property-level operating profit increased $0.2 billion, or 39%, to $0.6 billion, or 18% of hotel revenues, for 1998 compared to $0.4 billion, or 16% of hotel revenues, for 1997. Specifically, hotels in New York City, San Francisco, Toronto and Mexico City reported significant improvements for 1998 over 1997. Properties in Florida reported some temporary declines in operating results due to exceptionally poor weather in 1998.

Minority Interest. Minority interest expense increased $21 million to $52 million for 1998, primarily reflecting the impact of the consolidation of affiliated partnerships and the acquisition of controlling interests in newly-formed partnerships during 1997 and 1998.

Corporate Expenses. Corporate expenses increased $5 million to $50 million for 1998. As a percentage of revenues, corporate expenses decreased to 1.4% of revenues for 1998 from 1.6% in 1997, reflecting our efforts to control corporate expenses in spite of the substantial growth in revenues.

REIT Conversion Expenses. REIT conversion expenses reflect the professional fees, consent fees, and other expenses associated with our conversion to a REIT and totaled $64 million for 1998. There were no REIT conversion expenses prior to 1998.

Interest Expense. Interest expense increased 16% to $335 million in 1998, primarily due to additional debt assumed in connection with the 1997 and 1998 full-service hotel additions as well as the issuance of the senior notes and establishment of a new credit facility in 1998.

Dividends on Convertible Preferred Securities of Subsidiary Trust. The dividends on the convertible preferred securities reflect the dividends on the $550 million in 6.75% Convertible Preferred Securities issued by a subsidiary trust of Host Marriott in December 1996.

Interest Income. Interest income decreased $1 million to $51 million for 1998, primarily reflecting the lower level of cash and marketable securities held in 1998 compared to 1997.

Discontinued Operations. Income from discontinued operations of $6 million for 1998 represents the senior living communities' business results of operations for the entire year. The provision for loss on disposal of $5 million for 1998 includes organizational and formation costs related to Crestline Capital Corporation.

Income before Extraordinary Item. Income before extraordinary item for 1998 was $195 million, compared to $47 million for 1997.

Extraordinary Gain (Loss). In connection with the purchase in August 1998 of our old senior notes, we recognized an extraordinary loss of $148 million, which represents the bond premium and consent payments totaling approximately $175 million and the write-off of deferred financing fees of approximately $52 million related to the old senior notes, net of taxes. In March 1997, we purchased 100% of the outstanding bonds secured by a first mortgage on the San Francisco Marriott Hotel. We purchased the bonds for $219 million, which was an $11 million discount to the face value of $230 million. In connection with the redemption and defeasance of the bonds, we recognized an extraordinary gain of $5 million, which represents the $11 million discount and the write-off of deferred financing fees, net of taxes. In December 1997, we refinanced the mortgage debt secured by Marriott's Orlando World Center. In connection with the refinancing, we recognized an extraordinary loss of $2 million, which represents payment of a prepayment penalty and the write-off of unamortized deferred financing fees, net of taxes.

Net Income (Loss). Net income for 1998 was $47 million compared to net income of $50 million for 1997. Basic earnings (loss) per common share was $.22 and $.23 for 1998 and 1997, respectively. Diluted earnings (loss) per common share was $.27 and $.23 for 1998 and 1997, respectively.

1997 Compared to 1996 (Historical)

Revenues. Revenues increased $866 million, or 44%, to $2,823 million for 1997. Our revenues and operating profit were impacted by:

--improved lodging results for comparable full-service hotels;

--the addition of 23 full-service hotels during 1996 and 18 full-service hotels during 1997;

--the 1996 sale and leaseback of 16 Courtyard properties and 18 Residence Inns; and

--the 1997 results including 52 weeks versus 53 weeks in 1996.

Hotel sales increased $864 million, or 44%, to over $2,806 million in 1997, reflecting the REVPAR increases for comparable units and the addition of full-service properties during 1996 and 1997. Improved results for our full-service hotels were driven by strong increases in REVPAR for comparable units of 12.6% in 1997. Results were further enhanced by a more than two percentage point increase in the house profit margin for comparable full-service properties. On a comparable basis for our full-service properties, average room rates increased almost 11%, while average occupancy increased over one percentage point.

Operating Costs and Expenses. Operating costs and expenses increased $667 million to $2,391 million for 1997, primarily representing increased hotel operating costs, including depreciation and management fees. Hotel operating costs increased $676 million to $2,362 million, primarily due to the addition of 41 full-service properties during 1996 and 1997, and increased management fees and rentals tied to improved property results. As a percentage of hotel revenues, hotel operating costs and expenses decreased to 84% of revenues for 1997, from 87% of revenues for 1996, reflecting the impact of increased 1997 revenues spread over relatively fixed operating costs and expenses.

Operating Profit. As a result of the changes in revenues and operating costs and expenses discussed above, our operating profit increased $199 million, or 85%, to $432 million in 1997. Hotel operating profit increased

$188 million, or 73%, to $444 million, or 16% of hotel revenues, for 1997 compared to $256 million, or 13% of hotel revenues, for 1996. In nearly all markets, our hotels recorded improvements in comparable operating results. In particular, our hotels in the Northeast, Mid-Atlantic and Pacific coast regions benefited from the upscale and luxury full-service room supply and demand imbalance. Hotels in New York City, Philadelphia, San Francisco/Silicon Valley and Southern California performed particularly well. In 1997, our suburban Atlanta properties (three properties totaling 1,022 rooms) generally reported decreased results due to higher activity in 1996 related to the Summer Olympics and the impact of the additional supply added to the suburban areas. However, the majority of our hotel rooms in Atlanta are in the core business districts in downtown and Buckhead where they realized strong year-over-year results and were only marginally impacted by the additional supply.

Minority Interest. Minority interest expense increased $25 million to $31 million for 1997, primarily reflecting the impact of the consolidation of affiliated partnerships and the acquisition of controlling interests in newly-formed partnerships during 1996 and 1997.

Corporate Expenses. Corporate expenses increased $2 million to $45 million in 1997. As a percentage of revenues, corporate expenses decreased to 1.6% of hotel sales in 1997 from 2.2% of hotel sales in 1996. This reflects our efforts to control corporate expenses in spite of the substantial growth in revenues.

Interest Expense. Interest expense increased $51 million to $288 million in 1997, primarily due to the additional mortgage debt of approximately $1.1 billion assumed in connection with the 1996 and 1997 full-service hotel additions, approximately $315 million in debt incurred in conjunction with the acquisition of senior living communities, as well as the issuance of $600 million of 8 7/8% senior notes in July 1997.

Dividends on Convertible Preferred Securities of Subsidiary Trust. The dividends on the convertible preferred securities reflect the dividends on the $550 million in 6.75% Convertible Preferred Securities issued by a subsidiary trust of Host Marriott in December 1996.

Interest Income. Interest income increased $4 million to $52 million for 1997, primarily reflecting the interest income on the available proceeds generated by the December 1996 offering of convertible preferred securities and the proceeds generated by the issuance of our 8 7/8% senior notes in July 1997.

Discontinued Operations. Income from discontinued operations was breakeven in 1997. There were no discontinued operations in 1996.

Income (Loss) Before Extraordinary Items. Income before extraordinary items for 1997 was $47 million, compared to a $13 million loss before extraordinary items for 1996, as a result of the items discussed above.

Extraordinary Gain (Loss). In March 1997, we purchased 100% of the outstanding bonds secured by a first mortgage on the San Francisco Marriott Hotel. We purchased the bonds for $219 million, which was an $11 million discount to the face value of $230 million. In connection with the redemption and defeasance of the bonds, we recognized an extraordinary gain of $5 million, which represents the $11 million discount less the write-off of unamortized deferred financing fees, net of taxes. In December 1997, we refinanced the mortgage debt secured by Marriott's Orlando World Center. In connection with the refinancing, we recognized an extraordinary loss of $2 million, which represents payment of a prepayment penalty and the write-off of unamortized deferred financing fees, net of taxes.

Net Income (Loss). Our net income in 1997 was $50 million, compared to a net loss of $13 million in 1996. Basic and diluted earnings per common share was $.23 for 1997, compared to a basic and diluted loss per common share of $.06 in 1996.

1998 Compared to 1997 (Pro Forma)

	Pro Forma	
	1998	1997
	(in millions, except per share amounts)	
Revenues		
Hotels	$1,264	$1,167
Other	15	6
Total revenues	1,279	1,173
Operating costs and expenses		
Hotels	599	626
Other	26	23
Total operating costs and expenses	625	649
Operating profit	654	524
Minority interest	(23)	(12)
Corporate expenses	(50)	(44)
Interest expense	(449)	(446)
Dividends on Convertible Preferred Securities of subsidiary trust	(37)	(37)
Interest income	27	12
Income (loss) from continuing operations before income taxes	122	(3)
Provision for income taxes	(6)	--
Income (loss) from continuing operations	$ 116	$ (3)
Basic earnings (loss) per common share from continuing operations	$ .51	$ (.01)
Weighted average shares outstanding	225.6	225.6

Revenues. Revenues primarily represent lease revenues and net gains (losses) on property transactions. Revenues increased $106 million, or 9%, to $1.3 billion for 1998 from $1.2 billion for 1997.

Improved results for our hotels were driven by strong increases in REVPAR of 7.4% to $110.93 for 1998, while average occupancy remained unchanged year over year.

Operating Costs and Expenses. Operating costs and expenses principally consist of depreciation, property taxes, ground rent, insurance and certain other costs. Operating costs and expenses decreased $24 million to $625 million in 1998. As a percentage of rental revenues, hotel operating costs and expenses decreased to 47% of rental revenues in 1998 from 54% of rental revenues in 1997 due to the increase in minimum rent under our leases.

Operating Profit. As a result of the changes in rental revenues and operating costs and expenses discussed above, our operating profit increased $130 million, or 25%, to $654 million for 1998. Hotel operating profit increased $124 million to $665 million, or 53% of rental revenues, for 1998 from $541 million, or 46% of rental revenues, for 1997. Our hotels recorded significant improvements in comparable operating results. Specifically, hotels in New York City, Boston, Toronto and Mexico reported significant improvements for 1998. Properties in Florida reported some temporary declines in operating results due to exceptionally poor weather in 1998.

Minority Interest. Minority interest expense increased $11 million to $23 million for 1998, primarily reflecting improved hotel operations.

Corporate Expenses. Corporate expenses increased $6 million to $50 million for 1998 due to increased staffing levels and the impact of inflation.

Interest Expense. Interest expense increased $3 million to $449 million in 1998, primarily due to amortization related to certain leases.

Dividends on Convertible Preferred Securities of Subsidiary Trust. The dividends on convertible preferred securities reflect the dividends accrued on the $550 million in 6.75% Convertible Preferred Securities issued by a subsidiary trust in December 1996.

Interest Income. Interest income increased $15 million to $27 million for 1998, primarily due to interest income from excess cash and marketable securities.

Income (Loss) from Continuing Operations. The income from continuing operations for 1998 was $116 million, compared to a loss of $(3 million) for 1997.

Liquidity and Capital Resources

We fund our capital requirements with a combination of operating cash flow, debt and equity financing and proceeds from sales of selected properties and other assets. We utilize these sources of capital to acquire new properties, fund capital additions and improvements and make principal payments on debt. As a result of the REIT conversion, we are required to use available funds to pay dividends to the extent of 95% of taxable income in order to maintain our REIT qualification, and we have indicated an intent to pay dividends equivalent to 100% of taxable income for each year. Payment of these dividends is expected to be funded by the operating partnership. To the extent that the operating partnership's cash flow is not sufficient for this purpose, it may be required to borrow money to pay such dividends.

Capital Transactions. We substantially changed our debt financing through the following series of transactions which were intended to facilitate the consummation of the REIT conversion.

On April 20, 1998, we and certain of our subsidiaries filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission for $2.5 billion in securities, including debt, equity or any combination thereof. HMH Properties, Inc., then our wholly-owned subsidiary utilized $2.2 billion of the capacity under this shelf registration to issue the new senior notes described further below.

On August 5, 1998, HMH Properties, which was merged into the operating partnership as part of the REIT conversion, purchased substantially all of its (i) $600 million of 9 1/2% senior notes due 2005, (ii) $350 million of 9% senior notes due 2007 and (iii) $600 million of 8 7/8% senior notes due 2007. Concurrently with each offer to purchase, HMH Properties solicited consents from registered holders of these old senior notes to certain amendments to eliminate or modify substantially all of the restrictive covenants and certain other provisions contained in the indentures pursuant to which the old senior notes were issued. HMH Properties simultaneously utilized the shelf registration to issue an aggregate of $1.7 billion in new senior notes, in two series: $500 million of 7 7/8% Series A notes due in 2005 and $1.2 billion of 7 7/8% Series B notes due in 2008.

The August 1998 consent solicitations facilitated the merger of HMC Capital Resources Holdings Corporation, then our wholly-owned subsidiary, with and into HMH Properties. HMC Capital Resources, the owner of eight of our hotel properties, was the obligor under our old $500 million revolving credit facility. In August 1998, HMH Properties entered into a new $1.25 billion credit facility with a group of commercial banks, which replaced the old credit facility. The credit facility provides (i) a $350 million term loan facility, subject to certain increases, and (ii) a $900 million revolving credit facility. The new credit facility has an initial three-year term with two one-year extension options. Borrowings under the new credit facility generally bear interest at the Eurodollar rate plus 1.75% (7.5% at December 31, 1998) and the interest rate and commitment fee on the unused portion of the facility fluctuate based on certain financial ratios. As of December 31, 1998, $350 million was outstanding under the credit facility. The net proceeds from the offering of the $1.7 billion senior notes and borrowings under the credit facility were used to purchase substantially all of HMH Properties' old senior notes, to repay amounts outstanding under the old credit facility and to make bond premium and consent payments totaling $175 million. These costs, along with the write-off of deferred financing fees of approximately $52 million related to the old senior notes and the old credit facility, were recorded as a pre-tax extraordinary loss on the extinguishment of debt in 1998.

In December 1998, HMH Properties issued $500 million of 8.45% Series C senior notes due in 2008 under the same indenture and with the same covenants as the Series A and Series B senior notes previously issued. The proceeds were used to pay down other debt and pay expenses of the REIT conversion. HMH Properties had a total of $2.2 billion in senior notes outstanding as of its merger with the operating partnership on December 16, 1998. These senior notes, and obligations under the new credit facility, became obligations of the operating partnership at that time. In February 1999, the operating partnership issued $300 million of 8 3/8% Series D senior notes due in 2006 under the same indenture and with the same covenants as the new senior notes and Series C senior notes. The debt was used to refinance, or purchase, approximately $299 million of debt acquired in the partnership mergers, including approximately $40 million of other mortgage debt.

In July 1997, HMH Properties and HMC Acquisition Properties, Inc. each of which is our wholly-owned subsidiary, completed consent solicitations with holders of their senior notes to amend certain provisions of their senior notes indentures. The 1997 consent solicitations facilitated the merger of Acquisitions with and into HMH Properties. Concurrent with the 1997 consent solicitations and the HMH Properties and Acquisitions merger, HMH Properties issued an aggregate of $600 million of 8 7/8% senior notes at par with a maturity of July 2007. HMH Properties received net proceeds of approximately $570 million, net of the costs of the 1997 consent solicitations and the offering. HMH Properties paid dividends to Host Marriott of $54 million and $29 million in 1997 and 1996, respectively, as permitted under the indentures. No dividends were paid in 1998.

In addition to the capital resources provided by its debt financings, in December 1996 Host Marriott Financial Trust, one of our wholly-owned subsidiary trusts, issued 11 million shares of 6 3/4% Convertible Quarterly Income Preferred Securities, with a liquidation preference of $50 per share for a total liquidation amount of $550 million. The convertible preferred securities represent an undivided beneficial interest in the assets of the trust and, pursuant to various agreements entered into in connection with the transaction, are fully, irrevocably and unconditionally guaranteed by us. Proceeds from the issuance of the convertible preferred securities were invested in 6 3/4% Convertible Subordinated Debentures due December 2, 2026 issued by us, which are the trust's sole assets. Each of the convertible preferred securities is convertible at the option of the holder into shares of our common stock at the rate of 3.2537 shares per convertible preferred security equivalent to a conversion price of $15.367 per share of our common stock. This conversion ratio includes adjustments to reflect distributions made to our common stockholders in connection with the REIT conversion. During 1998, 1997 and 1996, no shares were converted into common stock. Holders of the convertible preferred securities are entitled to receive preferential cumulative cash distributions at an annual rate of 6 3/4% accruing from the original issue date, commencing March 1, 1997, and payable quarterly in arrears thereafter. The distribution rate and the distribution and other payment dates for the convertible preferred securities correspond to the interest rate and interest and other payment dates on the convertible subordinated debentures. We may defer interest payments on the convertible subordinated debentures for a period not to exceed 20 consecutive quarters. If interest payments on the convertible subordinated debentures are deferred, so too are payments on the convertible preferred securities. Under this circumstance, we would not be permitted to declare or pay any cash distributions with respect to our capital stock or debt securities that rank equal in right of payment with or junior to the convertible subordinated debentures. Subject to certain restrictions, the convertible preferred securities are redeemable at our option upon any redemption of the convertible subordinated debentures after December 2, 1999. Upon repayment at maturity or as a result of the acceleration of the convertible subordinated debentures upon the occurrence of a default, the convertible preferred securities are subject to mandatory redemption. We may, from time to time, make market repurchases of these securities as conditions permit.

In connection with consummation of the REIT conversion, the operating partnership assumed primary liability for repayment of the convertible subordinated debentures, although we also retain liability. Upon conversion by a convertible preferred securities holder, we will issue shares of our common stock, which will be delivered to such holder. Upon the issuance of such shares by Host Marriott, the operating partnership will issue to us a number of OP Units equal to the number of shares of our common stock issued in exchange for the debentures.

In March 1996, we completed the issuance of 31.6 million shares of common stock for net proceeds of nearly $400 million.

Capital Acquisitions, Additions and Improvements. We seek to grow primarily through opportunistic acquisitions of full-service hotels. We believe that the upscale and luxury full-service hotel segments of the market offer opportunities to acquire assets at attractive multiples of cash flow and at discounts to replacement value, including under-performing hotels which may be improved by conversion to the Marriott or Ritz-Carlton brands. In the first quarter of 1998, we acquired a controlling interest in the partnership that owns the 1,671-room Atlanta Marriott Marquis Hotel for $239 million, including the assumption of $164 million of mortgage debt. We also acquired a controlling interest in the partnership that owns the 359-room Albany Marriott, the 350-room San Diego Marriott Mission Valley and the 320-room Minneapolis Marriott Southwest for approximately $50 million. In the second quarter of 1998, we acquired the 289-room Park Ridge Marriott for $24 million and acquired the 281-room Ritz-Carlton, Phoenix for $75 million. In addition, we acquired the 397-room Ritz-Carlton, Tysons Corner, Virginia for $96 million and the 487-room Torrance Marriott near Los Angeles, California, for $52 million. In the third quarter of 1998, we acquired the 308-room Ritz-Carlton, Dearborn for approximately $65 million, the 336-room Ritz-Carlton, San Francisco for approximately $161 million and the 404-room Memphis Crowne Plaza (which was converted to the Marriott brand upon acquisition) for approximately $16 million. We are regularly engaged in discussions with respect to other potential acquisition properties.

In December 1998, we completed the acquisition of, or controlling interests in, twelve world-class luxury hotels and certain other assets, including a mortgage note on a thirteenth hotel property from affiliates of the Blackstone Group. The operating partnership paid approximately $920 million in cash and assumed debt and issued approximately 43.9 million OP Units, along with other consideration for a total value of approximately $1.55 billion. The number of OP Units issued in the Blackstone acquisition will fluctuate based upon certain closing adjustments to be determined on March 31, 1999. Based on current stock prices, the operating partnership will be required to issue the Blackstone Entities approximately 3.7 million additional OP Units pursuant to such adjustments in April 1999.

In December 1998, subsidiaries of the operating partnership merged with eight public partnerships and acquired limited partnership interests in four private partnerships, which collectively own or control 28 properties 15 of which were controlled by us and consolidated on our financial statements prior to December 1998. The operating partnership issued approximately 25 million OP Units, 8.5 million of which were subsequently converted to our common stock, for interests in these partnerships valued at approximately $333 million. As a result of these transactions, the operating partnership increased its ownership of most of the 28 properties to 100% while consolidating 13 additional hotels (4,445 rooms).

In connection with our conversion to a REIT, we formed two non-controlled subsidiaries, which own approximately $264 million in assets. The ownership of most of these assets by us and the operating partnership could jeopardize our status as a REIT and the operating partnership's status as a partnership for federal income tax purposes. These assets primarily consist of partnership or other interests in hotels which are not leased and certain furniture, fixtures and equipment used in the hotels. In exchange for the operating partnership's contribution of these assets to the non-controlled subsidiaries, the operating partnership received only nonvoting common stock representing 95% of the total economic interests of the non-controlled subsidiaries. The Host Marriott Statutory Employee/Charitable Trust, the beneficiaries of which are 1) a trust formed for the benefit of certain employees of the operating partnership and 2) the J. Willard Marriott Foundation, acquired all of the voting common stock representing the remaining 5% of the total economic interests, and reflecting 100% of the control of each non-controlled subsidiary. As a result, as of December 31, 1998, we did not control the non-controlled subsidiaries.

During 1997, we acquired eight full-service hotels (3,600 rooms) and controlling interests in nine additional full-service hotels (5,024 rooms) for an aggregate purchase price of approximately $766 million (including the assumption of approximately $418 million of debt). We also completed the acquisition of the 504-room New

York Marriott Financial Center, after acquiring the mortgage on the hotel for $101 million in late 1996. During 1996, we acquired six full-service hotels (1,964 rooms) for an aggregate purchase price of $189 million and controlling interests in 17 additional full-service properties (8,917 rooms) for an aggregate purchase price of approximately $1.1 billion (including the assumption of $696 million of debt).

In November 1997, we announced a committment to develop and construct the 717-room Tampa Convention Center Marriott for a cost estimated at approximately $88 million, net of an approximate $16 million subsidy provided by the City of Tampa.

We may also expand existing hotel properties where strong performance and market demand exists. Expansions to existing properties create a lower risk to us as the success of the market is generally known and development time is significantly shorter than new construction. We recently committed to add approximately 500 rooms and an additional 15,000 square feet of meeting space to the 1,503-room Marriott's Orlando World Center. In July 1998, we announced the purchase of a 13-acre parcel of land for the development of a 295-room Ritz-Carlton that will serve as an extension of the 463-room Ritz-Carlton Naples, which was purchased in September 1996. The existing hotel just completed a restaurant and public space refurbishment and is in the process of adding a world-class spa. In addition, a subsidiary of one of the non-controlled subsidiaries entered into a joint venture through which a non-controlled subsidiary owns 49% of the surrounding 27-hole world-class Greg Norman designed golf course development. The golf course joint venture was transferred to a non-controlled subsidiary in connection with the REIT conversion. The total investment by us in expansion and investments in the Ritz-Carlton, Naples property is expected to be approximately $97 million.

In 1997, we acquired the outstanding common stock of the Forum Group from Marriott Senior Living Services, Inc., a subsidiary of Marriott International. We purchased the Forum Group portfolio of 29 senior living communities for approximately $460 million, including approximately $270 million in debt. Additionally, during 1997 and 1998, we completed certain expansions and acquired two additional senior living properties for $100 million, including $48 million of debt. The properties, which continued to be operated by Marriott International were owned by a subsidiary of Crestline and distributed to our shareholders in connection with the REIT conversion and are reflected as discontinued operations in our financial statements. In December 1998, we discontinued the senior living business as a result of the distribution of the Crestline common stock to our shareholders.

Asset Dispositions. We historically have disposed of, and may from time to time in the future consider opportunities to sell or exchange, real estate properties at attractive valuations when the proceeds could be redeployed into investments with more favorable returns. During the second quarter of 1998, we disposed of the 662-room New York Marriott East Side for proceeds of $191 million and recorded a pre-tax gain of approximately $40 million and the Napa Valley Marriott for proceeds of $21 million and recorded a pre-tax gain of approximately $10 million. During 1997, we disposed of the 255-room Sheraton Elk Grove Suites for proceeds of approximately $16 million. We also sold 90% of an 174-acre parcel of undeveloped land in Germantown, Maryland for approximately $11 million, which approximated its carrying value. During the first and second quarters of 1996, 16 of our Courtyard properties and 18 of our Residence Inn properties were sold, subject to a leaseback, to Hospitality Properties Trust for approximately $314 million, with approximately $35 million to be received upon expiration of the leases. A gain on the transactions of approximately $45 million was deferred and is being amortized over the initial term of the leases. In February 1999, we disposed of the Minneapolis/Bloomington Marriott for $35 million and recorded a pre-tax gain on sale of approximately $13 million.

In cases where we have made a decision to dispose of particular properties, we assess impairment of each individual property to be sold on the basis of expected sales price less estimated costs of disposal. Otherwise, we assess impairment of our real estate properties based on whether it is probable that undiscounted future cash flows from such properties will be less than their net book value. If a property is impaired, its basis is adjusted to its fair market value.

Cash Flows. Our cash flow from continuing operations in 1998, 1997 and 1996 totaled $312 million, $432 million and $205 million, respectively. Cash flow from (used in) discontinued operations totaled $29 million, $32 million and ($4 million) in 1998, 1997 and 1996, respectively.

Our cash used in investing activities from continuing operations in 1998, 1997 and 1996 totaled $655 million, $807 million and $504 million, respectively. Cash from investing activities primarily consists of net proceeds from the sales of assets, offset by the acquisition of hotels and other capital expenditures previously discussed, as well as the purchases and sales of short-term marketable securities. Cash used in investing activities from continuing operations was significantly impacted by the purchase of $354 million of short-term marketable securities in 1997 and the net sale of $354 million of short-term marketable securities in 1998. Cash flow from investing activities from discontinued operations totaled $50 million and $239 million in 1998 and 1997, respectively. There was no cash flow from (used in) investing activities from discontinued operations in 1996.

Our cash from financing activities from continuing operations was $265 million for 1998, $392 million for 1997 and $806 million for 1996. Our cash from financing activities from continuing operations primarily consists of the proceeds from debt and equity offerings, mortgage financing on certain acquired hotels and borrowings under our credit facilities offset by redemptions and payments on senior notes, prepayments on hotel mortgages and other scheduled principal payments. Cash flow from (used in) financing activities from discontinued operations totaled $24 million and ($3 million) in 1998 and 1997, respectively. There was no cash flow from (used in) financing activities from discontinued operations in 1996.

EBITDA. Our consolidated earnings before interest, taxes, depreciation, amortization and other non-cash items, which is referred to as EBITDA, increased $180 million, or 25%, to $888 million in 1998 from $708 million in 1997.

Hotel EBITDA increased $180 million, or 26%, to $870 million in 1998 from $690 million in 1997, reflecting comparable full-service hotel EBITDA growth, as well as incremental EBITDA from 1997 and 1998 acquisitions. Full-service hotel EBITDA from comparable hotel properties increased 9.6% on a REVPAR increase of 7.3%. Our senior living communities contributed $61 million of EBITDA in 1998.

The following is a reconciliation of EBITDA to our income before extraordinary items (in millions):

	Fifty-two Weeks Ended December 31, 1998	Fifty-two Weeks Ended January 2, 1998
EBITDA	$ 888	$ 708
REIT conversion expense	(64)	--
Interest expense	(335)	(302)
Dividends on convertible preferred securities	(37)	(37)
Depreciation and amortization	(243)	(240)
Minority interest expense	(52)	(32)
Income taxes	20	(36)
Gain (loss) on disposition of assets and other non-cash charges, net	18	(14)
Income before extraordinary items	$ 195	$ 47

The ratio of earnings to fixed charges was 1.5 to 1.0, 1.3 to 1.0 and 1.0 to 1.0 in 1998, 1997 and 1996, respectively.

Comparative FFO. Management believes that Comparative Funds From Operations or "Comparative FFO," which represents Funds From Operations, as defined by NAREIT, plus deferred tax expense, is a meaningful disclosure that will help the investment community to better understand our financial performance. FFO is meaningful due to the significance of our long-lived assets and because such data is considered useful by

the investment community to better understand our results, and can be used to measure our ability to service debt, fund capital expenditures and expand its business. FFO is defined by NAREIT as net income computed in accordance with GAAP, excluding gains or losses from debt restructurings and sales of properties, plus real estate related depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. FFO should not be considered as an alternative to net income, operating profit, cash flows from operations or any other operating or liquidity performance measure prescribed by GAAP. FFO is also not an indicator of funds available for our cash needs, including distributions. Our method of calculating FFO may be different from methods used by other REITs and, accordingly, is not comparable to such other REITs.

Comparative FFO from total operations increased $107 million, or 36%, to $402 million in 1998. Comparative FFO from total operations increased $131 million, or 80%, to $295 million in 1997. The following is a reconciliation of our income before extraordinary items to Comparative FFO (in millions):

	Fiscal Year	
	1998	1997
Income before extraordinary items	$195	$ 47
Depreciation and amortization	265	240
Other real estate activities	(53)	6
Partnership adjustments	(11)	(13)
Deferred taxes	46	15
Other non-recurring adjustments:		
REIT conversion expenses	(37)	--
Change in reporting period(a)	(3)	--
Comparative FFO from total operations	402	295
Discontinued operations	(28)	(10)
Comparative FFO from continuing operations	$374	$285

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(a) We changed our method of recording operations for certain non-Marriott owned properties in 1998, resulting in the recognition of 13 months of operations in 1998. This amount represents the incremental operations recognized.

Cash expenditures for various long-term assets and income taxes have been, and will be, incurred which are not reflected in the Comparative FFO presentation.

We consider EBITDA and Comparative FFO to be indicative measures of our operating performance due to the significance of our long-lived assets and because such data is considered useful by the investment community to better understand our results, and can be used to measure our ability to service debt, fund capital expenditures and expand its business, however, such information should not be considered as an alternative to net income, operating profit, cash from operations, or any other operating or liquidity performance measure prescribed by generally accepted accounting principles. Cash expenditures for various long-term assets, interest expense (for EBITDA purposes only) and income taxes have been, and will be, incurred which are not reflected in the EBITDA and Comparative FFO presentation.

Partnership Activities. Prior to the REIT conversion, we had general and limited partner interests in numerous limited partnerships which owned 240 hotels including 20 full-service hotels, managed by Marriott International. Debt of the hotel limited partnerships was typically secured by first mortgages on the properties and was generally nonrecourse to the limited partnerships and their partners. However, we committed to advance amounts to certain affiliated limited partnerships, if necessary, to cover certain future debt service requirements; these commitments now have been assumed by the operating partnership. These commitments are limited, in the aggregate, to $22 million. Amounts repaid to us under these guarantees totaled $14 million and $2 million in 1998 and 1997, respectively. Fundings by us under these guarantees amounted to $10 million in 1997. There were no fundings in 1998 or 1996. As a result of the REIT conversion, our interests in the 220 limited-service hotels were transferred to the non-controlled subsidiaries. Additionally, as part of the REIT conversion, 13 of the 20 full-service hotels were acquired by the operating partnership, two were sold, four were transferred to one of the non-controlled subsidiaries and one was retained by us.

Leases. We lease certain property and equipment under noncancelable operating leases, including the long-term ground leases for certain hotels, generally with multiple renewal options. The leases related to the 53 Courtyard properties and 18 Residence Inn properties sold during 1995 and 1996, are nonrecourse to us and contain provisions for the payment of

contingent rentals based on a percentage of sales in excess of stipulated amounts. We remain contingently liable on certain leases related to divested non-lodging properties. Such

contingent liabilities aggregated $93 million at December 31, 1998. However, management considers the likelihood of any substantial funding related to these divested properties' leases to be remote.

Inflation. Our hotel lodging properties have been impacted by inflation through its effect on increasing costs and on the managers' ability to increase room rates. Unlike other real estate, hotels have the ability to change room rates on a daily basis, so the impact of higher inflation generally can be passed on to customers. Our exposure to inflation is less now that substantially all of our hotels are leased to others.

A substantial portion of our debt bears interest at fixed rates. This debt structure largely mitigates the impact of changes in the rate of inflation on future interest costs. However, we are currently exposed to some variable interest rate debt, whose market risk is hedged through interest rate exchange agreements with financial institutions with an aggregate notional amount of $365 million. Under the agreements, we collect interest based on one-month LIBOR (rate of 5.06% at December 31, 1998) and pay interest at fixed rates ranging from 5.72% to 6.60%. The agreements expire between August 2000 and August 2002. Accordingly, the amount of our interest expense under the interest rate exchange agreements and the floating rate debt for a particular year will be affected by changes in short-term interest rates.

Year 2000 Issue

Year 2000 issues have arisen because many existing computer programs and chip-based embedded technology systems use only the last two digits to refer to a year, and therefore do not properly recognize a year that begins with "20" instead of the familiar "19". If not corrected, many computer applications could fail or create erroneous results. The following disclosure provides information regarding the current status of our Year 2000 compliance program.

We have adopted the compliance program because we recognize the importance of minimizing the number and seriousness of any disruptions that may occur as a result of the Year 2000 issue. Our compliance program includes an assessment of our hardware and software computer systems and embedded systems, as well as an assessment of the Year 2000 issues relating to third parties with which we have a material relationship or whose systems are material to the operations of our hotel properties. Our efforts to ensure that our computer systems are Year 2000 compliant have been segregated into two separate phases: in-house systems and third-party systems. Following the REIT conversion, Crestline, as the lessee of most of our hotels, will deal directly with Year 2000 matters material to the operation of the hotels, and Crestline has agreed to adopt and implement the program outlined below with respect to third-party systems for all hotels for which it is the lessee.

In-House Systems. Since the distribution of Marriott International on October 8, 1993, we have invested in the implementation and maintenance of accounting and reporting systems and equipment that are intended to enable us to provide adequately for our information and reporting needs and which are also Year 2000 compliant. Substantially all of our in-house systems have already been certified as Year 2000 compliant through testing and other mechanisms and we have not delayed any systems projects due to the Year 2000 issue. We are in the process of engaging a third party to review our Year 2000 in-house compliance. Management believes that future costs associated with Year 2000 issues for our in-house systems will be insignificant and therefore not impact our business, financial condition and results of operations. We have not developed, and do not plan to develop, a separate contingency plan for our in-house systems due to their current Year 2000 compliance.

Third-Party Systems. We rely upon operational and accounting systems provided by third parties, primarily the managers and operators of our hotel properties, to provide the appropriate property-specific operating systems, including reservation, phone, elevator, security, HVAC and other systems, and to provide us with financial information. Based on discussion with the third parties that are critical to our business, including the managers and operators of our hotels, we believe that these parties are in the process of studying their systems and the systems of their respective vendors and service providers and, in many cases, have begun to implement changes, to ensure that they are Year 2000 compliant. However, we have not received any oral or written assurances that these third parties will be Year 2000 compliant on time. To the extent these changes impact

property-level systems, we may be required to fund capital expenditures for upgraded equipment and software. We do not expect these charges to be material, but we are committed to making these investments as required. To the extent that these changes relate to a third party manager's centralized systems, including reservations, accounting, purchasing, inventory, personnel and other systems, management agreements generally provide for these costs to be charged to our properties subject to annual limitations, which costs will be borne by Crestline under the leases. We expect that the third party managers will incur Year 2000 costs in lieu of costs for their centralized systems related to systems projects that otherwise would have been pursued and, therefore, the overall level of centralized systems charges allocated to the properties will not materially increase as a result of the Year 2000 compliance effort. We believe that this deferral of certain systems projects will not have a material impact on our future results of operations, although it may delay certain productivity enhancements at our properties. We and Crestline will continue to monitor the efforts of these third parties to become Year 2000 compliant and will take appropriate steps to address any non-compliance issues. We believe that, in the event of material Year 2000 non-compliance, we will have the right to seek recourse against the manager under our third party management agreements. The management agreements, however, generally do not specifically address the Year 2000 compliance issue. Therefore, the amount of any recovery in the event of Year 2000 non-compliance at a property, if any, is not determinable at this time, and only a portion of such recovery would accrue to us through increased lease rental payments from Crestline.

We and Crestline will work with the third parties to ensure that appropriate contingency plans will be developed to address the most reasonably likely worst case Year 2000 scenarios, which may not have been identified fully. In particular, we and Crestline have had extensive discussions regarding the Year 2000 problem with Marriott International, the manager of a substantial majority of our hotel properties. Due to the significance of Marriott International to our business, a detailed description of Marriott International's state of readiness follows.

Marriott International has adopted an eight-step process toward Year 2000 readiness, consisting of the following: (1) Awareness: fostering understanding of, and commitment to, the problem and its potential risks; (2) Inventory: identifying and locating systems and technology components that may be affected; (3) Assessment: reviewing these components for Year 2000 compliance, and assessing the scope of Year 2000 issues; (4) Planning: defining the technical solutions and labor and work plans necessary for each affected system; (5) Remediation/Replacement: completing the programming to renovate or replace the problem software or hardware; (6) Testing and Compliance Validation: conducting testing, followed by independent validation by a separate internal verification team; (7) Implementation: placing the corrected systems and technology back into the business environment; and (8) Quality Assurance: utilizing an internal audit team to review significant projects for adherence to quality standards and program methodology.

Marriott International has grouped its systems and technology into three categories for purposes of Year 2000 compliance: (i) information resource applications and technology (IT Applications)--enterprise-wide systems supported by Marriott International's centralized information technology organization ("IR"); (ii) Business-initiated Systems ("BIS")--systems that have been initiated by an individual business unit, and that are not supported by Marriott International's IR organization; and (iii) Building Systems--non-IT equipment at properties that use embedded computer chips, such as elevators, automated room key systems and HVAC equipment. Marriott International is prioritizing its efforts based on how severe an effect noncompliance would have on customer service, core business processes or revenues, and whether there are viable, non-automated fallback procedures (System Criticality).

Marriott International measures the completion of each phase based on documented and quantified results, weighted for System Criticality. As of January 1, 1999, the Awareness and Inventory phases were complete for IT Applications and substantially complete for BIS and Building Systems. For IT Applications, the Assessment, Planning Remediation/Replacement and Testing phases were each over 95 percent complete, and Compliance Validation had been completed for nearly half of key systems, with most of the remaining work in its final stage. BIS and Building Systems, Assessment and Planning are nearly complete. Remediation/Replacement and Testing is 20 percent complete for BIS, and Marriott International is on track for completion of initial Testing of Building

Systems by the end of the first quarter of 1999. Compliance Validation is in progress for both BIS and Building Systems. Marriott International remains on target for substantial completion of Remediation/Replacement and Testing for System Critical BIS and Building Systems by June 1999 and September 1999, respectively. Quality Assurance is in progress for IT Applications, BIS and Building Systems.

Year 2000 compliance communications with Marriott International's significant third party suppliers, vendors and business partners, including its franchisees are ongoing. Marriott International's efforts are focused on the connections most critical to customer service, core business processes and revenues, including those third parties that support the most critical enterprise-wide IT Applications, franchisees generating the most revenues, suppliers of the most widely used Building Systems and BIS, the top 100 suppliers, by dollar volume, of non-IT products, and financial institutions providing the most critical payment processing functions. Responses have been received from a majority of the firms in this group. A majority of these respondents have either given assurances of timely Year 2000 compliance or have identified the necessary actions to be taken by them or Marriott International to achieve timely Year 2000 compliance for their products.

Marriott International has established a common approach for testing and addressing Year 2000 compliance issues for its managed and franchised properties. This includes a guidance protocol for operated properties, and a Year 2000 "Toolkit" for franchisees containing relevant Year 2000 compliance information. Marriott International is also utilizing a Year 2000 best-practices sharing system.

Risks. There can be no assurances that Year 2000 remediation by us or third parties will be properly and timely completed, and failure to do so could have a material adverse effect on us, our business and our financial condition. We cannot predict the actual effects to us of the Year 2000 problem, which depend on numerous uncertainties such as: whether significant third parties properly and timely address the Year 2000 issue and whether broad-based or systemic economic failures occur. Moreover, we are reliant upon Crestline to interface with third parties in addressing the Year 2000 issue at the hotels leased by Crestline. We are also unable to predict the severity and duration of any such failures, which could include disruptions in passenger transportation or transportation systems generally, loss of utility and/or telecommunications services, the loss or disruption of hotel reservations made on centralized reservation systems and errors or failures in financial transactions or payment processing systems such as credit cards. Due to the general uncertainty inherent in the Year 2000 problem and our dependence on third parties, including Crestline, we are unable to determine at this time whether the consequences of Year 2000 failures will have a material impact on us. Our Year 2000 compliance program, and Crestline's adoption thereof, are expected to significantly reduce the level of uncertainty about the Year 2000 problem and management believes that the possibility of significant interruptions of normal operations should be reduced.

Accounting Standards. In the fourth quarter of 1996, we adopted SFAS No. 123, "Accounting for Stock Based Compensation." The adoption of SFAS No. 123 did not have a material effect on our financial statements. During 1997, we adopted SFAS No. 128, "Earnings Per Share," SFAS No. 129, "Disclosure of Information About Capital Structure" and SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." The adoption of these statements did not have a material effect on our consolidated financial statements and the appropriate disclosures required by these statements have been incorporated herein.

As of January 1, 1998, we adopted SFAS No. 130, "Reporting Comprehensive Income" which establishes new rules for the reporting and display of comprehensive income and its components. SFAS 130 requires unrealized gains or losses on our right to receive Host Marriott Services Corporation stock and foreign currency translation adjustments, to be included in other comprehensive income. For 1998 and 1997, our other comprehensive income (loss) was ($16 million) and $7 million, respectively. As of December 31, 1998 and January 2, 1998, our accumulated other comprehensive income (loss) was approximately ($4 million) and $12 million, respectively.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Statement establishes accounting and reporting standards requiring

that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. SFAS No. 133 is effective for fiscal years beginning after June 15, 1999. We have not determined the impact of SFAS No. 133, but we do not believe it will be material.

On November 20, 1997, the Emerging Issues Task Force of the Financial Accounting Standards Board reached a consensus of EITF 97-2, "Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangements." EITF 97-2 addresses the circumstances in which a management entity may include the revenues and expenses of a managed entity in its financial statements.

As discussed in Note 1 to the financial statements, we have adopted EITF 97-2 in the fourth quarter of 1998 with retroactive effect in prior periods to conform to the new presentation. Application of EITF 97-2 to the consolidated financial statements for the fiscal years 1998, 1997 and 1996 increased both revenues and operating expenses by approximately $2.1 billion, $1.7 billion and $1.2 billion, respectively, and had no impact on operating profit, net income or earnings per share.

Item 7.a Quantitative and Qualitative Disclosures About Market Risk

The table below provides information about our derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including interest rate swaps and debt obligations. For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates. For interest rate swaps, the table presents notional amounts and weighted average interest rates by expected (contractual) maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates are based on implied forward rates in the yield curve at the reporting date. As of December 31, 1998, the change in current yields between one-year and five-year U.S. Treasury bonds is three basis points, thus, minimal fluctuations in the average interest rates are anticipated over the maturity periods.

	Expected Maturity Date							
	1999	2000	2001	2002	2003	Thereafter	Total	Fair Value
	($ in millions)							
Liabilities								
Long-term Debt--variable(5):								
Potomac Hotel Limited Partnership(1)	$ 163	$ --	$ --	$ --	$ --	$ --	$ 163	$163
Marriott Diversified American Hotels, LP(1)	96	--	--	--	--	--	96	96
New York Marriott Marquis	145	--	--	--	--	--	145	145
San Diego Marriott	5	5	6	6	7	167	196	190
Grand Hyatt, Atlanta(2)	--	--	--	40	--	--	40	40
Hyatt Regency, Cambridge	--	45	--	--	--	--	45	45
Hyatt Regency, Reston	--	--	49	--	--	--	49	49
Hyatt Regency, Burlingame	--	54	--	--	--	--	54	54
The Ritz-Carlton, Amelia Island	--	--	--	--	90	--	90	90
Swissotel	--	--	--	200	--	--	200	200
Credit Facility	--	--	350	--	--	--	350	350
Average Interest Rate(3)	7.42%	6.71%	7.47%	7.63%	7.73%	7.73%	7.32%	
Other:								
Convertible preferred securities at 6 3/4%	--	--	--	--	--	--	550	449

	Expected Expiration Date						Notional
	1999	2000	2001	2002	2003	Thereafter	Amount
	($ in millions)						
Interest Rate Derivatives(6)							
Receivables:							
Grand Hyatt, Atlanta(2)	$ --	$ --	$ --	$ 37	$--	$--	$ 37
Hyatt Regency, Cambridge	--	20	--	--	--	--	20
Hyatt Regency, Cambridge	--	20	--	--	--	--	20
Hyatt Regency, Reston	--	--	24	--	--	--	24
Hyatt Regency, Reston	--	--	24	--	--	--	24
Hyatt Regency, Burlingame	--	42	--	--	--	--	42
Hyatt Regency, Burlingame	--	10	--	--	--	--	10
Swissotel	--	--	--	188	--	--	188
Payables:							
Grand Hyatt, Atlanta(2)	--	--	--	37	--	--	37
Hyatt Regency, Cambridge	--	20	--	--	--	--	20
Hyatt Regency, Cambridge	--	20	--	--	--	--	20
Hyatt Regency, Reston	--	--	24	--	--	--	24
Hyatt Regency, Reston	--	--	24	--	--	--	24

Hyatt Regency, Burlingame.....	--	42	--	--	--	--	42
Hyatt Regency, Burlingame.....	--	10	--	--	--	--	10
Swissotel.....	--	--	--	188	--	--	188
Average Interest Rate							
Receivables(3).....	5.55%	5.55%	5.55%	5.55%	--	--	5.55%
Payables(4).....	6.16%	6.15%	6.17%	6.17%	--	--	6.20%

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(1)Subsequent to year-end, the long-term debt amounts were refinanced with fixed interest rate obligations.

(2) Subsequent to year-end, the long-term debt amounts were refinanced with fixed interest rate obligations and the related interest rate derivative was terminated.

(3) Interest rates are based on one-month LIBOR plus certain basis points which range from zero to 275 basis points. The one-month LIBOR rate at December 31, 1998 was 5.06%. As noted above, the current yield curve is flat over the expected maturity dates and, therefore, we have calculated the average interest rates using the one-month LIBOR rate at December 31, 1998.

(4)Interest rates are at fixed rates ranging from 5.72% to 6.60%.

(5) Our fixed rate debt of $3.7 billion has a fair value which exceeds its carrying value by $20 million. Substantially all of our fixed rate debt matures in years subsequent to 2003.

(6) The fair value of the interest rate swaps is $14 million as of December 31, 1998. See Note 5 to the consolidated financial statement.

Item 8. Financial Statements and Supplementary Data

The following financial information is included on the pages indicated:

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Host Marriott Corporation:

We have audited the accompanying consolidated balance sheets of Host Marriott Corporation and subsidiaries as of December 31, 1998 and January 2, 1998, and the related consolidated statements of operations, shareholders' equity and comprehensive income and cash flows for each of the three fiscal years in the period ended December 31, 1998. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Host Marriott Corporation and subsidiaries as of December 31, 1998 and January 2, 1998, and the results of their operations and their cash flows for each of the three fiscal years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company has given retroactive effect to the change to include property-level sales and operating expenses of its hotels in the consolidated statements of operations.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index at Item 14(a)(2) is presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Washington, D.C.
March 5, 1999

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 1998 and January 2, 1998

	1998	1997
	(in millions)	
ASSETS		
Property and equipment, net	$7,201	$4,634
Notes and other receivables, net (including amounts due from affiliates of $134 million and $23 million, respectively)	203	52
Due from managers	19	87
Investments in affiliates	33	13
Other assets	376	272
Short-term marketable securities	--	354
Cash and cash equivalents	436	493
Net investment in discontinued operations	--	236
	$8,268	$6,141
LIABILITIES AND SHAREHOLDERS' EQUITY		
Debt		
Senior notes issued by the Company or its subsidiaries	$2,246	$1,585
Mortgage debt	2,438	1,784
Other	447	97
	5,131	3,466
Accounts payable and accrued expenses	204	84
Deferred income taxes	97	487
Other liabilities	460	296
Total liabilities	5,892	4,333
Minority interest	515	58
Company-obligated mandatorily redeemable convertible preferred securities of a subsidiary trust whose sole assets are the convertible subordinated debentures due 2026 ("Convertible Preferred Securities")	550	550
Shareholders' equity		
Common Stock, 750 million shares authorized; 225.6 million shares in 1998 and 203.8 million shares in 1997 issued and outstanding	2	204
Additional paid-in capital	1,867	935
Accumulated other comprehensive income	(4)	12
Retained (deficit) earnings	(554)	49
Total shareholders' equity	1,311	1,200
	$8,268	$6,141

See Notes to Consolidated Financial Statements.

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Fiscal years ended December 31, 1998, January 2, 1998 and January 3, 1997
(in millions, except per common share amounts)

	1998	1997	1996
REVENUES			
Rooms	$2,220	$1,850	$1,302
Food and beverage	984	776	515
Other	238	180	125
Total hotel revenues	3,442	2,806	1,942
Net gains (losses) on property transactions	57	(11)	1
Other	14	28	14
Total revenues	3,513	2,823	1,957
OPERATING COSTS AND EXPENSES			
Hotel property-level costs and expenses			
Rooms	524	428	313
Food and beverage	731	592	406
Other department costs and deductions	843	693	506
Management fees and other (including Marriott International management fees of $196 million, $162 million and $101 million, respectively)	726	649	461
Other	28	29	38
Total operating costs and expenses	2,852	2,391	1,724
OPERATING PROFIT BEFORE MINORITY INTEREST, CORPORATE EXPENSES AND INTEREST	661	432	233
Minority interest	(52)	(31)	(6)
Corporate expenses	(50)	(45)	(43)
REIT conversion expenses	(64)	--	--
Interest expense	(335)	(288)	(237)
Dividends on Convertible Preferred Securities of subsidiary trust	(37)	(37)	(3)
Interest income	51	52	48
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	174	83	(8)
Provision for income taxes	(86)	(36)	(5)
Benefit from change in tax status	106	--	--
INCOME (LOSS) FROM CONTINUING OPERATIONS	194	47	(13)
DISCONTINUED OPERATIONS			
Income from discontinued operations (net of income tax expense of $4 million in 1998)	6	--	--
Provision for loss on disposal (net of income tax benefit of $3 million in 1998)	(5)	--	--
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	195	47	(13)
Extraordinary items--gain (loss) on early extinguishment of debt (net of income tax (benefit) expense of ($80) million and $1 million in 1998 and 1997, respectively)	(148)	3	--
NET INCOME (LOSS)	$ 47	$ 50	$ (13)
BASIC EARNINGS (LOSS) PER COMMON SHARE:			
CONTINUING OPERATIONS	$ .90	$ .22	$ (.06)
Discontinued operations (net of income taxes)	.01	--	--
Extraordinary items--gain (loss) on early extinguishment of debt (net of income taxes)	(.69)	.01	--
BASIC EARNINGS (LOSS) PER COMMON SHARE	$ .22	$ .23	$ (.06)
DILUTED EARNINGS (LOSS) PER COMMON SHARE:			
CONTINUING OPERATIONS	$ .84	$ .22	$ (.06)
Discontinued operations (net of income taxes)	.01	--	--
Extraordinary items--gain (loss) on early extinguishment of debt (net of income taxes)	(.58)	.01	--
DILUTED EARNINGS (LOSS) PER COMMON SHARE	$ .27	$ .23	$ (.06)

See Notes to Consolidated Financial Statements.

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME OF
HOST MARRIOTT CORPORATION
(predecessor to Host Marriott, L.P.)

Fiscal years ended December 31, 1998, January 2, 1998 and January 3, 1997

Common Shares Outstanding		Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
(in millions)				(in millions)		
159.7	Balance, December 29, 1995	$ 160	$ 499	$ 16	$ --	$ --
--	Net loss	--	--	(13)	--	(13)
--	Other comprehensive income: Unrealized gain on HM Services common stock	--	--	--	5	5
--	Comprehensive loss					$ (8)
--	Adjustment to Host Marriott Services dividend	--	--	(4)	--	
3.9	Common stock issued for the comprehensive stock and employee stock purchase plans	3	12	--	--	
6.8	Common stock issued for warrants exercised	7	42	--	--	
31.6	Common stock issued in stock offering	32	368	--	--	
202.0	Balance, January 3, 1997	202	921	(1)	5	--
--	Net income	--	--	50	--	50
--	Other comprehensive income: Unrealized gain on HM Services common stock	--	--	--	7	7
--	Comprehensive income					$ 57
1.8	Common stock issued for the comprehensive stock and employee stock purchase plans	2	14	--	--	
203.8	Balance, January 2, 1998	204	935	49	12	--
--	Net income	--	--	47	--	47
--	Other comprehensive income (loss): Unrealized loss on HM Services common stock	--	--	--	(5)	(5)
	Foreign currency translation adjustment	--	--	--	(9)	(9)
	Reclassification of gain realized on HM Services common stock--net income	--	--	--	(2)	(2)
--	Comprehensive income					$ 31
1.4	Common stock issued for the comprehensive stock and employee stock purchase plans	--	8	--	--	
--	Adjustment of stock par value from $1 to $.01 per share	(202)	202	--	--	
11.9	Common stock issued for Special Dividend	--	143	(143)	--	
8.5	Common stock issued for the REIT roll-up of partnerships (Note 12)	--	113	--	--	
--	Increase in Operating Partnership equity due to issuance of OP Units for limited partner					

	interests (net of $368 million minority interest of the Operating Partnership)	--	466	--	--
--	Distribution of stock of Crestline Capital Corporation.....	--	--	(438)	--
--	Cash portion of Special Dividend.....	--	--	(69)	--
225.6	Balance, December 31, 1998.....	$ 2	$1,867	$(554)	$ (4)

See Notes to Consolidated Financial Statements.

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal years ended December 31, 1998, January 2, 1998 and January 3, 1997

	1998	1997	1996
	(in millions)		
OPERATING ACTIVITIES			
Income (loss) from continuing operations	$ 194	$ 47	$(13)
Adjustments to reconcile to cash from operations:			
Depreciation and amortization	243	231	168
Income taxes	(103)	(20)	(35)
Amortization of deferred income	(4)	(4)	(6)
Net (gains) losses on property transactions	(50)	19	4
Equity in earnings of affiliates	(1)	(4)	(3)
Other	39	62	49
Changes in operating accounts:			
Other assets	(56)	57	9
Other liabilities	50	44	32
Cash from continuing operations	312	432	205
Cash from (used in) discontinued operations	29	32	(4)
Cash from operations	341	464	201
INVESTING ACTIVITIES			
Proceeds from sales of assets	227	51	373
Less non-cash proceeds	--	--	(35)
Cash received from sales of assets	227	51	338
Acquisitions	(988)	(359)	(702)
Capital expenditures:			
Capital expenditures for renewals and replacements	(165)	(129)	(87)
New investment capital expenditures	(87)	(29)	(72)
Purchases of short-term marketable securities	(134)	(354)	--
Sales of short-term marketable securities	488	--	--
Notes receivable collections	4	6	13
Affiliate notes receivable issuances and collections, net	(13)	(6)	21
Other	13	13	(15)
Cash used in investing activities from continuing operations	(655)	(807)	(504)
Cash used in investing activities from discontinued operations	(50)	(239)	--
Cash used in investing activities	(705)	(1,046)	(504)
FINANCING ACTIVITIES			
Issuances of debt	2,496	857	46
Debt prepayments	(1,898)	(403)	(173)
Cash contributed to Crestline at inception	(52)	--	--
Cash contributed to Non-Controlled Subsidiary	(30)	--	--
Cost of extinguishment of debt	(175)	--	--
Scheduled principal repayments	(51)	(90)	(82)
Issuances of common stock	1	6	454
Issuances of Convertible Preferred Securities, net	--	--	533
Other	(26)	22	28
Cash from financing activities from continuing operations	265	392	806
Cash from (used in) financing activities from discontinued operations	24	(3)	--
Cash from financing activities	289	389	806
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(75)	(193)	503
CASH AND CASH EQUIVALENTS, beginning of year	511	704	201
CASH AND CASH EQUIVALENTS, end of year	$ 436	$ 511	$704
Non-cash financing activities:			
Assumption of mortgage debt for the acquisition of, or purchase of controlling interests in, certain hotel properties and discontinued senior living communities	$1,215	$ 733	$696
Distribution of net assets in connection with the discontinued operations	$ 438		
Contribution of net assets to Non-Controlled Subsidiaries	$ 12		

See Notes to Consolidated Financial Statements.

1. Summary of Significant Accounting Policies

Description of Business

Host Marriott Corporation a Maryland corporation formerly named HMC Merger Corporation ("Host REIT"), operating through an umbrella partnership structure, is the owner of full-service hotel properties. Host REIT operates as a self-managed and self-administered real estate investment trust ("REIT") and its operations are conducted solely through an operating partnership and its subsidiaries. As REITs are not permitted to derive revenues directly from the operations of hotels, Host REIT leases substantially all of the hotels to subsidiaries of Crestline Capital Corporation ("Crestline" or the "Lessee") and certain other lessees as further discussed at Note 9.

As of December 31, 1998, Host REIT owned, or had controlling interests in, 126 upscale and luxury, full-service hotel lodging properties generally located throughout the United States and operated primarily under the Marriott, Ritz-Carlton, Four Seasons, Swissotel and Hyatt brand names. Most of these properties are managed by Marriott International, Inc. ("Marriott International"). Host REIT also has certain economic, non-voting interests in certain Non-Controlled Subsidiaries, whose hotels are also managed by Marriott International (see Note 4).

Basis of Presentation

On April 16, 1998, the Board of Directors of Host Marriott Corporation, ("Host Marriott"), a Delaware corporation and the predecessor to Host REIT, approved a plan to reorganize Host Marriott's business operations through the spin-off of Host Marriott's senior living business as part of Crestline and the contribution of Host Marriott's hotels and certain other assets and liabilities to a newly formed Delaware limited partnership, Host Marriott, L.P. (the "Operating Partnership"). Host Marriott merged into HMC Merger Corporation (the "Merger"), a newly formed Maryland corporation (renamed Host Marriott Corporation) which intends to qualify, effective January 1, 1999, as a real estate investment trust ("REIT") and is the sole general partner of the Operating Partnership. Host Marriott's and its subsidiaries' contribution of its hotels and certain assets and liabilities to the Operating Partnership and its subsidiaries (the "Contribution") in exchange for units of partnership interest in the Operating Partnership was accounted for at Host Marriott's historical basis. As of December 31, 1998, Host REIT owned approximately 78% of the Operating Partnership.

In these consolidated financial statements, the "Company" or "Host Marriott" refers to Host Marriott Corporation, both before and after the Merger and its conversion to a REIT (the "REIT Conversion").

On December 29, 1998, the Company completed the previously announced spin-off of Crestline (see Note 2), through a taxable stock dividend to its shareholders. Each Host Marriott shareholder of record on December 28, 1998 received one share of Crestline for every ten shares of Host Marriott common stock owned (the "Distribution").

As a result of the Distribution, the Company's financial statements have been restated to present the senior living communities' business results of operations and cash flows as discontinued operations. See Note 2 for further discussion of the Distribution. All historical financial statements presented have been restated to conform to this presentation, with the historical assets and liabilities of that segment presented on the balance sheet as Net Investment in Discontinued Operations.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries and controlled affiliates. Investments in affiliates over which the Company has the ability to exercise significant

influence, but does not control, are accounted for using the equity method. All material intercompany transactions and balances have been eliminated.

Fiscal Year End Change

The U.S. Internal Revenue Code of 1986, as amended, requires REITs to file their U.S. income tax return on a calendar year basis. Accordingly in 1998, the Company changed its fiscal year-end to December 31 for both financial and tax reporting requirements. Previously, the Company's fiscal year ended on the Friday nearest to December 31. Fiscal year 1998 and 1997 included 52 weeks compared to 53 weeks for fiscal year 1996.

Revenues and Expenses

Revenues primarily represent the gross sales generated by the Company's hotel properties and net gains (losses) on property transactions. As discussed below, the Company previously recorded only the house profit generated by the Company's hotels as revenue. House profit is total hotel sales less certain hotel property-level costs and expenses, which reflects the net revenues flowing to the Company as the property owner.

On November 20, 1997, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board reached a consensus on EITF 97-2, "Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangements." EITF 97-2 addresses the circumstances in which a management entity may include the revenues and expenses of a managed entity in its financial statements.

The Company considered the impact of EITF 97-2 on its financial statements and determined that EITF 97-2 requires the Company to include property-level sales and operating expenses of its hotels in its statements of operations. The Company has given retroactive effect to the adoption of EITF 97-2 in the accompanying consolidated statements of operations. Application of EITF 97-2 to the consolidated financial statements for the fiscal years ended December 31, 1998, January 2, 1998 and January 3, 1997 increased both revenues and operating expenses by approximately $2.1 billion, $1.7 billion and $1.2 billion, respectively, and had no impact on operating profit, net income (loss) or earnings per share.

In prior years operations for certain of the Company's hotels were recorded from the beginning of December of the prior year to November of the current year due to a one-month delay in receiving results from those hotel properties. Upon conversion to a REIT, all operations are required to be reported on a calendar year basis in accordance with Federal income tax regulations. As a result, the Company has recorded one additional period of operations in fiscal year 1998 for these properties. The effect on revenues and net income was to increase revenues by $44 million and net income by $6 million and diluted earnings per share by $.02.

Earnings (Loss) Per Common Share

Basic earnings per common share are computed by dividing net income by the weighted average number of shares of common stock outstanding. Diluted earnings per common share are computed by dividing net income by the weighted average number of shares of common stock outstanding plus other dilutive securities. Diluted earnings per common share has not been adjusted for the impact of the Convertible Preferred Securities for 1997 and 1996 and for the comprehensive stock plan and warrants for 1996 as they were anti-dilutive. In December 1998, the Company declared the Special Dividend (Note 2) and, in February 1999, the Company distributed 11.9 million shares to existing shareholders in conjunction with the Special Dividend. The weighted average number of common shares outstanding and the basic and diluted earnings per share computations have been restated to reflect these shares as outstanding for all periods presented.

In February 1999, the Company issued 8.5 million shares in exchange for 8.5 million OP Units issued to certain limited partners in connection with the Partnership Mergers (see Note 12) which are deemed outstanding at December 31, 1998.

A reconciliation of the number of shares utilized for the calculation of diluted earnings per common share follows:

	1998	1997	1996
Weighted average number of common shares outstanding	216.3	215.0	200.6
Assuming distribution of common shares granted under comprehensive stock plan, less shares assumed purchased at average market price	4.0	4.8	--
Assuming conversion of Convertible Preferred Securities	35.8	--	--
Other	0.3	0.3	--
Shares utilized for the calculation of diluted earnings per share	256.4	220.1	200.6

A reconciliation of net income (loss) to earnings (loss) used for the calculation of diluted earnings per common share follows:

	1998	1997	1996
Net income (loss)	$47	$ 50	$(13)
Dividends, net of tax benefit, assuming conversion of Convertible Preferred Securities	22	--	--
Earnings used for the calculation of diluted earnings per share	$69	$ 50	$(13)

International Operations

The consolidated statements of operations include the following amounts related to non-U.S. subsidiaries and affiliates: revenues of $121 million, $105 million and $49 million and income (loss) before income taxes of $7 million, ($9 million) and ($2 million) in 1998, 1997 and 1996, respectively.

Minority Interest

The 22% of the Operating Partnership equity owned by outside third parties is presented as minority interest ($368 million as of December 31, 1998). Minority interest also includes minority interests in consolidated investments of the Operating Partnership of $147 million.

Property and Equipment

Property and equipment is recorded at cost. For newly developed properties, cost includes interest, ground rent and real estate taxes incurred during development and construction. Replacements and improvements are capitalized.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings and three to ten years for furniture and equipment. Leasehold improvements are amortized over the shorter of the lease term or the useful lives of the related assets.

Gains on sales of properties are recognized at the time of sale or deferred to the extent required by generally accepted accounting principles. Deferred gains are recognized as income in subsequent periods as conditions requiring deferral are satisfied or expire without further cost to the Company.

In cases where management is holding for sale particular hotel properties, the Company assesses impairment based on whether the estimated sales price less costs of disposal of each individual property to be sold is less than the net book value. A property is considered to be held for sale when the Company has made the decision to dispose of the property. Otherwise, the Company assesses impairment of its real estate properties based on whether it is probable that undiscounted future cash flows from each individual property will be less than its net book value. If a property is impaired, its basis is adjusted to its fair market value.

Deferred Charges

Financing costs related to long-term debt are deferred and amortized over the remaining life of the debt.

Cash, Cash Equivalents and Short-term Marketable Securities

The Company considers all highly liquid investments with a maturity of 90 days or less at the date of purchase to be cash equivalents. Cash and cash equivalents includes approximately $22 million and $115 million at December 31, 1998 and January 2, 1998, respectively, of cash related to certain consolidated partnerships, the use of which is restricted generally for partnership purposes to the extent it is not distributed to the partners. Short-term marketable securities include investments with a maturity of 91 days to one year at the date of purchase. The Company's short-term marketable securities represent investments in U.S. government agency notes and high quality commercial paper. The short-term marketable securities are categorized as available for sale and, as a result, are stated at fair market value. Unrealized holding gains and losses are included as a separate component of shareholders' equity until realized.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash, cash equivalents and short-term marketable securities. The Company maintains cash and cash equivalents and short-term marketable securities with various high credit-quality financial institutions. The Company performs periodic evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any institution.

The Company is also subject to credit risk as a party to interest rate swap agreements. The Company monitors the creditworthiness of its contracting parties by evaluating credit exposure and referring to the ratings of widely accepted credit rating services. The Standard and Poors' long-term debt ratings for the contracting parties are AA-, AA- and BBB+. The Company is exposed to credit loss in the event of non-performance by the contracting party to the interest rate swap agreements; however, the Company does not anticipate non-performance by any of the contracting parties.

In addition, on January 1, 1999, subsidiaries of Crestline became the lessees of virtually all the hotels and, as such, their rent payments are the primary source of the Company's future revenues. Rent payments are provided from pools of hotels which are guaranteed by Crestline. For discussion of the guarantee, see Note 9. However, management believes that due to Crestline's substantial assets, net worth and ability to operate as a separate publicly traded company, Crestline will have the financial stability and access to capital necessary to meet the substantial obligations as lessee under the leases.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

REIT Conversion Expenses

The Company has incurred certain costs related to the REIT Conversion. These costs consist of professional fees, printing and filing costs, consent fees and certain other related fees and are classified as REIT conversion expenses on the consolidated statement of operations. As of December 31, 1998, $48 million of REIT Conversion expenses were accrued and included in accounts payable and accrued expenses.

Interest Rate Swap Agreements

The Company has entered into a limited number of interest rate swap agreements for non-trading purposes. The Company uses such agreements to fix certain of its variable rate debt to a fixed rate basis. The interest rate differential to be paid or received on interest rate swap agreements is recognized as an adjustment to interest expense.

Other Comprehensive Income

As of January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income" (SFAS 130) which establishes new rules for the reporting and display of comprehensive income and its components. SFAS 130 requires unrealized gains or losses on the Company's right to receive HM Services stock (see Note 10) and foreign currency translation adjustments, to be included in other comprehensive income. Prior year financial statements have been reclassified to conform to the requirements of SFAS 130.

The components of total accumulated other comprehensive income in the balance sheet are as follows (in millions):

	1998	1997
Net unrealized gains	5	12
Foreign currency translation adjustment	(9)	--
Total accumulated other comprehensive income (loss)	$(4)	$12

Application of New Accounting Standards

During 1996, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." In 1997, the Company adopted SFAS No. 128, "Earnings Per Share;" SFAS No. 129, "Disclosure of Information About Capital Structure" and SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." The adoption of these statements did not have a material effect on the Company's consolidated financial statements and comprehensive income.

As discussed above, the Company has retroactively adopted EITF 97-2.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Statement establishes accounting and reporting standards requiring that derivative instruments (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. SFAS No. 133 is effective for fiscal years beginning after June 15, 1999. The Company has not determined the impact of SFAS No. 133, but management does not believe it will be material.

The EITF reached a consensus in May 1998 on Issue 98-9, "Accounting for Contingent Rents in Interim Financial Periods," which required a lessor to defer recognition of contingent rental income in interim periods until the specified target that triggers the contingent rental income is achieved. In November 1998, EITF 98-9 was rescinded; however, the impact of the accounting principles outlined in EITF 98-9 must continue to be disclosed in quarterly financial statements. The Company's accounting policy is to recognize rental income based on an estimate of full-year rental income and disclose in the footnotes to the financial statements the portion of rental income that is contingent.

2. Distribution and Special Dividend

In December 1998, the Company distributed to its shareholders through a taxable distribution the outstanding shares of common stock of Crestline (the "Distribution"), formerly a wholly owned subsidiary of the Company, which, as of the date of the Distribution, owned and operated the Company's senior living communities, owned certain other assets and held leasehold interests in substantially all of the Company's hotels. The Distribution provided Company shareholders with one share of Crestline common stock for every ten shares of Company common stock held by such shareholders on the record date of December 28, 1998. As a result of the Distribution, the Company's financial statements have been restated to present the senior living communities' business results of operations and cash flows as discontinued operations. Revenues for the Company's discontinued operations totaled $241 million and $111 million in 1998 and 1997, respectively. The provision for loss on disposal includes organizational and formation costs related to Crestline.

For purposes of governing certain of the ongoing relationships between the Company and Crestline after the Distribution and to provide for an orderly transition, the Company and Crestline entered into various agreements, including a Distribution Agreement, an Employee Benefits Allocation Agreement and a Tax Sharing Agreement. Effective as of December 29, 1998, these agreements provide, among other things, for the division between the Company and Crestline of certain assets and liabilities.

On December 18, 1998, the Board of Directors declared a special dividend which entitled shareholders of record on December 28, 1998 to elect to receive either $1.00 in cash or .087 of a share of common stock of the Company for each outstanding share of the Company's common stock owned by such shareholder on the record date (the "Special Dividend"). Cash totaling $69 million and 11.9 million shares of common stock that were elected in the Special Dividend were paid and/or issued on February 10, 1999.

3. Property and Equipment

Property and equipment consists of the following:

	1998	1997
	(in millions)	
Land and land improvements	$ 740	$ 418
Buildings and leasehold improvements	6,613	4,329
Furniture and equipment	740	686
Construction in progress	78	36
	8,171	5,469
Less accumulated depreciation and amortization	(970)	(835)
	$7,201	$4,634

The detail of property and equipment above excludes net book value of the discontinued senior living business of $583 million at January 2, 1998.

Interest cost capitalized in connection with the Company's development and construction activities totaled $4 million in 1998, $1 million in 1997 and $3 million in 1996.

In 1997, the Company, through an agreement with the ground lessor of one of its properties terminated its ground lease and recorded a $15 million loss on the write-off of its investment, including certain transaction costs, which has been included in net gains (losses) on property transactions in the accompanying consolidated financial statements.

In 1996, the Company recorded a $4 million charge to write down an undeveloped land parcel to its net realizable value based on its expected sales value.

4. Investments in and Receivables from Affiliates

Investments in and receivables from affiliates consist of the following:

	Ownership Interests	1998	1997
		(in millions)	
Equity investments			
Rockledge Hotel Properties, Inc.	95%	$ 31	$ --
Fernwood Hotel Assets, Inc.	95%	2	--
Hotel partnerships(1)	1%-50%	--	13
Notes and other receivables from affiliates, net	--	134	23
		$ 167	$ 36

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(1) During 1998, all or substantially all of the interests in the previously unconsolidated hotel partnerships were consolidated or contributed to the Non-Controlled Subsidiaries (defined herein) as a result of the REIT Conversion and the Partnership Mergers.

In connection with the REIT Conversion, Rockledge Hotel Properties, Inc. and Fernwood Hotel Assets, Inc. (together, the "Non-Controlled Subsidiaries") were formed to own various assets of approximately $264 million contributed by the Company to the Operating Partnership, the direct ownership of which by the Company or the Operating Partnership could jeopardize the Company's status as a REIT. These assets primarily consist of

partnership or other interests in hotels which are not leased and certain furniture, fixtures and equipment ("FF&E") used in the hotels. In exchange for the contribution of these assets to the Non-Controlled Subsidiaries, the Operating Partnership received only non-voting common stock of the Non-Controlled Subsidiaries, representing 95% of the total economic interests therein. The Host Marriott Statutory Employee/Charitable Trust, the beneficiaries of which are certain employees of the Company and the J.W. Marriott Foundation concurrently acquired all of the voting common stock representing the remaining 5% of the total economic interest. As a result, as of December 31, 1998, the Company did not control the Non-Controlled Subsidiaries. The Non-Controlled Subsidiaries own three full-service hotels and interests in partnerships that own an additional two full-service hotels and 220 limited-service hotels.

In connection with the REIT Conversion, the Company completed the Partnership Mergers and, as a result, investments in affiliates in prior years include earnings and assets, which are now consolidated. (See Note 12 for discussion.)

In 1997, the Company acquired all of the outstanding interests in Chesapeake Hotel Limited Partnership ("CHLP") that owns six hotels and acquired controlling interests in four affiliated partnerships for approximately $550 million, including the assumption of approximately $410 million of debt. In early 1998, the Company obtained a controlling interest in the partnership that owns the 1,671-room Atlanta Marriott Marquis for approximately $239 million, including the assumption of $164 million of mortgage debt.

Receivables from affiliates are reported net of reserves of $7 million at December 31, 1998 and $144 million at January 2, 1998. Net amounts funded by the Company totaled $10 million in 1997, and repayments were $14 million in 1998 and $2 million in 1997. There were no fundings in 1998 and 1996.

The Company's pre-tax income from affiliates includes the following:

	1998	1997	1996
	(in millions)		
Interest income	$ 1	$ 11	$17
Equity in net income	1	5	3
	$ 2	$ 16	$20

Combined summarized balance sheet information for the Company's affiliates follows:

	1998	1997
	(in millions)	
Property and equipment, net	$1,656	$1,979
Other assets	258	283
Total assets	$1,914	$2,262
Debt, principally mortgages	$1,622	$2,179
Other liabilities	300	412
Partners' deficit	(8)	(329)
Total liabilities and partners' deficit	$1,914	$2,262

Combined summarized operating results for the Company's affiliates follow:

	1998	1997	1996
	(in millions)		
Revenues	$1,123	$1,393	$1,740
Operating expenses:			
Cash charges (including interest)	(930)	(1,166)	(1,469)
Depreciation and other non-cash charges	(151)	(190)	(229)
Income before extraordinary items	42	37	42
Extraordinary items--forgiveness of debt	4	40	12
Net income	$ 46	$ 77	$ 54

5. Debt

Debt consists of the following:

	1998	1997
	(in millions)	
Series A senior notes, with a rate of 7 7/8% due August 2005	$ 500	$ --
Series B senior notes, with a rate of 7 7/8% due August 2008	1,192	--
Series C senior notes, with a rate of 8.45% due December 2008	498	--
Senior secured notes, with a rate of 9 1/2% due May 2005	21	600
Senior secured notes, with a rate of 8 7/8% due July 2007	--	600
Senior secured notes, with a rate of 9% due December 2007	--	350
Senior notes, with an average rate of 9 3/4% at December 31, 1998, maturing through 2012	35	35
Total senior notes	2,246	1,585
Mortgage debt (non-recourse) secured by $3.3 billion of real estate assets, with an average rate of 7.77% at December 31, 1998, maturing through February 2023	2,438	1,762
Line of credit, terminated in August 1998	--	22
Total mortgage debt	2,438	1,784
Line of credit, with a variable rate of Eurodollar plus 1.75% (7.5% at December 31, 1998)	350	--
Other notes, with an average rate of 7.39% at December 31, 1998, maturing through December 2017	90	89
Capital lease obligations	7	8
Total other	447	97
	$5,131	$3,466

The detail above excludes $317 million of debt relating to the discontinued senior living business in 1997.

On July 10, 1997, HMH Properties, Inc. ("Properties," an indirect wholly owned subsidiary of Host Marriott) and HMC Acquisitions Properties, Inc. ("Acquisitions", an indirect, wholly owned subsidiary of Host Marriott) completed consent solicitations (the "1997 Consent Solicitations") with holders of their senior notes ($600 million of 9 1/2% senior notes due 2005 and $350 million of 9% senior notes due 2007) to amend

certain provisions of their senior indentures. The 1997 Consent Solicitations facilitated the merger of Acquisitions with and into Properties. The amendments to the indentures also increased the ability of Properties to acquire, through certain subsidiaries, additional properties subject to non-recourse indebtedness and controlling interests in corporations, partnerships and other entities holding attractive properties and increased the threshold required to permit Properties to make distributions to affiliates.

Concurrent with the 1997 Consent Solicitations and the Properties and Acquisitions merger, Properties issued an aggregate of $600 million of 8 7/8% senior notes at par with a maturity of July 2007. Properties received net proceeds of approximately $570 million, net of the costs of the 1997 Consent Solicitations and the offering.

In conjunction with the REIT Conversion, Properties was merged with the Operating Partnership and all of the debt of Host Marriott and Properties was assumed by the Operating Partnership.

During 1997, the Company, through its wholly owned subsidiary, HMC Capital Resources Corporation ("Resources"), entered into a credit facility (the "Old Credit Facility") with a group of commercial banks under which it could borrow up to $500 million for the acquisition of lodging real estate and for the Company's working capital purposes. During August 1998, the Old Credit Facility was terminated.

The Company also purchased 100% of the outstanding bonds secured by a first mortgage on the San Francisco Marriott in 1997. The Company purchased the bonds for $219 million, an $11 million discount to the face value of $230 million. In connection with the redemption and defeasance of the bonds, the Company recognized an extraordinary gain of $5 million, which represents the $11 million discount less the write-off of unamortized deferred financing fees, net of taxes. In 1997, the Company also incurred approximately $418 million of mortgage debt in conjunction with the acquisition of 11 hotels.

In connection with the acquisition of the outstanding common stock of Forum Group, Inc. (the "Forum Group") in June 1997, the Company assumed debt of approximately $270 million. In 1997, an additional $33 million of debt financing was provided by Marriott International. The Company also assumed approximately $15 million of debt in conjunction with the acquisition of the Leisure Park retirement community in 1997. As a result of the Distribution, the debt related to the Forum Group and Leisure Park retirement community is included in net investments of discontinued operations for 1997 (Note 2). The Company continues to provide a guarantee on the Leisure Park debt.

In the fourth quarter of 1996, the Company repaid the $109 million mortgage on the Philadelphia Marriott. In the first quarter of 1997, the Company obtained $90 million in first mortgage financing from two insurance companies secured by the Philadelphia Marriott. The mortgage bears interest at a fixed rate of 8.49% and matures in April 2009.

In December 1997, the Company successfully completed the refinancing of the MHP (defined herein) mortgage debt for approximately $152 million. The new mortgage bears interest at 7.48% and matures in January 2008. In connection with the refinancing, the Company recognized an extraordinary loss of $2 million which represents payment of a prepayment penalty and the write-off of unamortized deferred financing fees, net of taxes.

On April 20, 1998, the Company and certain of its subsidiaries filed a shelf registration on Form S-3 (the "Shelf Registration") with the Securities and Exchange Commission for the issuance of up to $2.5 billion in securities.

On August 5, 1998, the Company (through Properties) utilized the Shelf Registration to issue an aggregate of $1.7 billion in new senior notes (the "New Senior Notes"). The New Senior Notes were issued in two series, $500 million of 7 7/8% Series A notes due in 2005 and $1.2 billion of 7 7/8% Series B notes due in 2008. The Company utilized the proceeds from the New Senior Notes to purchase substantially all of its (i) $600 million in 9 1/2% senior notes due 2005; (ii) $350 million in 9% senior notes due 2007; and (iii) $600 million in 8 7/8% senior notes due 2007 (collectively, the "Old Senior Notes"). Approximately $21 million of the Old Senior Notes remain outstanding. In connection with the purchase of substantially all of the Old Senior Notes, the Company recorded a charge of approximately $148 million (net of income tax benefit of $80 million) as an extraordinary item representing the amount paid for bond premiums and consent fees, as well as the write-off of deferred financing fees on the Old Senior Notes.

Concurrently with each offer to purchase, Properties successfully solicited consents (the "1998 Consent Solicitations") from registered holders of the Old Senior Notes to certain amendments to eliminate or modify substantially all of the restrictive covenants and certain other provisions contained in the indentures pursuant to which the Old Senior Notes were issued.

In conjunction with the issuance of the New Senior Notes, Properties entered into a $1.25 billion credit facility (the "New Credit Facility") with a group of commercial banks. The New Credit Facility has an initial three-year term with two one-year extension options. Borrowings under the New Credit Facility bear interest currently at the Eurodollar rate plus 1.75% (7.5% at December 31, 1998). The interest rate and commitment fee on the unused portion of the New Credit Facility fluctuate based on certain financial ratios. The New Senior Notes and the New Credit Facility were assumed by the Operating Partnership in connection with the REIT Conversion. As of December 31, 1998, $350 million was outstanding under the New Credit Facility.

The New Credit Facility and the indenture under which the New Senior Notes were issued contain covenants restricting the ability of Properties and certain of its subsidiaries to incur indebtedness, grant liens on their assets, acquire or sell assets or make investments in other entities, and make certain distributions to equityholders of Properties, the Company, and the Operating Partnership. The New Credit Facility also contains certain financial covenants relating to, among other things, maintaining certain levels of tangible net worth and certain ratios of EBITDA to interest and fixed charges, total debt to EBITDA, unencumbered assets to unsecured debt, and secured debt to total debt. In connection with the REIT Conversion, Properties was merged with, and into, the Operating Partnership in December 1998.

In December 1998, the Operating Partnership issued $500 million of 8.45% Series C notes due in 2008 under the same indenture and with the same covenants as the New Senior Notes. In February 1999, the Company issued $300 million of 8 3/8% Series D notes due in 2006. The debt was used to refinance, or purchase, approximately $299 million of debt acquired in the Partnership Mergers, and approximately $40 million of other mortgage debt.

In December 1998, the Company became party to eight interest rate swap agreements in connection with the Blackstone Acquisition discussed in Note 12. The notional amount of the agreements is approximately $365 million, with expiration dates between August 2000 and August 2002. The Company receives interest based on one month LIBOR (5.06% at December 31, 1998) and pays interest at fixed rates ranging from 5.72% to 6.60%. The interest rate swap agreements allow the Company to effectively eliminate the variability of the interest rates on certain secured debt. The Company was party to an interest rate swap agreement with a financial institution with an aggregate notional amount of $100 million which expired in December 1998. In 1997, the Company was party to two additional interest rate swap agreements with an aggregate notional amount of $400 million which expired in May 1997. The Company realized a net reduction of interest expense of $1 million in 1997 and $6 million in 1996 related to interest rate swap agreements. The reduction in interest expense in 1998 was not material as the Company did not assume the agreements until December 30.

The Company's debt balance at December 31, 1998, includes $87 million of debt that is recourse to the parent company. Aggregate debt maturities at December 31, 1998 are (in millions):

1999	$ 405
2000	206
2001	435
2002	430
2003	121
Thereafter	3,523
	5,120
Discount on senior notes	(10)
Interest rate swap agreements	14
Capital lease obligation	7
	$5,131

Cash paid for interest for continuing operations, net of amounts capitalized, was $325 million in 1998, $278 million in 1997 and $220 million in 1996. Deferred financing costs, which are included in other assets, amounted to $98 million and $96 million, net of accumulated amortization, as of December 31, 1998 and January 2, 1998, respectively. Amortization of deferred financing costs totaled $10 million, $7 million and $5 million in 1998, 1997 and 1996, respectively.

6. Company-obligated Mandatorily Redeemable Convertible Preferred Securities of a Subsidiary Trust Whose Sole Assets are the Convertible Subordinated Debentures Due 2026

In December 1996, Host Marriott Financial Trust (the "Issuer"), a wholly-owned subsidiary trust of the Company, issued 11 million shares of 6 3/4% convertible quarterly income preferred securities (the "Convertible Preferred Securities"), with a liquidation preference of $50 per share (for a total liquidation amount of $550 million). The Convertible Preferred Securities represent an undivided beneficial interest in the assets of the Issuer. The payment of distributions out of moneys held by the Issuer and payments on liquidation of the Issuer or the redemption of the Convertible Preferred Securities are guaranteed by the Company to the extent the Issuer has funds available therefor. This guarantee, when taken together with the Company's obligations under the indenture pursuant to which the Debentures (defined below) were issued, the Debentures, the Company's obligations under the Trust Agreement and its obligations under the indenture to pay costs, expenses, debts and liabilities of the Issuer (other than with respect to the Convertible Preferred Securities) provides a full and unconditional guarantee of amounts due on the Convertible Preferred Securities. Proceeds from the issuance of the Convertible Preferred Securities were invested in 6 3/4% Convertible Subordinated Debentures (the "Debentures") due December 2, 2026 issued by the Company. The Issuer exists solely to issue the Convertible Preferred Securities and its own common securities (the "Common Securities") and invest the proceeds therefrom in the Debentures, which is its sole asset. Separate financial statements of the Issuer are not presented because of the Company's guarantee described above; the Company's management has concluded that such financial statements are not material to investors as the Issuer is wholly-owned and essentially has no independent operations.

Each of the Convertible Preferred Securities is convertible at the option of the holder into shares of Company common stock at the rate of 3.2537 shares per Convertible Preferred Security (equivalent to a conversion price of $15.367 per share of Company common stock). The Debentures are convertible at the option of the holders into shares of Host Marriott common stock at a conversion rate of 3.2537 shares for each $50 in

principal amount of Debentures. The Issuer will only convert Debentures pursuant to a notice of conversion by a holder of Convertible Preferred Securities. During 1998, 1997 and 1996, no shares were converted into common stock. The conversion ratio and price were adjusted to reflect the impact of the Distribution and the Special Dividend.

Holders of the Convertible Preferred Securities are entitled to receive preferential cumulative cash distributions at an annual rate of 6 3/4% accruing from the original issue date, commencing March 1, 1997, and payable quarterly in arrears thereafter. The distribution rate and the distribution and other payment dates for the Convertible Preferred Securities will correspond to the interest rate and interest and other payment dates on the Debentures. The Company may defer interest payments on the Debentures for a period not to exceed 20 consecutive quarters. If interest payments on the Debentures are deferred, so too are payments on the Convertible Preferred Securities. Under this circumstance, the Company will not be permitted to declare or pay any cash distributions with respect to its capital stock or debt securities that rank pari passu with or junior to the Debentures.

Subject to certain restrictions, the Convertible Preferred Securities are redeemable at the Issuer's option upon any redemption by the Company of the Debentures after December 2, 1999. Upon repayment at maturity or as a result of the acceleration of the Debentures upon the occurrence of a default, the Convertible Preferred Securities are subject to mandatory redemption.

In connection with consummation of the REIT Conversion, the Operating Partnership assumed primary liability for repayment of the Debentures of the Company underlying the Convertible Preferred Securities. Upon conversion by a Convertible Preferred Securities holder, the Company will issue shares of Company common stock, which will be delivered to such holder. Upon the issuance of such shares by the Company, the Operating Partnership will issue to the Company a number of OP Units equal to the number of shares of Company common stock issued in exchange for the Debentures.

7. Shareholders' Equity

Seven hundered fifty million shares of common stock, with a par value of $0.01 per share, are authorized, of which 225.6 million and 203.8 million were outstanding as of December 31, 1998 and January 2, 1998, respectively. Fifty million shares of no par value preferred stock are authorized with none outstanding.

In conjunction with the Merger, the Blackstone Acquisition and the Partnership Mergers (Note 12), the Operating Partnership issued approximately 64.5 million OP Units which are convertible into cash (or at Host Marriott's option shares of Host Marriott common stock). These OP Units are restricted from converting until July 1999, October 1999 and January 2000 when 23.9 million, 11.9 million and 28.8 million units, respectively, are eligible for conversion.

The Company issued 11.9 million shares of common stock as part of the Special Dividend (Note 2) and 8.5 million shares of common stock in exchange for 8.5 million OP Units issued to certain limited partners in connection with the Partnership Mergers (Note 12). Also, as part of the REIT Conversion, the Company changed its par value from $1 to $0.01 per share. The change in par value did not affect the number of shares outstanding.

On March 27, 1996, the Company completed the issuance of 31.6 million shares of common stock for net proceeds of nearly $400 million.

In connection with a class action settlement, the Company issued warrants to purchase up to 7.7 million shares of the Company's common stock at $8.00 per share through October 8, 1996 and $10.00 per share thereafter. During 1996, 6.8 million warrants were exercised at $8.00 per share and an equivalent number of

shares of Company common stock were issued. During 1997 and 1998, 60,000 and 98,000 warrants were exercised at $10.00 per share. On October 8, 1998, the remaining warrants expired.

In November 1998, the Board of Directors adopted a shareholder rights plan (as amended December 24, 1998) under which a dividend of one preferred stock purchase right was distributed for each outstanding share of the Company's common stock. Each right when exercisable entitles the holder to buy 1/1,000th of a share of a series A junior participating preferred stock of the Company at an exercise price of $55 per share, subject to adjustment. The rights were exercisable 10 days after a person or group acquired beneficial ownership of at least 20%, or began a tender or exchange offer for at least 20%, of the Company's common stock. Shares owned by a person or group on November 3, 1998 and held continuously thereafter were exempt for purposes of determining beneficial ownership under the rights plan. The rights are non-voting and expire on November 22, 2008, unless exercised or previously redeemed by the Company for $.005 each. If the Company was involved in a merger or certain other business combinations not approved by the Board of Directors, each right entitles its holder, other than the acquiring person or group, to purchase common stock of either the Company or the acquiror having a value of twice the exercise price of the right.

8. Income Taxes

In December 1998, the Company restructured itself to enable the Company to qualify for treatment as a REIT, pursuant to the US Internal Revenue Code of 1986, as amended, effective January 1, 1999. In general, a corporation that elects REIT status and distributes at least 95% of its taxable income to its shareholders and complies with certain other requirements (relating primarily to the nature of its assets and the sources of its revenues) is not subject to Federal income taxation to the extent it distributes its taxable income. Management believes that the Company was organized and will operate so as to qualify as a REIT as of January 1, 1999 (including distribution of at least 95% of its REIT taxable income to shareholders in 1999 and subsequent years). Management expects that the Company will pay taxes on "built-in gains" on only certain of its assets. Based on these considerations, management does not believe that the Company will be liable for income taxes at the federal level or in most of the states in which it operates in future years, and the Company eliminated $106 million of its net existing deferred tax liabilities as of December 31, 1998. The Company does not expect to provide for any material deferred income taxes in future periods except in certain states and foreign countries. In connection with the Distribution and formation of the Non-Controlled Subsidiaries, the Company reduced deferred income tax liabilities by $102 million.

In order to qualify as a REIT for federal income tax purposes, among other things, the Company must have distributed all of the accumulated earnings and profits ("E&P") of Host Marriott Corporation to its stockholders in one or more taxable dividends prior to the end of the first full taxable year for which the REIT election of the Company is effective, which currently is expected to be the taxable year commencing January 1, 1999.

In an effort to help accomplish the requisite distributions of the accumulated E&P, Host Marriott made an initial E&P distribution consisting of approximately 20.4 million shares of Crestline valued at $297 million, $69 million in cash, and approximately 11.9 million shares of Host Marriott stock valued at $143 million.

The actual amount of the initial E&P distribution was based, in part, upon the estimated amount of accumulated E&P of Host Marriott as of the last day of its taxable year. To the extent that the initial E&P distribution was not sufficient to eliminate Host Marriott's accumulated E&P, Host Marriott will make one or more additional taxable distributions to its stockholders (in the form of cash or securities) prior to the last day of Host Marriott's first full taxable year as a REIT.

Where required, deferred income taxes are accounted for using the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the financial reporting bases of assets and liabilities and their respective tax bases and for operating loss and tax credit carryforwards based on enacted tax rates expected to be in effect when such amounts are realized or settled. However, deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized based on consideration of available evidence, including tax planning strategies and other factors.

Total deferred tax assets and liabilities at December 31, 1998 and January 2, 1998 were as follows:

	1998	1997
	(in millions)	
Deferred tax assets	$ 32	$ 159
Deferred tax liabilities	(129)	(646)
Net deferred income tax liability	$ (97)	$ (487)

The tax effect of each type of temporary difference and carryforward that gives rise to a significant portion of deferred tax assets and liabilities as of December 31, 1998 and January 2, 1998 follows:

	1998	1997
	(in millions)	
Investments in affiliates	$ --	$ (310)
Property and equipment	--	(179)
Safe harbor lease investments	(24)	(65)
Deferred tax gain	(105)	(92)
Reserves	--	103
Alternative minimum tax credit carryforwards	32	41
Other, net	--	15
Net deferred income tax liability	$ (97)	$ (487)

The provision (benefit) for income taxes consists of:

	1998	1997	1996
	(in millions)		
Current--Federal	$116	$19	$(2)
--State	27	4	3
--Foreign	4	3	3
	147	26	4
Deferred--Federal	(49)	8	2
--State	(12)	2	(1)
	(61)	10	1
	$ 86	$36	$ 5

At December 31, 1998, the Company had approximately $32 million of alternative minimum tax credit carryforwards available which do not expire.

Through 1997, the Company settled with the Internal Revenue Service ("IRS") substantially all issues for tax years through 1993. The Company expects to resolve any remaining issues with no material impact on the consolidated financial statements. The Company made net payments to the IRS of approximately $27 million, $10 million and $45 million in 1998, 1997 and 1996, respectively, related to these settlements. Certain adjustments totaling approximately $2 million in 1996 were made to the tax provision related to those settlements.

A reconciliation of the statutory Federal tax rate to the Company's effective income tax rate follows (excluding the impact of the change in tax status):

	1998	1997	1996
Statutory Federal tax rate	35.0%	35.0 %	(35.0)%
State income taxes, net of Federal tax benefit	5.8	4.9	21.7
Tax credits	(1.7)	(2.7)	--
Additional tax on foreign source income	4.2	6.0	40.8
Tax contingencies	--	--	25.0
Permanent non-deductible REIT Conversion expenses	4.6	--	--
Other permanent items	1.2	.1	9.0
Other, net	0.3	.1	1.0
Effective income tax rate	49.4%	43.4 %	62.5 %

Crestline and the Company entered into a tax sharing agreement (the "Tax Sharing Agreement") which defines each party's rights and obligations with respect to deficiencies and refunds of federal, state and other income or franchise taxes relating to Crestline's business for taxable years prior to the Distribution and with respect to certain tax attributes of Crestline after the Distribution. The Company is responsible for filing consolidated returns and paying taxes for periods through the date of the Distribution, and Crestline is responsible for filing its returns and paying taxes for subsequent periods.

Cash paid for income taxes, including IRS settlements, net of refunds received, was $83 million in 1998, $56 million in 1997 and $40 million in 1996.

9. Leases

As of January 1, 1999, the Company leases substantially all of its hotels to subsidiaries of Crestline. Additionally, the Company also leases certain property and equipment under non-cancellable operating and capital leases.

Hotel Leases. Due to current federal income tax law restrictions on a REIT's ability to derive revenues directly from the operation of a hotel, the Company leases its hotels (the "Leases") to one or more lessees (the "Lessees").

There generally is a separate Lessee for each hotel or group of hotels that is owned by a separate subsidiary of the Company. The operating agreements for such Lessees provide that the Crestline member of the Lessee has full control over the management of the business of the Lessee, subject to blocking rights by Marriott International, where it is the manager, over certain decisions by virtue of its non-economic, limited voting interest in the lessee subsidiaries. Each full-service hotel Lease has a fixed term generally ranging from seven to ten years, subject to earlier termination upon the occurrence of certain contingencies as defined in the Leases. Each Lease requires the Lessee to pay 1) minimum rent in a fixed dollar amount per annum plus 2) to the extent it exceeds minimum rent, percentage rent based upon specified percentages of aggregate sales from the applicable hotel, including room sales, food and beverage sales, and other income in excess of specified thresholds. The amount of minimum rent and the percentage rent thresholds will be adjusted each year based upon any increases in the Consumer Price Index and the Employment Cost Index during the previous 10 months, as well as for certain capital expenditures and casualty occurrences.

If the Company anticipates that the average tax basis of the Company's FF&E and other personal property that are leased by any individual lessor entity will exceed 15% of the aggregate average tax basis of the fixed assets in that entity, then the Lessee would be obligated either to acquire such excess FF&E from the Company or to cause a third party to purchase such FF&E. The Lessee has agreed to give a right of first opportunity to a Non-Controlled Subsidiary to acquire the excess FF&E and to lease the excess FF&E to the Lessee.

Each Lessee is responsible for paying all of the expenses of operating the applicable hotel(s), including all personnel costs, utility costs and general repair and maintenance of the hotel(s). The Lessee also is responsible for all fees payable to the applicable manager, including base and incentive management fees, chain services payments and franchise or system fees, with respect to periods covered by the term of the Lease. Host Marriott also remains liable under each management agreement.

The Company is responsible for paying real estate taxes, personal property taxes (to the extent the Company owns the personal property), casualty insurance on the structures, ground lease rent payments, required expenditures for FF&E (including maintaining the FF&E reserve, to the extent such is required by the applicable management agreement) and other capital expenditures.

Crestline Guarantees

Crestline and certain of its subsidiaries entered into limited guarantees of the Lease obligations of each Lessee. For each of four identified "pools" of hotels (determined on the basis of the term of the particular Lease with all leases having generally the same lease term placed in the same "pool"), the cumulative limit of Crestline's guaranty obligation is the greater of 10% of the aggregate rent payable for the immediately preceding fiscal year under all Leases in the pool or 10% of the aggregate rent payable under all Leases in the pool. For each pool, the subsidiary of Crestline that is the parent of the Lessees in the pool (a "Pool Parent") also is a party to the guaranty of the Lease obligations for that pool.

The obligations of the Pool Parent under each guaranty is secured by all funds received by the applicable Pool Parent from the hotels in the pool, and the hotels in the pool are required to distribute their excess cash flow to the Pool Parent for each accounting period, under certain conditions as described by the guaranty.

In the event that Crestline's obligation under a guaranty is reduced to zero, the applicable Pool Parent can elect to terminate its guaranty and the pooling agreement for that pool by giving notice to the Operating Partnership. In that event, subject to certain conditions, the Pool Parent's guaranty will terminate six months after the effective date of such notice, subject to reinstatement in certain limited circumstances.

The Operating Partnership sold the existing working capital to the applicable Lessee upon the commencement of the Lease at a price equal to the fair market value of such assets. The purchase price is represented by a note evidencing a loan that bears interest at a rate of 5.12%. Interest accrued on the working capital loan is due simultaneously with each periodic rent payment, and the amount of each payment of interest is credited against such rent payment. The principal amount of the working capital loan is payable upon termination of the Lease. The Lessee can return the working capital in satisfaction of the note. As of December 31, 1998, the note receivable from Crestline for working capital was $95 million.

In the event the Company enters into an agreement to sell or otherwise transfer any full-service hotel free and clear of the applicable Lease, the Lessor must pay the Lessee a termination fee equal to the fair market value of the Lessee's leasehold interest in the remaining term of the Lease using a discount rate of 12%. Alternatively, the Lessor will be entitled to (i) substitute a comparable hotel or hotels for any hotel that is sold or (ii) sell the hotel subject to the Lease and certain conditions without being required to pay a termination fee.

In the event that changes in the Federal income tax laws allow the Company, or subsidiaries or affiliates of the Company, to directly operate the hotels without jeopardizing the Company's status as a REIT, the Company will have the right to terminate all, but not less than all, of the full-service and HPT hotel Leases in return for paying the Lessees the fair market value of the remaining terms of the full-service hotel Leases, valued in the same manner as discussed above. The payment is payable in cash or, subject to certain conditions, shares of the Company's common stock, at the election of the Company. The rights of each Lessee will be expressly subordinated to qualifying mortgage debt and any refinancing thereof.

The Company sold and leased back 37 of its Courtyard properties in 1995 and an additional 16 Courtyard properties in 1996 to Hospitality Properties Trust ("HPT"). Additionally, in 1996, the Company sold and leased back 18 of its Residence Inns to HPT. These leases, which are accounted for as operating leases and are included in the table below, have initial terms expiring through 2012 for the Courtyard properties and 2010 for the Residence Inn properties, and are renewable at the option of the Company. Minimum rent payments are $51 million annually for the Courtyard properties and $17 million annually for the Residence Inn properties, and additional rent based upon sales levels are payable to the owner under the terms of the leases.

In connection with the REIT Conversion, the Operating Partnership sublet the HPT hotels (the "Subleases") to separate indirect sublessee subsidiaries of Crestline ("Sublessee"), subject to the terms of the applicable HPT Lease.

The term of each Sublease expires simultaneously with the expiration of the initial term of the HPT lease to which it relates and automatically renews for the corresponding renewal term under the HPT lease, unless either the HPT lessee (the "Sublessor") elects not to renew the HPT lease, or the Sublessee elects not to renew the Sublease at the expiration of the initial term provided, however, that neither party can elect to terminate fewer than all of the Subleases in a particular pool of HPT hotels (one for Courtyard by Marriott hotels and one for Residence Inn hotels). Rent under the Sublease consists of the Minimum Rent payable under the HPT lease and an additional percentage rent payable to the Sublessor. The percentage rent is sufficient to cover the additional

rent due under the HPT lease, with any excess being retained by the Sublessor. The rent payable under the Subleases is guaranteed by Crestline, up to a maximum amount of $30 million which amount is allocated between the two pools of HPT hotels.

A number of the Company's leased hotel properties also include long-term ground leases for certain hotels, generally with multiple renewal options. Certain leases contain provision for the payment of contingent rentals based on a percentage of sales in excess of stipulated amounts. Future minimum annual rental commitments for all non-cancelable leases for which the Company is the lessee are as follows:

	Capital Leases	Operating Leases
	(in millions)	
1999	$ 2	$ 119
2000	1	116
2001	1	111
2002	1	106
2003	1	102
Thereafter	4	1,292
Total minimum lease payments	10	$1,846
Less amount representing interest	(3)	
Present value of minimum lease payments	$ 7	

Certain of the lease payments included in the table above relate to facilities used in the Company's former restaurant business. Most leases contain one or more renewal options, generally for five or 10-year periods. Future rentals on leases have not been reduced by aggregate minimum sublease rentals from restaurants and HPT subleases of $103 million and $915 million, respectively, payable to the Company under non-cancellable subleases.

The aggregate minimum rental payments to be received by the Operating Partnership under the hotel leases are $774 million in 1999 and will be adjusted in future periods based on changes in the Consumer Price Index and Employment Cost Index.

In conjunction with the refinancing of the mortgage of the New York Marriott Marquis, the Company also renegotiated the terms of the ground lease. The renegotiated ground lease provides for the payment of a percentage of the hotel sales (3% in 1998, 4% in 1999 and 5% thereafter) through 2017, which is to be used to amortize the existing deferred ground rent obligation of $116 million. The Company has the right to purchase the land under certain circumstances.

The Company remains contingently liable at December 31, 1998 on certain leases relating to divested non-lodging properties. Such contingent liabilities aggregated $93 million at December 31, 1998. However, management considers the likelihood of any substantial funding related to these leases to be remote.

Rent expense consists of:

	1998	1997	1996
	(in millions)		
Minimum rentals on operating leases	$104	$ 98	$83
Additional rentals based on sales	26	20	16
	$130	$118	$99

10. Employee Stock Plans

At December 31, 1998, the Company maintained two stock-based compensation plans, including the comprehensive stock plan (the "Comprehensive Plan"), whereby the Company may award to participating employees (i) options to purchase the Company's common stock, (ii) deferred shares of the Company's common stock and (iii) restricted shares of the Company's common stock and the employee stock purchase plan (the "Employee Stock Purchase Plan").

Total shares of common stock reserved and available for issuance under the Comprehensive Plan at December 31, 1998 was 26.6 million.

Employee stock options may be granted to officers and key employees with an exercise price not less than the fair market value of the common stock on the date of grant. Non-qualified options generally expire up to 15 years after the date of grant. Most options vest ratably over each of the first four years following the date of the grant. In connection with the Marriott International Distribution in 1993, the Company issued an equivalent number of Marriott International options and adjusted the exercise prices of its options then outstanding based on the relative trading prices of shares of the common stock of the two companies.

In connection with the Host Marriott Services ("HM Services") spin-off in 1995, outstanding options held by current and former employees of the Company were redenominated in both Company and HM Services stock and the exercise prices of the options were adjusted based on the relative trading prices of shares of the common stock of the two companies. Pursuant to the distribution agreement between the Company and HM Services, the Company has the right to receive up to 1.4 million shares of HM Services' common stock or an equivalent cash value subsequent to exercise of the options held by certain former and current employees of Marriott International. As of December 31, 1998, the Company valued this right at approximately $9 million, which is included in other assets.

Effective December 29, 1998, the Company adjusted the number of outstanding stock options and the related exercise prices to maintain the intrinsic value of the options to account for the Special Dividend and the Distribution. The vesting provisions and option period of the original grant was retained. No compensation expense was recorded by the Company as a result of these adjustments. Employee optionholders that remained with the Company received options only in the Company's stock and those employee optionholders that became Crestline employees received Crestline options in exchange for the Company's options.

The Company continues to account for expense under its plans according to the provisions of Accounting Principle Board Opinion 25 and related interpretations as permitted under SFAS No. 123. Consequently, no compensation cost has been recognized for its fixed stock options under the Comprehensive Plan and its Employee Stock Purchase Plan.

For purposes of the following disclosures required by SFAS No. 123, the fair value of each option granted has been estimated on the date of grant using an option-pricing model with the following weighted average assumptions used for grants in 1997 and 1996, respectively: risk-free interest rate of 6.2% and 6.6%, respectively, volatility of 35% and 36%, respectively, expected lives of 12 years and no dividend yield. The weighted average fair value per option granted during the year was $13.13 in 1997 and $8.68 in 1996. No options were granted in 1998. Pro forma compensation cost for 1998, 1997 and 1996 would have reduced (increased) net income (loss) by approximately $524,000, $330,000 and ($150,000), respectively. Basic and diluted earnings per share on a pro forma basis were not impacted by the pro forma compensation cost in 1998, 1997 and 1996.

The effects of the implementation of SFAS No. 123 are not representative of the effects on reported net income in future years because only the effects of stock option awards granted in 1996 and 1997 have been considered.

A summary of the status of the Company's stock option plan for 1998, 1997 and 1996 follows:

	1998		1997		1996	
	Shares (in millions)	Weighted Average Exercise Price	Shares (in millions)	Weighted Average Exercise Price	Shares (in millions)	Weighted Average Exercise Price
Balance, at beginning of year	6.8	$ 4	8.3	$ 4	10.0	$ 4
Granted	--	--	.1	20	.2	13
Exercised	(1.3)	5	(1.6)	4	(1.9)	4
Forfeited/Expired	(0.6)	4	--	--	--	--
Adjustment for Distribution and Special Dividend	0.7	3	--	--	--	--
Balance, at end of year	5.6	3	6.8	4	8.3	4
Options exercisable at year-end	5.5		6.4		7.6	

The following table summarizes information about stock options at December 31, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares (in millions)	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares (in millions)	Weighted Average Exercise Price
$ 1 - 3	4.1	8	$ 2	4.1	$ 2
4 - 6	0.8	6	5	0.8	5
7 - 9	0.4	11	8	0.4	8
10 - 12	0.1	12	10	0.1	10
13 - 15	0.1	13	13	0.1	13
19 - 22	0.1	14	18	--	--
	5.6			5.5	

Deferred stock incentive plan shares granted to officers and key employees after 1990 generally vest over 10 years in annual installments commencing one year after the date of grant. Certain employees may elect to defer payments until termination or retirement. The Company accrues compensation expense for the fair market value of the shares on the date of grant, less estimated forfeitures. In 1998, 1997 and 1996, 12,000, 14,000 and 13,000 shares were granted, respectively, under this plan. The compensation cost that has been charged against income for deferred stock was not material in 1998, 1997 and 1996. The weighted average fair value per share granted during each year was $19.21 in 1998, $15.81 in 1997 and $11.81 in 1996.

The Company from time to time awards restricted stock plan shares under the Comprehensive Plan to officers and key executives to be distributed over the next three to 10 years in annual installments based on continued employment and the attainment of certain performance criteria. The Company recognizes compensation expense over the restriction period equal to the fair market value of the shares on the date of issuance adjusted for forfeitures, and where appropriate, the level of attainment of performance criteria and fluctuations in the fair market value of the Company's common stock. In 1998, 1997 and 1996, 2,900, 198,000 and 2,511,000 shares of additional restricted stock plan shares were granted to certain key employees under these terms and conditions. Approximately 16,842 and 161,000 shares were forfeited in 1998 and 1996, respectively. There were no shares forfeited in 1997. The Company recorded compensation expense of $11 million, $13 million and $11 million in 1998, 1997 and 1996, respectively, related to these awards. The weighted average fair value per share granted during each year was $18.13 in 1998, $16.88 in 1997 and $14.01 in 1996. Under these awards 925,000 shares were

outstanding at December 31, 1998. The Board has voted to approve 3,199,000 shares for award in 1999 under similar terms.

In 1998, 568,408 stock appreciation rights ("SARs") were issued under the Comprehensive Plan to certain directors of the Company as a replacement for previously issued options that were cancelled during the year. The conversion to SARs was completed in order to comply with ownership limits applicable to the Company upon conversion to a REIT. The SARs are fully vested and the grant prices range from $1.20 to $5.13. In 1998, the Company recognized compensation expense of $4.8 million related to this grant. Additionally, in future periods, the Company will recognize compensation expense for outstanding SARs as a result of fluctuations in the market price of the Company's common stock.

Under the terms of the Employee Stock Purchase Plan, eligible employees may purchase common stock through payroll deductions at 90% of the lower of market value at the beginning or market value at the end of the plan year.

11. Profit Sharing and Postemployment Benefit Plans

The Company contributes to profit sharing and other defined contribution plans for the benefit of employees meeting certain eligibility requirements and electing participation in the plans. The amount to be matched by the Company is determined annually by the Board of Directors. The Company provides medical benefits to a limited number of retired employees meeting restrictive eligibility requirements. Amounts for these items were not material in 1996 through 1998.

12. Acquisitions and Dispositions

The Company acquired or gained controlling interest in 36 hotels with 15,166 rooms in 1998, 18 hotels with 9,128 rooms in 1997 and 24 hotels with 11,385 rooms in 1996. The Company has also disposed of a number of hotels, including two hotels since 1997 and one subsequent to year-end 1998. Twenty-five of the 1998 acquisitions, consisting of the Blackstone Acquisition and the Partnership Mergers, were completed on December 30, 1998 in conjunction with the REIT Conversion. Additionally, three full-service properties were contributed to one of the Non-Controlled Subsidiaries (Note 4). Each of these transactions is discussed separately below.

1998 Acquisitions. In January 1998, the Company acquired an additional interest in Atlanta Marriott Marquis II Limited Partnership, which owns an interest in the 1,671-room Atlanta Marriott Marquis Hotel, for $239 million, including the assumption of $164 million of mortgage debt. The Company previously owned a 1.3% general and limited partnership interest. In March 1998, the Company acquired a controlling interest in a partnership that owns three hotels: the 359-room Albany Marriott, the 350-room San Diego Marriott Mission Valley and the 320-room Minneapolis Marriott Southwest for approximately $50 million. In the second quarter of 1998, the Company acquired the partnership that owns the 289-room Park Ridge Marriott in Park Ridge, New Jersey for $24 million. The Company previously owned a 1% managing general partner interest and a note receivable interest in such partnership. In addition, the Company acquired the 281-room Ritz-Carlton, Phoenix for $75 million, the 397-room Ritz-Carlton in Tysons Corner, Virginia for $96 million and the 487-room Torrance Marriott near Los Angeles, California for $52 million. In the third quarter of 1998, the Company acquired the 308-room Ritz-Carlton, Dearborn for $65 million, the 336-room Ritz-Carlton, San Francisco for $161 million and the 404-room Memphis Crowne Plaza (which was converted to the Marriott brand upon acquisition) for $16 million.

Blackstone Acquisition. In December 1998, the Company completed the acquisition of, or controlling interests in, twelve hotels and one mortgage loan secured by an additional hotel (the "Blackstone Acquisition") from the Blackstone Group, a Delaware limited partnership, and a series of funds controlled by affiliates of Blackstone Real Estate Partners (together, the "Blackstone Entities"). In addition, the Company acquired a 25% interest in Swissotel Management (USA) L.L.C., which operates five Swissotel hotels in the United States, from

the Blackstone Entities, which the Company transferred to Crestline in connection with the Distribution. The Operating Partnership issued approximately 43.9 million OP Units, which OP Units are redeemable for cash (or at Host Marriott's option, shares of common stock of Host Marriott) assumed debt and made cash payments totaling approximately $920 million and distributed 1.4 million of the shares of Crestline common stock to the Blackstone Entities. The actual number of OP Units to be issued to the Blackstone Entities will fluctuate based upon certain adjustments to be determined on March 31, 1999. Based on current stock prices, the Operating Partnership will be required to issue to the Blackstone Entities approximately 3.7 million additional units in April 1999. The consideration received by the Blackstone Entities was determined through negotiations between the Company and Blackstone and was not based upon appraisals of the assets. Each OP Unit is exchangeable for one share of the Company's common stock (or its cash equivalent, at the Company's election). After all adjustments, the Blackstone Entities will own approximately 16.4% of the outstanding OP Units of the Operating Partnership.

At the closing of the Blackstone Acquisition, the hotels were leased to subsidiaries of Crestline but will continue to be managed on behalf of the Lessees under their existing management agreements.

Partnership Mergers. In December 1998, the Company announced the completion of the Partnership Mergers which was the roll-up of eight public partnerships and four private partnerships which own or control 28 properties, 13 of which were already consolidated (the "Partnership Mergers"). The Operating Partnership issued approximately 25 million OP Units to partners for their interests valued at approximately $333 million. The eight public partnerships that merged are: the Atlanta Marriott Marquis II, Limited Partnership ("Atlanta Marquis"); Desert Springs Marriott Limited Partnership ("Desert Springs"); Hanover Marriott Limited Partnership ("Hanover"); Marriott Diversified American Hotels, Limited Partnership ("MDAH"); Marriott Hotel Properties, Limited Partnership ("MHP"); Marriott Hotel Properties II, Limited Partnership ("MHP2"); Mutual Benefit Chicago Marriott Suite Hotel Partners, Limited Partnership ("Chicago Suites") and Potomac Hotel Limited Partnership ("PHLP") (collectively, the "Public Partnerships"). The four private partnerships in which all or controlling interests also were acquired include privately-held ownership interests in the Atlanta Marriott Marquis; The Ritz-Carlton, Naples; The Ritz-Carlton, Buckhead; the New York Marriott Marquis and the Hartford Marriott (collectively, the "Private Partnerships"). The Company had previously not consolidated three of the 12 partnerships. Those three partnerships are: 1) MDAH, the owner of six full-service Marriott hotels; 2) PHLP, the owner of eight Marriott hotels (two of which were previously consolidated) and 3) Chicago Suites, the owner of the 256-room Marriott O'Hare Suites. As a result of these transactions, the Company has increased its ownership of most of the 28 properties to 100% while consolidating 13 additional hotels (4,445 rooms).

1998 Dispositions. In 1998, the Company sold the 662-room New York Marriott East Side for approximately $191 million and recorded a pre-tax gain of approximately $40 million. The Company also sold the 191-room Napa Valley Marriott for approximately $21 million and recorded a pre-tax gain of approximately $10 million.

1999 Dispositions. In February 1999, the Company sold the 479-room Minneapolis/Bloomington Marriott for approximately $35 million and recorded a pre-tax gain of approximately $13 million.

1997 Acquisitions. In 1997, the Company acquired eight full-service hotels totaling 3,600 rooms for approximately $145 million. In addition, the Company acquired controlling interests in nine full-service hotels totaling 5,024 rooms for approximately $621 million, including the assumption of approximately $418 million of debt. The Company also completed the acquisition of the 504-room New York Marriott Financial Center, after acquiring the mortgage on the hotel for $101 million in late 1996.

Also in 1997, the Company acquired the outstanding common stock of the Forum Group from Marriott Senior Living Services. The Company purchased the Forum Group portfolio of 29 senior living communities for approximately $460 million, including approximately $270 million in debt. The Company also acquired 49% of the remaining 50% interest in the partnership which owned the 418-unit Leisure Park retirement community for approximately $23 million, including the assumption of approximately $15 million of debt. The Company contributed these assets in conjunction with the Distribution of Crestline.

1996 Acquisitions. In 1996, the Company acquired six full-service hotels totaling 1,964 rooms for an aggregate purchase price of approximately $189 million. In addition, the Company acquired controlling interests in 17 full-service hotels totaling 8,917 rooms for an aggregate purchase price of approximately $1.1 billion, including the assumption of approximately $696 million of debt. The Company also purchased the first mortgage of the 504-room New York Marriott Financial Center for approximately $101 million.

In the first and second quarters of 1996, the Company completed the sale and leaseback of 16 of its Courtyard properties and 18 of its Residence Inn properties for $349 million. The Company received net proceeds of approximately $314 million and will receive approximately $35 million upon expiration of the leases. A deferred gain of $45 million on the sale/leaseback transactions is being amortized over the initial term of the leases.

The Company's summarized, unaudited consolidated pro forma results of operations, assuming the above transactions occurred on January 3, 1997, are as follows (in millions, except per share amounts):

	1998	1997
Revenues	$4,220	$3,919
Income before extraordinary items	189	71
Net income (loss)	41	74
Basic earnings (loss) per common share:		
Income before extraordinary items	.88	.33
Basic earnings (loss) per common share	.19	.34
Diluted earnings (loss) per common share:		
Income before extraordinary items	.83	.32
Diluted earnings (loss) per common share	.25	.33

13. Fair Value of Financial Instruments

The fair values of certain financial assets and liabilities and other financial instruments are shown below:

	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Financial assets				
Short-term marketable securities	$ --	$ --	$ 354	$ 354
Receivables from affiliates	134	141	23	26
Notes receivable	69	69	29	46
Other	9	9	20	20
Financial liabilities				
Debt, net of capital leases	5,110	5,125	3,458	3,493
Other financial instruments				
Convertible Preferred Securities	550	449	550	638

Short-term marketable securities and receivable Convertible Preferred Securities are valued based on quoted market prices. Receivables from affiliates, notes and other financial assets are valued based on the expected future cash flows discounted at risk-adjusted rates. Valuations for secured debt are determined based on the expected future payments discounted at risk-adjusted rates. The fair values of the New Credit Facility and other notes are estimated to be equal to their carrying value. Senior notes are valued based on quoted market prices.

The fair value of the liability related to the interest rate swap agreements assumed in the Blackstone Acquisition was $14 million. The fair value is based on the estimated amount the Company would pay or receive to terminate the swap agreements. The aggregate notional amount of the agreements was $365 million at December 31, 1998 and $100 million at January 2, 1998.

14. Marriott International Distribution and Relationship with Marriott International

The Company and Marriott International (formerly a wholly owned subsidiary, the common stock of which was distributed to the Company's shareholders on October 8, 1993) have entered into various agreements in connection with the Marriott International Distribution and thereafter which provide, among other things, that (i) the majority of the Company's hotel lodging properties are managed by Marriott International under agreements with initial terms of 15 to 20 years and which are subject to renewal at the option of Marriott International for up to an additional 16 to 30 years (see Note 15); (ii) 13 of the Company's full-service properties are operated under franchise agreements with Marriott International with terms of 15 to 30 years; (iii) Marriott International provided the Company with $92 million of financing at an average rate of 9% in 1997 related to the Company's discontinued senior living operations; (iv) the Company acquired 49% of Marriott International's 50% interest in the Leisure Park retirement community in 1997 for $23 million, including approximately $15 million of assumed debt; (v) Marriott International guarantees the Company's performance in connection with certain loans and other obligations ($70 million at December 31, 1998); (vi) the Company borrowed and repaid $109 million of first mortgage financing for construction of the Philadelphia Marriott (see Note 5); (vii) Marriott International and the Company formed a joint venture and Marriott International provided the Company with $29 million in debt financing at an average interest rate of 12.7% and $28 million in preferred equity in 1996 for the acquisition of two full-service properties in Mexico City, Mexico; and (viii) Marriott International provides certain limited administrative services.

In 1998, 1997 and 1996, the Company paid to Marriott International $196 million, $162 million and $101 million, respectively, in hotel management fees; $4 million, $13 million and $18 million, respectively, in interest and commitment fees under the debt financing and line of credit provided by Marriott International, and $3 million, $3 million and $4 million, respectively, for limited administrative services. The Company also paid Marriott International $9 million, $4 million and $2 million, respectively, of franchise fees in 1998, 1997 and 1996. In connection with the discontinued senior living communities' business, the Company paid Marriott International $13 million and $6 million in management fees during 1998 and 1997, respectively.

Additionally, Marriott International has the right to purchase up to 20% of the voting stock of the Company if certain events involving a change in control of the Company occur.

15. Hotel Management Agreements

Most of the Company's hotels are subject to management agreements (the "Agreements") under which Marriott International manages the Company's hotels, generally for an initial term of 15 to 20 years with renewal terms at the option of Marriott International of up to an additional 16 to 30 years. The Agreements generally provide for payment of base management fees equal to one to four percent of sales and incentive management

fees generally equal to 20% to 50% of Operating Profit (as defined in the Agreements) over a priority return (as defined) to the Company, with total incentive management fees not to exceed 20% of cumulative Operating Profit, or 20% of current year Operating Profit. In the event of early termination of the Agreements, Marriott International will receive additional fees based on the unexpired term and expected future base and incentive management fees. The Company has the option to terminate certain management agreements if specified performance thresholds are not satisfied. No agreement with respect to a single lodging facility is cross-collateralized or cross-defaulted to any other agreement and a single agreement may be canceled under certain conditions, although such cancellation will not trigger the cancellation of any other agreement.

As a result of the REIT Conversion, all fees payable under the Agreements for subsequent periods are the primary obligations of the Lessees. The obligations of the Lessees are guaranteed to a limited extent by Crestline. The Company remains obligated to the managers in case the Lessee fails to pay these fees (but it would be entitled to reimbursement from the Lessee under the terms of the Leases).

Pursuant to the terms of the Agreements, Marriott International is required to furnish the hotels with certain services ("Chain Services") which are generally provided on a central or regional basis to all hotels in the Marriott International hotel system. Chain Services include central training, advertising and promotion, a national reservation system, computerized payroll and accounting services, and such additional services as needed which may be more efficiently performed on a centralized basis. Costs and expenses incurred in providing such services are allocated among all domestic hotels managed, owned or leased by Marriott International or its subsidiaries. In addition, the Company's hotels also participate in the Marriott Rewards program. The cost of this program is charged to all hotels in the Marriott hotel system.

Crestline, as the Company's Lessee, is obligated to provide the manager with sufficient funds to cover the cost of (a) certain non-routine repairs and maintenance to the hotels which are normally capitalized; and (b) replacements and renewals to the hotels' property and improvements. Under certain circumstances, Crestline will be required to establish escrow accounts for such purposes under terms outlined in the Agreements.

Crestline assumed franchise agreements with Marriott International for 10 hotels. Pursuant to these franchise agreements, Crestline generally pays a franchise fee based on a percentage of room sales and food and beverage sales as well as certain other fees for advertising and reservations. Franchise fees for room sales vary from four to six percent of sales, while fees for food and beverage sales vary from two to three percent of sales. The terms of the franchise agreements are from 15 to 30 years.

Crestline assumed management agreements with The Ritz-Carlton Hotel Company, LLC ("Ritz-Carlton"), an affiliate of Marriott International, to manage ten of the Company's hotels. These agreements have an initial term of 15 to 25 years with renewal terms at the option of Ritz-Carlton of up to an additional 10 to 40 years. Base management fees vary from two to five percent of sales and incentive management fees are generally equal to 20% of available cash flow or operating profit, as defined in the agreements.

Crestline also assumed management agreements with hotel management companies other than Marriott International and Ritz-Carlton for 23 of the Company's hotels (10 of which are franchised under the Marriott brand). These agreements generally provide for an initial term of 10 to 20 years with renewal terms at the option of either party or, in some cases, the hotel management company of up to an additional one to 15 years. The agreements generally provide for payment of base management fees equal to one to four percent of sales. Seventeen of the 23 agreements also provide for incentive management fees generally equal to 10 to 25 percent of available cash flow, operating profit, or net operating income, as defined in the agreements.

16. Relationship with Crestline Capital Corporation

The Company and Crestline have entered into various agreements in connection with the Distribution as discussed in Note 2 and further outlined below.

Distribution Agreement

Crestline and the Company entered into a distribution agreement (the "Distribution Agreement"), which provided for, among other things, (i) the distribution of shares of Crestline in connection with the Distribution; (ii) the division between Crestline and the Company of certain assets and liabilities; (iii) the transfer to Crestline of the 25% interest in the Swissotel management company acquired in the Blackstone Acquisition and (iv) certain other agreements governing the relationship between Crestline and the Company following the Distribution. Crestline also granted the Company a contingent right to purchase Crestline's interest in Swissotel Management (USA) L.L.C. at fair market value in the event the tax laws are changed so that the Company could own such interest without jeopardizing its status as a REIT.

Subject to certain exceptions, the Distribution Agreement provides for, among other things, assumptions of liabilities and cross-indemnities designed to allocate to Crestline, effective as of the date of the Distribution, financial responsibilities for liabilities arising out of, or in connection with, the business of the senior living communities.

Asset Management Agreement

The Company and the Non-Controlled Subsidiaries entered into asset management agreements (the "Asset Management Agreements") with Crestline whereby Crestline agrees to provide advice on the operation of the hotels and review financial results, projections, loan documents and hotel management agreements. Crestline also agrees to consult on market conditions and competition, as well as monitor and negotiate with governmental agencies, insurance companies and contractors. Crestline will be paid a fee not to exceed $4.5 million for each calendar year for its consulting services under the Asset Management Agreements, which includes $0.25 million related to the Non-Controlled Subsidiaries. The Asset Management Agreements each have terms of two years with an automatic one year renewal, unless earlier terminated by either party in accordance with the terms thereof.

Non-Competition Agreement

Crestline and the Company entered into a non-competition agreement that limits the respective parties' future business opportunities. Pursuant to this non-competition agreement, Crestline agrees, among other things, that until the earlier of December 31, 2008, or the date on which it is no longer a Lessee of more than 25% of the number of hotels owned by the Company at the time of the Distribution, it will not own any full service hotel, manage any limited service or full service hotel owned by the Company, or own or operate a full service hotel franchise system operating under a common name brand, subject to certain exceptions. In addition, the Company agrees not to participate in the business of leasing, operating or franchising limited service or full service properties, subject to certain exceptions.

1998 Employee Benefits and Other Employment Matters Allocation Agreement

As part of the REIT Conversion, the Company, the Operating Partnership and Crestline entered into the 1998 Employee Benefits Allocation Agreement relating to various compensation, benefits and labor matters. Under the agreement, the Operating Partnership and Crestline each assumed certain liabilities related to covered benefits and labor matters arising prior to the effective date of the Distribution and relating to employees of

each organization, respectively, after the Distribution. The agreements also govern the treatment of awards under the Comprehensive Plan and requires the adoption of such a plan by Crestline and the Operating Partnership.

17. Litigation

The Company is and from time-to-time will be the subject of, or involved in, judicial proceedings. Management believes that any liability or loss resulting from such matters will not have a material adverse effect on the financial position or results of operations of the Company.

In the fourth quarter of 1997, the Company reached a settlement in a lawsuit against Trinity Industries and others for claims related to construction of the New York Marriott Marquis. In settlement of the lawsuit, the Company and its affiliate received a cash settlement of approximately $70 million, the majority of which was considered a recovery of construction costs and $10 million of which has been recorded as other revenues in the accompanying consolidated financial statements.

18. Geographic and Business Segment Information

The Company operates one business segment, hotel ownership. The Company's hotels are primarily operated under the Marriott or Ritz-Carlton brands, contain an average of nearly 465 rooms, as well as supply other amenities such as meeting space and banquet facilities; a variety of restaurants and lounges; gift shops and swimming pools. They are typically located in downtown, airport, suburban and resort areas throughout the United States.

The Company evaluates the performance of its segment based primarily on operating profit before depreciation, corporate expenses, and interest expense. The Company's income taxes are included in the consolidated Federal income tax return of the Company and its affiliates and is allocated based upon the relative contribution to the Company's consolidated taxable income/loss and changes in temporary differences. The allocation of taxes is not evaluated at the segment level and, therefore, the Company does not believe the information is material to the consolidated financial statements.

The following table presents revenues and other financial information excluding amounts related to the Company's discontinued senior living business (in millions):

	1998		
	Hotels	Corporate & Other	Consolidated
Revenues	$3,492	$ 21	$3,513
Operating profit	618	43	661
Interest expense	328	7	335
Interest income	37	14	51
Depreciation and amortization	238	5	243
Capital expenditures	247	5	252
Total assets	7,908	360	8,268

	1997		
	Hotels	Corporate & Other	Consolidated
Revenues	$2,806	$ 17	$2,823
Operating profit (loss)	444	(12)	432
Interest expense	281	7	288
Interest income	40	12	52
Depreciation and amortization	226	5	231
Capital expenditures	154	4	158
Total assets	5,789	116	5,905

	1996		
	Hotels	Corporate & Other	Consolidated
Revenues	$1,942	$ 15	$1,957
Operating profit (loss)	256	(23)	233
Interest expense	228	9	237
Interest income	31	17	48
Depreciation and amortization	165	3	168
Capital expenditures	156	3	159
Total assets	4,770	382	5,152

During most of 1998, the Company's foreign operations consisted of six full-service hotel properties located in Mexico and Canada. As of December 31, 1998, the Company's foreign operations had decreased to four Canadian hotel properties, as the hotels in Mexico were contributed to Rockledge Hotel Properties, Inc. There were no intercompany sales between the properties and the Company. The following table presents revenues and long-lived assets for each of the geographical areas in which the Company operates (in millions):

	1998		1997		1996	
	Revenues	Long-lived Assets	Revenues	Long-lived Assets	Revenues	Long-lived Assets
United States	$3,392	$7,112	$2,718	$4,412	$1,908	$3,587
International	121	89	105	222	49	218
Total	$3,513	$7,201	$2,823	$4,634	$1,957	$3,805

The long-lived assets for 1997 exclude $583 million of assets related to the discontinued senior living business.

19. Quarterly Financial Data (unaudited)

	1998				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
	(in millions, except per common share amounts)				
Revenues	$ 791	$ 839	$ 745	$ 1,138	$ 3,513
Operating profit before minority interest, corporate expenses and interest	147	208	111	195	661
Income from continuing operations	28	62	2	102	194
Income before extraordinary items	30	66	4	95	195
Net income (loss)	30	66	(144)	95	47
Basic earnings (loss) per common share:					
Income from continuing operations	.13	.29	.01	.47	.90
Income before extraordinary items	.14	.31	.02	.44	.91
Net income (loss)	.14	.31	(.67)	.44	.22
Diluted earnings (loss) per common share:					
Income from continuing operations	.13	.26	.01	.43	.84
Income before extraordinary items	.14	.28	.02	.40	.85
Net income (loss)	.14	.28	(.65)	.40	.27

	1997				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
	(in millions, except per common share amounts)				
Revenues	$ 624	$ 643	$ 615	$ 941	$ 2,823
Operating profit before minority interest, corporate expenses and interest	91	124	82	135	432
Income from continuing operations	6	26	6	9	47
Income before extraordinary items	6	26	6	9	47
Net income	11	26	6	7	50
Basic earnings per common share:					
Income from continuing operations	.03	.12	.03	.04	.22
Income before extraordinary items	.03	.12	.03	.04	.22
Net income	.05	.12	.03	.03	.23
Diluted earnings per common share:					
Income from continuing operations	.03	.12	.03	.04	.22
Income before extraordinary items	.03	.12	.03	.04	.22
Net income	.05	.12	.03	.03	.23

The quarterly data in the table above has been restated to reflect the Company's senior living business as a discontinued operation and the impact of the 1998 stock portion of the Special Dividend on earnings per share.

The first three quarters consist of 12 weeks each in both 1998 and 1997, and the fourth quarter includes 16 weeks. The sum of the basic and diluted earnings (loss) per common share for the four quarters in 1998 and 1997 differs from the annual earnings per common share due to the required method of computing the weighted average number of shares in the respective periods.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

The information called for by Items 10-13 is incorporated by reference from our 1999 Annual Meeting of Shareholders Notice and Proxy Statement (to be filed pursuant to Regulation 14A not later than 120 days after the close of fiscal year).

Item 10. Directors and Executive Officers of the Registrant

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management

Item 13. Certain Relationships and Related Transactions

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) LIST OF DOCUMENTS FILED AS PART OF THIS REPORT

(i) FINANCIAL STATEMENTS

All financial statements of the registrant as set forth under Item 8 of this Report on Form 10-K.

(ii)FINANCIAL STATEMENT SCHEDULES

The following financial information is filed herewith on the pages indicated.

Financial Schedules:

All other schedules are omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

(iii)EXHIBITS

Exhibit No.	Description
2.1	Agreement and Plan of Merger by and among Host Marriott Corporation, HMC Merger Corporation and Host Marriott L.P. (incorporated by reference to Host Marriott Corporation Registration Statement No. 333-64793).
3.3	Bylaws of Host Marriott Corporation dated September 28, 1998 (incorporated by reference to Host Marriott Corporation Registration Statement No. 333-64793).
3.4	Articles of Amendment and Restatement of Articles of Incorporation of Host Marriott Corporation (incorporated by reference to Host Marriott Corporation Registration Statement No. 333-64793).
4.1	Form of Common Stock Certificate of Host Marriott Corporation (incorporated by reference to Host Marriott Corporation Registration Statement No. 333-55807).

Exhibit No.	Description
4.2	Guarantee Agreement, dated December 2, 1996, between Host Marriott Corporation and IBJ Schroeder Bank & Trust Company, as Guarantee Trustee (incorporated by reference to Exhibit 4.6 of Host Marriott Corporation Registration Statement No. 333-19923).
4.3(i)	Rights Agreement between Host Marriott Corporation and The Bank of New York as Rights Agent dated as of November 23, 1998 (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated November 23, 1998).
4.3(ii)	Amendment No. 1 to Rights Agreement between Host Marriott Corporation and The Bank of New York as Rights Agent dated as of December 18, 1998 (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated December 18, 1998).
4.4	Indenture by and among HMC Acquisition Properties, Inc., as Issuer, HMC SFO, Inc., as Subsidiary Guarantors, and Marine Midland Bank, as Trustee (incorporated by reference to Host Marriott Corporation Registration Statement No. 333-00768).
4.5	Indenture by and among HMH Properties, Inc., as Issuer, HMH Courtyard Properties, Inc., HMC Retirement Properties, Inc., Marriott Financial Services, Inc., Marriott SBM Two Corporation, HMH Pentagon Corporation and Host Airport Hotels, Inc., as Subsidiary Guarantors, and Marine Midland Bank, as Trustee (incorporated by reference to Host Marriott Corporation Registration Statement 33-95058).
4.6	Indenture by and among HMH Properties, Inc., as Issuer, and the Subsidiary Guarantors named therein, and Marine Midland Bank, as Trustee (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated August 6, 1998).
4.7	Indenture for the 6 3/4% Convertible Debentures, dated December 2, 1996, between Host Marriott Corporation and IBJ Schroeder Bank & Trust Company, as Indenture Trustee (incorporated by reference to Exhibit 4.3 of Host Marriott Corporation Registration Statement No. 333-19923).
4.8	Amended and Restated Trust Agreement, dated December 2, 1996, among Host Marriott Corporation, IBJ Schroeder Bank & Trust Company, as Property Trustee, Delaware Trust Capital Management, Inc., as Delaware Trustee, and Robert E. Parsons, Jr., Bruce D. Wardinski and Christopher G. Townsend, as Administrative Trustees (incorporated by reference to Exhibit 4.2 of Host Marriott Corporation Registration Statement No. 333-19923).
4.9	Amended and Restated Trust Agreement, dated as of December 29, 1998, among HMC Merger Corporation, as Depositor, IBJ Schroder Bank & Trust Company, as Property Trustee, Delaware Trust Capital Management, Inc., as Delaware Trustee, and Robert E. Parsons, Jr., Ed Walter and Christopher G. Townsend, as Administrative Trustees.
10.1	Second Amended and Restated Agreement of Limited Partnership of Host Marriott, L.P. (incorporated by reference to Exhibit 3.1 of Host Marriott Corporation Registration Statement No. 333-55807).
10.2	Indenture between Host Marriott L.P., as Issuer, and Marine Midland Bank, as Indenture Trustee, and Form of 6.56% Callable Note due December 15, 2005 (incorporated by reference to Exhibit 4.1 of Host Marriott Corporation Registration Statement No. 333-55807).
10.3	Amended and Restated Credit Agreement dated as of June 19, 1997 and Amended and Restated as of August 5, 1998 among Host Marriott Corporation, Host Marriott Hospitality, Inc., HMH Properties, Inc., Host Marriott, L.P., HMC Capital Resources Corp., Various Banks, Wells Fargo Bank, National Association, The Bank of Nova Scotia and Credit Lyonnais New York Branch, as Co-Arrangers, and Bankers Trust Company as Arranger and Administrative Agent (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated September 11, 1998).
10.4*	First Amendment and Waiver of Amended and Restated Credit Agreement dated as of June 19, 1997 and Amended and Restated as of August 5, 1998, among Host Marriott Corporation, Host Marriott Hospitality Inc., HMH Properties, Inc., Host Marriott, L.P., HMC Capital Resources Corp., Various Banks, Wells Fargo Bank, National Association, The Bank of Nova Scotia and Credit Lyonnais New York Branch, as Co-Arrangers and Bankers Trust Company as Arranger and Administrative Agent dated as of November 25, 1998.

Exhibit No.	Description
10.5*	Second Amendment and Consent to Credit Agreement of Amended and Restated Credit Agreement dated as of June 19, 1997 and Amended and Restated as of August 5, 1998, among Host Marriott Corporation, Host Marriott Hospitality Inc., HMH Properties, Inc., Host Marriott, L.P., HMC Capital Resources Corp., Various Banks, Wells Fargo Bank, National Association, The Bank of Nova Scotia and Credit Lyonnais New York Branch, as Co-Arrangers and Bankers Trust Company as Arranger and Administrative Agent dated as of December 17, 1998.
10.6*	Third Amendment and Waiver to Credit Agreement Amended and Restated Credit Agreement dated as of June 19, 1997 and Amended and Restated as of August 5, 1998, among Host Marriott Corporation, Host Marriott Hospitality Inc., HMH Properties, Inc., Host Marriott, L.P., HMC Capital Resources Corp., Various Banks, Wells Fargo Bank, National Association, The Bank of Nova Scotia and Credit Lyonnais New York Branch, as Co-Arrangers and Bankers Trust Company as Arranger and Administrative Agent dated as of March 15, 1999.
10.7*	Host Marriott L.P. Executive Deferred Compensation Plan effective as of December 29, 1998 (formerly the Marriott Corporation Executive Deferred Compensation Plan).
10.8	Host Marriott Corporation 1997 Comprehensive Incentive Stock Plan (incorporated by reference to Host Marriott Corporation's Proxy Statement filed April 3, 1997).
10.9	Distribution Agreement dated as of September 15, 1993 between Marriott Corporation and Marriott International, Inc. (incorporated by reference from Host Marriott Corporation Current Report on Form 8-K dated October 23, 1993).
10.10	Amendment No. 1 to the Distribution Agreement dated December 29, 1995 by and among Host Marriott Corporation, Host Marriott Services Corporation and Marriott International, Inc. (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated January 16, 1996).
10.11	Amendment No. 2 to the Distribution Agreement dated June 21, 1997 by and among Host Marriott Corporation, Host Marriott Services Corporation and Marriott International, Inc. (incorporated by reference to Host Marriott Corporation Registration Statement No. 333-64793).
10.12	Amendment No. 3 to the Distribution Agreement dated March 3, 1998 by and among Host Marriott Corporation, Host Marriott Services Corporation and Marriott International, Inc. (incorporated by reference to Host Marriott Corporation Registration Statement No. 333-64793).
10.13	Amendment No. 4 to the Distribution Agreement by and among Host Marriott Corporation and Marriott International Inc. (incorporated by reference to Host Marriott Corporation Registration Statement No. 333-64793).
10.14*	Amendment No. 5 to the Distribution Agreement dated December 18, 1998 by and among Host Marriott Corporation, Host Marriott Services Corporation and Marriott International Inc.
10.15	Distribution Agreement dated December 22, 1995 by and between Host Marriott Corporation and Host Marriott Services Corporation (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated January 16, 1996).
10.16*	Amendment to Distribution Agreement dated December 22, 1995 by and between Host Marriott Corporation and Host Marriott Services Corporation
10.17	Tax Sharing Agreement dated as of October 5, 1993 by and between Marriott Corporation and Marriott International, Inc. (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated October 23, 1993).

Exhibit No.	Description
10.18*	License Agreement dated as of December 29, 1998 by and among Host Marriott Corporation, Host Marriott, L.P., Marriott International, Inc. and Marriott Worldwide Corporation.
10.19*	Noncompetition Agreement between Host Marriott Corporation, Host Marriott, L.P. and Crestline Capital Corporation and other parties named therein.
10.20	Tax Administration Agreement dated as of October 8, 1993 by and between Marriott Corporation and Marriott International, Inc. (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated October 23, 1993).
10.21	Restated Noncompetition Agreement dated March , 1998 by and among Host Marriott Corporation, Marriott International, Inc. and Sodexho Marriott Services, Inc. (incorporated by reference to Host Marriott Corporation Registration Statement No. 333-64793).
10.22	First Amendment to Restated Noncompetition Agreement by and among Host Marriott Corporation, Marriott International, Inc. and Sodexho Marriott Services, Inc. (incorporated by reference to Host Marriott Corporation Registration Statement No. 333-64793).
10.23	Host Marriott Lodging Management Agreement--Marriott Hotels, Resorts and Hotels dated September 25, 1993 by and between Marriott Corporation and Marriott International, Inc. (incorporated by reference to Host Marriott Corporation Registration Statement No. 33-51707).
10.24	Employee Benefits and Other Employment Matters Allocation Agreement dated as of December 29, 1995 by and between Host Marriott Corporation and Host Marriott Services Corporation (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated January 16, 1996).
10.25	Tax Sharing Agreement dated as of December 29, 1995 by and between Host Marriott Corporation and Host Marriott Services Corporation (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated January 16, 1996).
10.26*	Host Marriott, L.P. Retirement and Savings Plan and Trust.
10.27	Contribution Agreement dated as of April 16, 1998 among Host Marriott Corporation, Host Marriott, L.P. and the contributors named therein, together with Exhibit B (incorporated by reference to Exhibit 10.18 of Host Marriott Corporation Registration Statement No. 333-55807).
10.28	Amendment No. 1 to Contribution Agreement dated May 8, 1998 among Marriott Corporation, Host Marriott, L.P. and the contributors named therein (incorporated by reference to Exhibit 10.19 of Host Marriott Corporation Registration Statement No. 333-55807).
10.29	Amendment No. 2 to Contribution Agreement dated May 18, 1998 among Host Marriott Corporation, Host Marriott, L.P. and the contributors named therein (incorporated by reference to Exhibit 10.20 of Host Marriott Corporation Registration Statement No. 333-55807).
#10.30	Form of Lease Agreement (incorporated by reference to Host Marriott Corporation Registration Statement No. 333-64793).
#10.31	Form of Management Agreement for Full-Service Hotels (incorporated by reference to Host Marriott Corporation Registration Statement No. 33-51707).
#10.32	Form of Owner's Agreement between Host Marriott Corporation, Marriott International and Crestline Capital Corporation (incorporated by reference to Crestline Capital Corporation Registration Statement No. 333-64657).
10.33	Employee Benefits and Other Employment Matters Allocation Agreement between Host Marriott Corporation, Host Marriott, L.P. and Crestline Capital Corporation (incorporated by reference to Host Marriott Corporation Registration Statement No. 333-64793).

Exhibit No.	Description
10.34*	Amendment to the Employee Benefits and Other Employment Matters Allocation Agreement effective as of December 29, 1998 by and between Host Marriott Corporation, Marriott International, Sodexho Marriott Services, Inc., Crestline Capital Corporation and Host Marriott, L.P.
10.35	Pool Guarantee Agreement between Host Marriott Corporation, the lessees referred to therein and Crestline Capital Corporation (incorporated by reference to Host Marriott Corporation Registration Statement No. 333-64793).
10.36	Pooling and Security Agreement by and among Host Marriott Corporation and Crestline Capital Corporation (incorporated by reference to Host Marriott Corporation Registration Statement No. 333- 64793).
10.37	Amended and Restated Communities Noncompetition Agreement (incorporated by reference to Host Marriott Corporation Registration Statement No. 333-64793).
10.38	Asset Management Agreement between Host Marriott, L.P. and Crestline Capital Corporation (incorporated by reference to Crestline Capital Corporation Registration Statement No. 333-64657).
12.1*	Computation of Ratios of Earnings to Fixed Charges.
21*	List of Subsidiaries of Host Marriott Corporation.
23.1*	Consent of Arthur Andersen LLP.
27.1	Financial Data Schedule. (Incorporated by reference to Host Marriott Corporation 8-K/A filed on March 15, 1999)

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Agreement filed is illustrative of numerous other agreements to which the Company is a party.
* Filed herewith.

(b) REPORTS ON FORM 8-K

- November 25, 1998--Report of the announcement that Host Marriott mailed a Proxy Statement to its stockholders relating to a special meeting of its stockholders to be held on December 15, 1998.

- December 10, 1998--Report that Host Marriott and The Bank of New York entered into an Amendment No. 3 to the Rights Agreement, dated November 23, 1998 which was originally entered into on February 3, 1989 and as amended by Amendment No. 1, dated October 8, 1993, and further amended by Amendment No. 2, dated November 3, 1998.

- December 22, 1998--Report of the announcement that Host Marriott and certain of its subsidiaries executed an underwriting agreement and Host Marriott agreed to issue and sell $500,000,000 aggregate principal amount of 8.45% Series C Senior Notes due 2008 which was consummated on December 11, 1998.

- December 22, 1998--Report of the announcement of Host Marriott's declaration of a special dividend payable in either cash or common stock of Host Marriott, at the election of each Host Marriott stockholder, a dividend of shares of Crestline Capital Corporation, a subsidiary of Host Marriott, and a receipt of the necessary partnership approvals to acquire eight public limited hotel partnerships.

- December 29, 1998--Report of the announcement that HMC Merger Corporation, a Maryland corporation and formerly a wholly owned subsidiary of Host Marriott Corporation, a Delaware corporation, completed its merger with Host Marriott Corporation and, as the surviving corporation in the merger, HMC Merger Corporation changed its name from HMC Merger Corporation to Host Marriott Corporation.

- December 31, 1998--Report of the announcement that Host Marriott successfully completed the final steps in its conversion to a real estate investment trust ("REIT") and that it is positioned to elect REIT status effective January 1, 1999. Also the announcement that Host Marriott acquired ownership of, or controlling interests in, 12 upscale and luxury full-service hotels and certain other assets from the Blackstone Group and a series of funds controlled by Blackstone Real Estate Partners.

- January 14, 1999--Report that Host Marriott Corporation, through its subsidiary Host Marriott L.P., acquired ownership of, or controlling interests in, twelve upscale and luxury full-service hotels and certain other assets from the Blackstone Group and a series of funds controlled by Blackstone Real Estate Partners, and financial statements will be filed within 60 days of the filing of the report.

- January 14, 1999--Report on the December 29, 1998 Host Marriott Corporation distribution of Crestline shares to shareholders of record and Host Marriott belief that the fair market value of the Crestline shares on December 29, 1998 was $15.30 per share (a distribution value of $1.53 per Host Marriott share) which is the value determined by the Host Marriott Board of Directors.

- January 15, 1999--Report of the announcement that on December 30, 1998 Host Marriott Corporation had completed the final steps in its conversion to a real estate investment trust ("REIT") and had positioned itself to elect REIT status, effective January 1, 1999.

- January 22, 1999--Report that, based upon its annual budget for 1999, Host Marriott Corporation estimates that on a standalone basis its 1999 Earnings Before Interest, Expense, Taxes, Depreciation and Amortization and other non-cash items will be in the range of approximately $1.0 billion to $1.05 billion while its 1999 Funds From Operations will be in the range of approximately $565 million to $595 million.

- March 15, 1999--Report that on December 30, 1998, Host Marriott Corporation, through its subsidiary Host Marriott, L.P., acquired ownership of, or controlling interests in, 12 upscale and luxury full-service hotels and certain other assets from the Blackstone Group, and a series of funds controlled by affiliates Blackstone Real Estate Partners. In exchange for these assets, (1) Host Marriott, L.P. issued approximately 43.9 million of its limited partnership units, assumed debt and made cash payments totaling approximately $920 million and (2) Host Marriott distributed 1.4 million shares of Crestline Capital Corporation. The actual number of OP Units to be issued to the Blackstone Entities will fluctuate based upon certain adjustments to be determined on March 31, 1999.

(d) OTHER INFORMATION

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Bethesda, State of Maryland, on March 24, 1999.

Host Marriott Corporation

By: /s/ Robert E. Parsons, Jr.
Robert E. Parsons, Jr.
Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Terence C. Golden Terence C. Golden	President, Chief Executive Officer and Director (Principal Executive Officer)	March 24, 1999
/s/ Robert E. Parsons, Jr. Robert E. Parsons, Jr.	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 24, 1999
/s/ Donald D. Olinger Donald D. Olinger	Senior Vice President and Corporate Controller (Principal Accounting Officer)	March 24, 1999
/s/ Richard E. Marriott Richard E. Marriott	Chairman of the Board of Directors	March 24, 1999
/s/ R. Theodore Ammon R. Theodore Ammon	Director	March 24, 1999
/s/ Robert M. Baylis Robert M. Baylis	Director	March 24, 1999
/s/ J.W. Marriott, Jr. J.W. Marriott, Jr.	Director	March 24, 1999
/s/ Ann Dore McLaughlin Ann Dore McLaughlin	Director	March 24, 1999

Signatures	Title	Date
/s/ John G. Schreiber John G. Schreiber	Director	March 24, 1999
/s/ Harry L. Vincent, Jr. Harry L. Vincent, Jr.	Director	March 24, 1999

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 1998
(in millions)

Description	Debt	Initial Costs		Subsequent Costs Capitalized	Gross Amount at December 31, 1998			Accumulated Depreciation	Date of Completion of Construction	Date Acquired
		Land	Buildings & Improvements		Land	Buildings & Improvements	Total			
Full-service hotels:										
New York Marriott Marquis Hotel, New York, NY.....	$ 145	$--	$552	$24	$--	$576	$576	$(144)	1986	N/A
Other full-service properties, each less than 5% of total.....	$2,293	$724	$5,638	$376	$727	$6,032	$6,759	$(413)	various	various
Total full-service.....	2,438	724	6,190	400	727	6,608	7,335	(557)		
Other properties, each less than 5% of total.....	--	13	5	--	13	5	18	(18)	various	N/A
Total.....	$2,438	$737	$6,195	$400	$740	$6,613	$7,353	$(575)		

Description	Depreciation Life
Full-service hotels:	
New York Marriott Marquis Hotel, New York, NY.....	40
Other full-service properties, each less than 5% of total.....	40
Total full-service.....	
Other properties, each less than 5% of total.....	various
Total.....	

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 1998
(in millions)

Notes:

(A) The change in total cost of properties for the fiscal years ended December 31, 1998, January 2, 1998 and January 3, 1997 is as follows:

Balance at December 29, 1995	$2,986
Additions:	
Acquisitions	1,087
Capital expenditures	77
Transfers from construction-in-progress	28
Deductions:	
Dispositions and other	(322)
Balance at January 3, 1997	3,856
Additions:	
Acquisitions	1.459
Capital expenditures	117
Transfers from construction-in-progress	30
Deductions:	
Dispositions and other	(145)
Balance at January 2, 1998	5,317
Additions:	
Acquisitions	2,849
Capital Expenditures	46
Transfers from construction-in-progress	14
Deductions:	
Dispositions and other	(91)
Transfers to Non-Controlled Subsidiary	(139)
Transfers to Spin-Off (Crestline Capital Corporation)	(643)
Balance at December 31, 1998	$7,353

(B) The change in accumulated depreciation and amortization of real estate assets for the fiscal years ended December 31, 1998, January 2, 1998 and January 3, 1997 is as follows:

Balance at December 29, 1995	$374
Depreciation and amortization	96
Dispositions and other	(59)
Balance at January 3, 1997	411
Depreciation and amortization	126
Dispositions and other	(31)
Balance at January 2, 1998	506
Depreciation and amortization	132
Dispositions and other	(13)
Transfers to Non-Controlled Subsidiary	(29)
Transfers to Spin-Off (Crestline Capital Corporation)	(21)
Balance at December 31, 1998	$575

(C) The aggregate cost of properties for Federal income tax purposes is approximately $5,786 million at December 31, 1998.

(D) The total cost of properties excludes construction-in-progress properties.

Exhibit 4.9

AMENDED AND RESTATED

TRUST AGREEMENT

AMONG

HMC MERGER CORPORATION
AS DEPOSITOR,

IBJ SCHRODER BANK & TRUST COMPANY
AS PROPERTY TRUSTEE,

DELAWARE TRUST CAPITAL MANAGEMENT, INC.
AS DELAWARE TRUSTEE,

AND

THE ADMINISTRATIVE TRUSTEES NAMED HEREIN

DATED AS OF DECEMBER 29, 1998

HOST MARRIOTT FINANCIAL TRUST

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HOST FINANCIAL TRUST*
Certain Sections of this Trust Agreement
relating to Sections 310 through 318
of the Trust Indenture Act of 1939:

TRUST INDENTURE SECTION		TRUST AGREEMENT SECTION
Section 310	(a)(1)	8.7
	(a)(2)	8.7
	(a)(4)	2.7(a)(ii)
	(b)	8.8
Section 311	(a)	8.12
	(b)	8.12
Section 312	(a)	5.7
	(b)	5.7
	(c)	5.7
Section 313	(a)	8.13(a)
	(c)	10.8
	(d)	8.13(c)
	(a)(4)	8.13(b)
	(b)	8.13(b)
Section 314	(a)	8.14
	(b)	Not Applicable
	(c)(1)	8.15
	(c)(2)	8.15
	(c)(3)	Not Applicable
	(d)	Not Applicable
	(e)	1.1, 8.15
Section 315	(a)	8.1(a), 8.3(a)
	(b)	8.2, 10.8
	(c)	8.1(a)
	(d)	8.1, 8.3
	(e)	Not Applicable
Section 316	(a)	Not Applicable
	(a)(1)(A)	Not Applicable
	(a)(1)(B)	Not Applicable
	(a)(2)	Not Applicable
	(b)	Not Applicable
	(c)	6.7
Section 317	(a)(1)	Not Applicable
	(b)	5.9
Section 318	(a)	10.10

* Note: This reconciliation and tie sheet shall not, for any purpose, be deemed to be a part of the Trust Agreement.

AMENDED AND RESTATED TRUST AGREEMENT, dated as of December 29, 1998 among (i) HMC Merger Corporation, a Maryland corporation (including any successors or assigns, "the Depositor"), (ii) IBJ Schroder Bank & Trust Company, a New York banking corporation, as property trustee (in such capacity, the "Property Trustee" and, in its personal capacity and not in its capacity as Property Trustee, the "Bank"), (iii) Delaware Trust Capital Management, Inc., a corporation duly organized and existing under the laws of the State of Delaware, as Delaware trustee (in such capacity, the "Delaware Trustee"), (iv) Robert E. Parsons, Jr., an individual, Ed Walter, an individual, and Christopher G. Townsend, an individual, each of whose address is c/o Host Marriott Corporation, 10400 Fernwood Road, Bethesda, Maryland 20817, (each, an "Administrative Trustee" and, collectively, the "Administrative Trustees" and, collectively with the Property Trustee and Delaware Trustee, the "Trustees") and (v) the several Holders as hereinafter defined.

W I T N E S S E T H:

WHEREAS, the Depositor and the Trustees have heretofore duly declared and established a business trust pursuant to the Delaware Business Trust Act by the entering into of that certain Trust Agreement, dated as of December 28, 1998 (the "Original Trust Agreement"), and by the execution and filing by the Trustees with the Secretary of State of the State of Delaware of the Certificate of Trust, filed on December 29, 1998, attached as Exhibit A, for the purposes of (i) merging Host Financial Trust, a Delaware business trust originally formed on November 25, 1996 (the "Old Trust") with and into the Trust (the "Merger"), (ii) in connection with the Merger, having the Trust assume all of the obligations and liabilities of the Old Trust, including under the Common Securities and the Preferred Securities, which originally represented undivided beneficial interests in the assets of the Old Trust, and pursuant to the Merger and this Trust Agreement, hereafter represent undivided beneficial interests in the assets of the Trust, and (iii) in connection with the Merger, acquiring all of the Old Trust's assets and rights, including those accruing under the Debentures (as defined herein) originally acquired by the Old Trust with the proceeds from the sale of the Common Securities and the Preferred Securities pursuant to the Purchase Agreement;

WHEREAS, other than the Common Securities and the Preferred Securities, no interests in the Trust have been issued; and

NOW THEREFORE, in consideration of the agreements and obligations set forth herein and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, each party, for the benefit of the other party and for the benefit of the Holders of the Preferred Securities, hereby amends and restates the Original Trust Agreement in its entirety and agrees as follows:

ARTICLE 1
DEFINED TERMS

SECTION 1.1. Definitions. For all purposes of this Trust Agreement, except as otherwise expressly provided or unless the context otherwise requires:

(a) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;

(b) all other terms used herein that are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;

(c) unless the context otherwise requires, any reference to an "Article" or a "Section" refers to an Article or a Section, as the case may be, of this Trust Agreement; and

(d) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Trust Agreement as a whole and not to any particular Article, Section or other subdivision.

"Act" has the meaning specified in Section 6.8.

"Additional Amount" means, with respect to the Trust Securities, the amount of Additional Interest (as defined in the Indenture) paid by the Depositor on the Debentures.

"Additional Sums" means, with respect to the Trust Securities, the amount of Additional Sums (as defined in the Indenture) paid by the Depositor on the Debentures.

"Administrative Trustee" means each of Robert E. Parsons, Jr., Ed Walter and Christopher G. Townsend, each solely in his capacity as Administrative Trustee of the Trust formed and continued hereunder and not in his individual capacity, or such Administrative Trustee's successor in interest in such capacity, or any successor in interest in such capacity, or any successor administrative trustee appointed as herein provided.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person, provided, however that an Affiliate of the Depositor shall not be deemed to include the Trust. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Applicable Procedures" means, with respect to any transfer or transaction involving a Global Certificate or beneficial interest therein, the rules and procedures of Euroclear and Cedel, and of the Clearing Agency for such security, in each case to the extent applicable to such transaction and as in effect from time to time.

"Bank" has the meaning specified in the preamble to this Trust Agreement.

"Bankruptcy Event" means, with respect to any Person:

(a) the entry of a decree or order by a court having jurisdiction in the premises judging such Person as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjudication or composition of or in respect of such Person under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law, or appointing a receiver, liquidator, assignee, trustee, sequestrator (or other

similar official) of such Person or of any substantial part of its property or ordering the winding-up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 60 consecutive days; or

(b) the institution by such Person of proceedings to be adjudicated as bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee, sequestrator (or similar official) of such Person or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due and its willingness to be adjudicated a bankrupt, or the taking of corporate action by such Person in furtherance of any such action.

"Bankruptcy Laws" has the meaning specified in Section 10.9.

"Board of Directors" means either the board of directors of the Depositor or any committee of that board duly authorized to act hereunder.

"Book-Entry Preferred Securities Certificates" means a beneficial interest in the Preferred Securities Certificates, ownership and transfers of which shall be made through book entries by a Clearing Agency as described in Section 5.11.

"Business Day" means any day other than a Saturday or Sunday or a day on which banking institutions in The City of New York are authorized or required by law or executive order to remain closed or a day on which the Corporate Trust Office of the Property Trustee or the corporate trust office of the Debenture Trustee, is closed for business.

"Certificate Depository Agreement" means the agreement among the Old Trust, the predecessor to the Depositor and The Depository Trust Company, as the initial Clearing Agency, dated as of the Closing Date and assumed by the Trust by operation of law pursuant to the Merger, relating to the Trust Securities Certificates substantially in the form attached as Exhibit B, as the same may be amended and supplemented from time to time.

"Certificated Preferred Security" has the meaning specified in Section 5.2.

"Clearing Agency" means an organization registered as a "clearing agency" pursuant to Section 17A of the Securities Exchange Act of 1934, as amended. The Depository Trust Company will be the initial Clearing Agency.

"Clearing Agency Participant" means a broker, dealer, bank, other financial institution or other Person for whom from time to time a Clearing Agency effects book-entry transfers and pledges of securities deposited with the Clearing Agency.

"Closing Date" means the first Time of Delivery (as defined in the Purchase Agreement), which date is the date of execution and delivery of the Restated and Amended Trust Agreement of the Old Trust.

"Commission" means the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934, as amended, or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Common Securities Certificate" means a certificate evidencing ownership of Common Securities, substantially in the form attached as Exhibit C, but including any certificate evidencing ownership of Common Securities in the form issued by the Old Trust.

"Common Security" means an undivided beneficial interest in the assets of the Old Trust, which by operation of law pursuant to the Merger represents an undivided beneficial interest in the assets of the Trust, having a Liquidation Amount with respect to the assets of the Trust of $50 and having the rights provided therefor in this Trust Agreement, including the right to receive Distributions and a Liquidation Distribution as provided herein.

"Common Stock" means common stock, $0.01 par value per share, of the Depositor.

"Conversion Agent" has the meaning specified in Section 4.3.

"Conversion Date" has the meaning specified in Section 4.3.

"Conversion Expiration Date" means the date selected by the Depositor not less than 30 days nor more than 60 days after the date on which the Depositor issues a press release announcing its intention to terminate the conversion rights of the Holders.

"Conversion Price" has the meaning specified in Section 4.3.

"Corporate Trust Office" means the principal corporate trust office of the Property Trustee at which at any particular time its corporate trust business shall be administered, which office at the date hereof is located at One State Street, 11th Floor, New York, New York 10004, Attention: Corporate Trust & Agency Department.

"Current Market Price", with respect to Common Stock, means for any day the last reported sale price, regular way, on such day, or, if no sale takes place on such day, the average of the reported closing bid and asked prices on such day, regular way, in either case as reported on the New York Stock Exchange Composite Transactions Tape, or, if Common Stock is not listed or admitted to trading on the New York Stock Exchange on such day, on the principal national securities exchange on which Common Stock is listed or admitted to trading, if Common Stock is listed on a national securities exchange, or the Nasdaq National Market, or, if Common Stock is not quoted or admitted to trading on such quotation system, on the principal quotation system on which Common Stock may be listed or admitted to trading or quoted, or, if not listed or admitted to trading or quoted on any national securities exchange or quotation system, the average of the closing bid

and asked prices of Common Stock in the over-the-counter market on the day in question as reported by the National Quotation Bureau Incorporated, or a similar generally accepted reporting service, or, if not so available in such manner, as furnished by any New York Stock Exchange member firm selected from time to time by the Board of Directors for that purpose or, if not so available in such manner, as otherwise determined in good faith by the Board of Directors.

"Debenture Event of Default" means an "Event of Default" as defined in the Indenture.

"Debenture Redemption Date" means, with respect to any Debentures to be redeemed under the Indenture, the date fixed for redemption thereof under the Indenture.

"Debenture Trustee" means IBJ Schroder Bank & Trust Company, a New York banking corporation, as trustee under the Indenture.

"Debentures" means $567,050,000 aggregate principal amount of the Depositor's predecessor's 6 3/4% convertible subordinated debentures issued pursuant to the Indenture, the obligations under which have been assumed by the Depositor.

"Definitive Preferred Securities Certificates" means either or both (as the context requires) of (a) Preferred Securities Certificates issued in certificated, fully registered form as provided in Section 5.11(a) and (b) Preferred Securities Certificates issued in certificated, fully registered form as provided in Section 5.13.

"Delaware Business Trust Act" means Chapter 38 of Title 12 of the Delaware Code, 12 Del. C. (S)(S) 3801, et. seq., as it may be amended from time to time.

"Delaware Trustee" means the Person identified as the "Delaware Trustee" in the preamble to this Trust Agreement solely in its capacity as Delaware Trustee of the Trust formed and continued hereunder and not in its individual capacity, or its successor in interest in such capacity, or any successor Delaware trustee appointed as herein provided.

"Depositor" has the meaning specified in the preamble to this Trust Agreement.

"Direct Action" has the meaning specified in Section 6.8.

"Distribution Date" has the meaning specified in Section 4.1(a).

"Distributions" means amounts payable in respect of the Trust Securities as provided in Section 4.1.

"Early Termination Event" has the meaning specified in Section 9.2.

"Event of Default" means the occurrence of a Debenture Event of Default, whatever the reason for such Debenture Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body.

"Exchange Notice" has the meaning specified in Section 4.4(b).

"Expiration Date" has the meaning specified in Section 9.1.

"Global Certificate" means a Preferred Security that is registered in the Securities Register in the name of a Clearing Agency or a nominee thereof.

"Guarantee" means the Guarantee Agreement executed and delivered by the Depositor's predecessor and IBJ Schroder Bank & Trust Company, a New York banking corporation, as guarantee trustee, on the Closing Date, for the benefit of the Holders of the Preferred Securities, as amended from time to time.

"Holder" means a Person in whose name a Trust Securities Certificate representing a Trust Security is registered, such Person being a beneficial owner within the meaning of the Delaware Business Trust Act.

"Indenture" means the Convertible Subordinated Indenture, dated as of December 2, 1996 between the Depositor's predecessor and the Debenture Trustee, as amended or supplemented from time to time.

"Investment Company Event" means the receipt by the Property Trustee, on behalf of the Trust, of an Opinion of Counsel, rendered by a law firm having a national tax and securities practice (which Opinion of Counsel shall not have been rescinded by such law firm), to the effect that, as a result of the occurrence of a change in law or regulation or a change in interpretation or application of law or regulation by any legislative body, court, governmental agency or regulatory authority (a "Change in 1940 Act Law") that there is more than an insubstantial risk that the Trust is or will be considered an "investment company" that is required to be registered under the 1940 Act, which Change in 1940 Act Law becomes effective on or after the date of original issuance of the Preferred Securities under this Trust Agreement.

"Lien" means any lien, pledge, charge, encumbrance, mortgage, deed of trust, adverse ownership interest, hypothecation, assignment, security interest or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever.

"Liquidated Damages" has the meaning specified under the Indenture.

"Liquidation Amount" means an amount with respect to the assets of the Trust equal to $50 per Trust Security.

"Liquidation Date" means each date on which Debentures or cash are to be distributed to Holders of Trust Securities in connection with a termination and liquidation of the Trust pursuant to Section 9.4(a).

"Liquidation Distribution" has the meaning specified in Section 9.4(d).

"1940 Act" means the Investment Company Act of 1940, as amended.

"Notice of Conversion" means the notice given by a holder of Preferred Securities to the Conversion Agent directing the Conversion Agent to exchange such Preferred Security for Debentures and to convert such Debentures into Common Stock on behalf of such holder. Such notice is substantially in the form set forth in Exhibit H.

"Officers' Certificate" means a certificate signed by (i) the Chairman of the Board, a Vice Chairman, the President or a Vice President, and by (ii) the Treasurer, an Assistant Treasurer, the Controller, the Secretary or an Assistant Secretary, of the Depositor, and delivered to the Trustee. One of the officers signing an Officers' Certificate given pursuant to Section 8.15 shall be the principal executive, financial or accounting officer of the Depositor. Any Officers' Certificate delivered with respect to compliance with a condition or covenant provided for in this Trust Agreement shall include:

(a) a statement that each officer signing the Officers' Certificate has read the covenant of condition and the definitions relating thereto;

(b) a brief statement of the nature and scope of the examination or investigation undertaken by each officer in rendering the Officers' Certificate;

(c) a statement that each officer has made such examination or investigation as, in such officer's opinion, is necessary to enable such officer to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) a statement as to whether, in the opinion of each such officer, such condition or covenant has been complied with.

"Opinion of Counsel" means a written opinion of counsel, who may be counsel for the Trust, the Property Trustee or the Depositor, and who may be an employee of any thereof, and who shall be acceptable to the Property Trustee. Any Opinion of Counsel delivered with respect to compliance with a condition or covenant provided for in this Trust Agreement shall include:

(a) a statement that each individual signing the Opinion of Counsel has read the covenant or condition and the definitions relating thereto;

(b) a brief statement of the nature and scope of the examination or investigation undertaken by each individual in rendering the Opinion of Counsel;

(c) a statement that each individual has made such examination or investigation as is necessary to enable such individual to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

"Optional Redemption Price" means, except as set forth below, with respect to the Preferred Securities, the following percentages of the Liquidation Amounts thereof, and accumulated and unpaid Distributions, if any, to the date fixed for redemption if redeemed during the twelve-month period commencing December 2 in each of the following years indicated:

Year	Redemption Price	Year	Redemption Price
1999	104.725%	2003	102.025%
2000	104.050%	2004	101.350%
2001	103.375%	2005	100.675%
2002	102.700%	2006 and thereafter	100%

In the event of a redemption of Trust Securities upon the occurrence of a Tax Event, Trust Securities shall be redeemed at the redemption price of $50 per Trust Security and all accumulated and unpaid Distributions, if any to the date fixed for redemption.

In the event of a redemption of Trust Securities pursuant to Section 4.2(a)(ii), Trust Securities shall be redeemed as the redemption price specified therein.

"Original Trust Agreement" has the meaning specified in the recitals to this Trust Agreement.

"Outstanding", when used with respect to Trust Securities, means, as of the date of determination, all Trust Securities theretofore executed and delivered under this Trust Agreement, except:

(a) Trust Securities theretofore cancelled by the Securities Registrar or delivered to the Securities Registrar for cancellation or tendered for conversion;

(b) Trust Securities for whose payment or redemption money in the necessary amount has been theretofore deposited with the Property Trustee or any Paying Agent for the Holders of such Trust Securities; provided that, if such Trust Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Trust Agreement; and

(c) Trust Securities which have been paid or in exchange for or in lieu of which other Trust Securities have been executed and delivered pursuant to Section 5.5: provided, however, that in determining whether the Holders of the requisite Liquidation Amount of the Outstanding Trust Securities have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Trust Securities owned by the Depositor, any Trustee or any affiliate of the Depositor or any Trustee shall be disregarded and deemed not to be Outstanding, except that (a) in

determining whether any Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Trust Securities that such Trustee knows to be so owned shall be so disregarded and (b) the foregoing shall not apply at any time when all of the Outstanding Trust Securities are owned by the Depositor, one or more of the Trustees and/or any such Affiliate. Trust Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Securities Registrar the pledgee's right so to act with respect to such Trust Securities and that the pledgee is not the Depositor or any Affiliate of the Depositor.

"Owner" means each Person who is the beneficial owner of a Book-Entry Preferred Securities Certificate as reflected in the records of the Clearing Agency or, if a Clearing Agency Participant is not the Owner, then as reflected in the records of a Person maintaining an account with such Clearing Agency (directly or indirectly, in accordance with the rules of such Clearing Agency).

"Paying Agent" means any paying agent or co-paying agent appointed pursuant to Section 5.9.

"Payment Account" means a segregated non-interest bearing corporate trust account maintained by the Property Trustee with the Bank in its trust department for the benefit of the Securityholders in which all amounts paid in respect of the Debentures will be held and from which the Property Trustee shall make payments to the Securityholders in accordance with Section 4.1.

"Person" means any individual, corporation, partnership, joint venture, trust, limited liability company or corporation, unincorporated organization or government or any agency or political subdivision thereof.

"Preferred Securities Certificate" means a certificate evidencing ownership of Preferred Securities, substantially in the form attached as Exhibit D, but including any certificate evidencing ownership of Preferred Securities in the form issued by the Old Trust.

"Preferred Security" means an undivided beneficial interest in the assets of the Old Trust, which by operation of law pursuant to the Merger represents an undivided beneficial interest in the assets of the Trust, having a Liquidation Amount with respect to the assets of the Trust of $50 and having the rights provided therefor in this Trust Agreement, including the right to receive Distributions and a Liquidation Distribution as provided herein.

"Property Trustee" means the commercial bank or trust company identified as the "Property Trustee" in the preamble to this Trust Agreement solely in its capacity as Property Trustee of the Trust heretofore formed and continued hereunder and not in its individual capacity, or its successor in interest in such capacity, or any successor property trustee appointed as herein provided.

"Purchase Agreement" means the Purchase Agreement, dated as of November 25, 1996 among the Old Trust, the Depositor's predecessor and the Purchasers named therein.

"Redemption Date" means, with respect to any Trust Security to be redeemed, each Debenture Redemption Date.

"Redemption Price" means, with respect to any Trust Security, $50 per Trust Security, plus accumulated and unpaid Distributions (including any Additional Sums) to the date of redemption.

"Registration Rights Agreement" means the Registration Rights Agreement, dated December 2, 1996, among the Depositor's predecessor, the Old Trust, and the Purchasers named in the Purchase Agreement.

"Regulation S Certificate" means a certificate substantially in the form set forth in Exhibit E.

"Regulation S Global Certificate" has the meaning specified in Section 5.2.

"Regulation S Legend" has the meaning specified in Section 5.15(b).

"Regulation S Preferred Security" means all Preferred Securities required pursuant to Section 5.4(c) to bear a Regulation S Legend. Such term includes the Regulation S Global Certificate.

"Relevant Trustee" has the meaning specified in Section 8.9.

"Restricted Global Certificate" has the meaning specified in Section 5.2.

"Restricted Period" means, with respect to the Preferred Securities, the one-year period, and with respect to the Debentures or the Common Stock Isabel on conversion of the Preferred Securities, the 40-day period, in either case following the last original issue date of the Preferred Securities (including any Preferred Securities issued to cover over-allotments).

"Restricted Securities" means all Preferred Securities required pursuant to Section 5.4 to bear any Restricted Securities Legend. Such term includes the Restricted Global Certificate.

"Restricted Securities Certificate" means a certificate substantially in the form set forth in Exhibit F.

"Restricted Securities Legend" has the meaning specified in Section 5.15(a).

"Rights" has the meaning specified in Section 4.3.

"Rule 144A Preferred Securities" has the meaning specified in Section 5.2.

"Securities Act Legend" means a Restricted Securities Legend or a Regulation S Legend.

"Securities Register" and "Securities Registrar" have the respective meanings specified in Section 5.4.

"Securityholder" or "Holder" means a Person in whose name a Trust Security or Securities is registered in the Securities Register; any such Person shall be deemed to be a beneficial owner within the meaning of the Delaware Business Trust Act.

"Special Event" means a Tax Event or an Investment Company Event.

"Successor Delaware Trustee" has the meaning specified in Section 8.9.

"Successor Property Trustee" has the meaning specified in Section 8.9.

"Successor Securities" has the meaning specified in Section 9.5.

"Tax Event" means the receipt by the Property Trustee, on behalf of the Trust, of an Opinion of Counsel, rendered by a law firm having a national tax and securities practice (which Opinion of Counsel shall not have been rescinded by such law firm), to the effect that, as a result of any amendment to, or change (including any announced prospective change) in, the laws (or any regulations thereunder) of the United States or any political subdivision or taxing authority thereof or therein affecting taxation, or as a result of any official administrative pronouncement or judicial decision interpreting or applying such laws or regulations, which amendment or change is effective or such pronouncement or decision is announced on or after the date of issuance of the Preferred Securities under this Trust Agreement, there is more than an insubstantial risk in each case after the date thereof that (i) the Trust is, or will be within 90 days after the date thereof, subject to United States Federal income tax with respect to income received or accrued on the Debentures, (ii) interest payable by the Depositor on the Debentures is not, or will not be, within 90 days after the date hereof, deductible, in whole or in part, for United States Federal income tax purposes or (iii) the Trust is, or will be within 90 days after the date thereof, subject to more than de minimis amount of other taxes, duties, assessments or other governmental charges.

"Trust" means the Delaware business trust continued hereby and identified on the cover page of this Trust Agreement.

"Trust Agreement" means this Amended and Restated Trust Agreement, as the same may be modified, amended or supplemented in accordance with the applicable provisions hereof, including all exhibits hereto, including, for all purposes of this Trust Agreement any such modification, amendment or supplement, the provisions of the Trust Indenture Act that are deemed to be a part of and govern this Trust Agreement and any such modification, amendment or supplement, respectively.

"Trust Indenture Act" means the Trust Indenture Act of 1939 as in force at the date as of which this instrument was executed; provided, however, that in the event the Trust Indenture Act of 1939 is amended after such date, "Trust Indenture Act" means, to the extent required by any such amendment, the Trust Indenture Act of 1939 as so amended.

"Trust Property" means the property acquired by the Trust by operation of law pursuant to the Merger, including (a) the Debentures, (b) any cash on deposit in, or owing to, the Payment

Account and (c) all proceeds and rights in respect of the foregoing to be held by the Property Trustee pursuant to the terms of this Trust Agreement for the benefit of the Securityholders.

"Trust Securities Certificate" means any one of the Common Securities Certificates, the Global Certificates or the Certificated Preferred Securities, including, without limitation, any certificate evidencing any Trust Securities in the form issued by the Old Trust.

"Trust Security" means any one of the Common Securities or the Preferred Securities.

"Trustees" means, collectively, the Property Trustee, the Delaware Trustee and the Administrative Trustees.

"Unrestricted Securities Certificate" means a certificate substantially in the form set forth in Exhibit G.

ARTICLE 2
ESTABLISHMENT OF THE TRUST

SECTION 2.1. Name. The Trust continued hereby shall be known as "Host Marriott Financial Trust", as such name may be modified from time to time by the Administrative Trustees following written notice to the Holders of Trust Securities and the other Trustees, in which name the Trustees may conduct the business of the Trust, make and execute contracts and other instruments on behalf of the Trust and sue and be sued. Contemporaneously with the execution and delivery of this Trust Agreement, the Administrative Trustees are authorized and directed to execute and file a Certificate of Amendment to the Trust's Certificate of Trust, to change the Trust's name from Host Marriott REIT Financial Trust to Host Marriott Financial Trust, the name of the Old Trust.

SECTION 2.2. Office of the Delaware Trustee; Principal Place of Business. The address of the Delaware Trustee in the State of Delaware is 300 Delaware Avenue, Wilmington, Delaware 19801, Attention: Corporate Trust Administration, or such other address in the State of Delaware as the Delaware Trustee may designate by written notice to the Securityholders and the Depositor. The principal executive office of the Trust is 10400 Fernwood Road, Bethesda, Maryland, 20817.

SECTION 2.3. Organizational Expenses. The Depositor shall pay organizational expenses of the Trust as they arise or shall, upon request of any Trustee, promptly reimburse such Trustee for any such expenses paid by such Trustee. The Depositor shall make no claim upon the Trust Property for the payment of such expenses.

SECTION 2.4. Issuance of the Preferred Securities. On November 25, 1996 the Depositor's predecessor and an administrative trustee on behalf of the Old Trust executed and delivered the Purchase Agreement. On the Closing Date, an administrative trustee, on behalf of the Old Trust, executed in accordance with section 5.2 of the Amended and Restated Trust Agreement of the Old Trust and delivered to the Purchasers named in the Purchase Agreement Preferred Securities Certificates, in an aggregate amount of 11,000,000 Preferred Securities having an aggregate Liquidation Amount of $550,000,000, against receipt of the aggregate purchase price of such

Preferred Securities of $550,000,000, which amount the administrative trustees of the Old Trust thereafter promptly delivered to the property trustee of the Old Trust. All such Preferred Securities, with no further action required on the part of the holders thereof, the Old Trust, the Trust, or the Trustees (other than the consummation of the Merger, which has been accomplished), shall be and constitute Preferred Securities of the Trust as if originally issued under this Trust Agreement on their respective dates of issuance.

SECTION 2.5. Subscription and Purchase of Debentures; Issuance of the Common Securities. On the Closing Date, the administrative trustees, on behalf of the Old Trust, subscribed to and purchased from the Depositor's predecessor Debentures, registered in the name of the property trustee of the Old Trust (in its capacity as such) and having an aggregate principal amount equal to $567,050,000, and, in satisfaction of the purchase price for such Debentures, the property trustee of the Old Trust, on behalf of the Old Trust, delivered to the Depositor's predecessor the sum of $567,050,000. Contemporaneously therewith, an administrative trustee, on behalf of the Old Trust, executed in accordance with Section 5.2 of the Restated and Amended Trust Agreement of the Old Trust and delivered to the Depositor's predecessor Common Securities Certificates registered in the name of the Depositor's predecessor, in an aggregate amount of 341,000 Common Securities having an aggregate Liquidation Amount of $17,050,000 against receipt of the aggregate purchase price of such Common Securities from the Depositor of the sum of $17,050,000. All such Common Securities, with no further action required on the part of the holder thereof, the Old Trust, the Trust, or the Trustees (other than the consummation of the Merger, which has been accomplished), shall be and constitute Common Securities of the Trust as if originally issued under this Trust Agreement on their respective dates of issuance.

SECTION 2.6. Declaration of Trust. The exclusive purposes and functions of the Trust are (a) merging the Old Trust with and into the Trust pursuant to the Merger, which as of the execution hereof has been accomplished, (b) in connection with the Merger, having the Trust assume all of the obligations and liabilities of the Old Trust, including under the Common Securities and the Preferred Securities, which originally represented undivided beneficial interests in the assets of the Old Trust, and pursuant to the Merger and this Trust Agreement, hereafter represent undivided beneficial interests in the assets of the Trust, (c) in connection with the Merger, acquiring all of the Old Trust's assets and rights, including those accruing under the Debentures originally acquired by the Old Trust with the proceeds from the sale of the Common Securities and the Preferred Securities pursuant to the Purchase Agreement, and (d) engaging in only those other activities necessary or incidental thereto. The Trust shall not borrow money, issue debt or reinvest proceeds derived from investments, pledge any of its assets or otherwise undertake (or permit to be undertaken) any activity that would cause the Trust not to be classified for United States Federal income tax purposes as a grantor trust. The Depositor hereby appoints the Trustees as trustees of the Trust, to have all the rights, powers and duties to the extent set forth herein, and the Trustees hereby accept such appointment. The Property Trustee hereby declares that it will hold the Trust Property in trust upon and subject to the conditions set forth herein for the benefit of the Trust and the Securityholders. The Administrative Trustees shall have all rights, powers and duties set forth herein and in accordance with applicable law with respect to accomplishing the purposes of the Trust. The Delaware Trustee shall not be entitled to exercise any powers, nor shall the Delaware Trustee have any of the duties and responsibilities, of the Property Trustee or the Administrative Trustees set forth herein. The Delaware Trustee shall be one of the Trustees of the Trust for the

sole and limited purpose of fulfilling the requirements of Section 3807 of the Delaware Business Trust Act.

SECTION 2.7. Authorization to Enter into Certain Transactions.

(a) The Trustees shall conduct the affairs of the Trust in accordance with the terms of this Trust Agreement. Subject to the limitations set forth in Section 2.6 and paragraph (b) of this Section, and in accordance with the following provisions (i) and (ii), the Trustees shall have the exclusive power, duty and the authority to cause the Trust to engage in the following activities:

(i) As among the Trustees, each Administrative Trustee shall have the power and authority to act on behalf of the Trust with respect to the following matters:

(A) to issue and sell the Trust Securities, including all matters relating to the prior issuance and sale of the Trust Securities by the Old Trust; provided, however, that the Trust may issue no more than one series of Preferred Securities and no more than one series of Common Securities, and, provided, further, that there shall be no interests in the Trust other than the Trust Securities, and the issuance of Trust Securities shall be limited to simultaneous issuance of both Preferred Securities and Common Securities that previously occurred on the Closing Date and any other date Preferred Securities and Common Securities may have been sold pursuant to the over-allotment option granted to the initial purchasers in the Purchase Agreement, subject to the issuance of Trust Securities pursuant to Section 5.5 and Successor Securities pursuant to Section 9.5;

(B) to perform on behalf of the Trust, the Registration Rights Agreement, the Purchase Agreement and the Certificate Depository Agreement, each of which the Trust assumed from the Old Trust by operation of law pursuant to the Merger, and to cause the Trust to enter into, execute, and perform on behalf of the Trust such other agreements as may be necessary or incidental to the purposes and function of the Trust;

(C) to assist in ongoing registration matters relating to the Preferred Securities under the Securities Act of 1933, as amended, and under state securities or blue sky laws, and the qualification of this Trust Agreement as a trust indenture under the Trust Indenture Act;

(D) to assist in the listing of the Preferred Securities upon such securities exchange or exchanges as shall be determined by the Depositor, and the registration of the Preferred Securities under the Securities Exchange Act of 1934, as amended, and the preparation and filing of all periodic and other reports and other documents pursuant to the foregoing (only to the extent that such listing or registration is requested by the Depositor);

(E) to appoint a Paying Agent, a Securities Registrar and an authenticating agent in accordance with this Trust Agreement, all of which shall be the same as their respective counterparts under the Amended and Restated Trust Agreement of the Old Trust;

(F) to the extent provided in this Trust Agreement, to wind up the affairs of and liquidate the Trust and prepare, execute and file the certificate of cancellation with the Secretary of State of the State of Delaware;

(G) unless otherwise determined by the Depositor, the Property Trustee or the Administrative Trustees, or as otherwise required by the Delaware Business Trust Act or the Trust Indenture Act, to execute on behalf of the Trust (either acting alone or together with any other Administrative Trustees) any documents that the Administrative Trustees have the power to execute pursuant to this Trust Agreement; and

(H) to take any action incidental to the foregoing as the Trustees may from time to time determine is necessary or advisable to give effect to the terms of this Trust Agreement including, but not limited to:

(i) causing the Trust not to be deemed to be an Investment Company required to be registered under the 1940 Act;

(ii) causing the Trust to be classified for United States Federal income tax purposes as a grantor trust; and

(iii) cooperating with the Depositor to ensure that the Debentures will be treated as indebtedness of the Depositor for United States Federal income tax purposes;

provided that such action does not adversely affect in any material respect the interests of Securityholders except as otherwise provided in Section 10.2(a).

(ii) As among the Trustees, the Property Trustee shall have the power, duty and authority to act on behalf of the Trust with respect to the following matters:

(A) the handling and responsibility for the payment account of the Old Trust acquired by the Trust by operation of law pursuant to the Merger;

(B) the receipt of, and by operation of law pursuant to the Merger taking title to, the Debentures;

(C) the collection of interest, principal and any other payments made in respect of the Debentures in the Payment Account;

(D) the distribution from the Trust Property of amounts owed to the Securityholders in respect of the Trust Securities;

(E) the exercise of all of the rights, powers and privileges of a holder of the Debentures;

(F) the sending of notices of default, other notices and other information regarding the Trust Securities and the Debentures to the Securityholders in accordance with this Trust Agreement;

(G) the distribution of the Trust Property in accordance with the terms of this Trust Agreement;

(H) to the extent provided in this Trust Agreement, the winding up of the affairs of and liquidation of the Trust and the preparation, execution and filing of the certificate of cancellation with the Secretary of State of the State of Delaware;

(I) after an Event of Default, the taking of any action incidental to the foregoing as the Property Trustee may from time to time determine is necessary or advisable to give effect to the terms of this Trust Agreement and protect and conserve the Trust Property for the benefit of the Securityholders (without consideration of the effect of any such action on any particular Securityholder);

(J) subject to this Section 2.7(a)(ii), the Property Trustee shall have none of the duties, liabilities, powers or the authority of the Administrative Trustees set forth in Section 2.7(a)(i); and

(K) to act as Paying Agent and/or Securities Registrar to the extent appointed as such hereunder.

(b) So long as this Trust Agreement remains in effect, the Trust (or the Trustees acting on behalf of the Trust) shall not undertake any business, activities or transaction except as expressly provided herein or contemplated hereby. In particular, the Trust shall not, and the Trustees shall not and shall cause the Trust not to (i) invest any proceeds received by the Trust from holding the Debentures (rather, the Trustees shall distribute all such proceeds to the Securityholders pursuant to the terms of this Trust Agreement and the Trust Securities), acquire any investments or engage in any activities not authorized by this Trust Agreement, (ii) sell, assign, transfer, exchange, mortgage, pledge, set-off or otherwise dispose of any of the Trust Property or interests therein, including to Securityholders, except as expressly provided herein, (iii) take any action that would cause the Trust to fail or cease to qualify as a "grantor trust" for United States Federal income tax purposes, (iv) make any loans or incur any indebtedness for borrowed money or issue any other debt, (v) take or consent to any action that would result in the placement of a Lien on any of the Trust Property, (vi) possess any power or otherwise act in such a way as to vary the Trust assets or the terms of the Trust Securities in any way whatsoever except as permitted by the terms of this Trust Agreement, or (vii) issue any securities or other evidences of beneficial ownership of, or beneficial interest in, the Trust other than the Trust Securities. The Administrative Trustees shall defend all claims and demands of all Persons at any time claiming any Lien on any of the Trust Property adverse to the interest of the Trust or the Securityholders in their capacity as Securityholders.

(c) In connection with the original issuance and sale of the Preferred Securities, the Depositor's predecessor had the right and responsibility to assist the Old Trust with respect to, or effect on behalf of the Old Trust, the following actions. Pursuant to this Trust Agreement, the

Depositor shall have the right and responsibility, as applicable, to assist the Trust with respect to, or effect on behalf of the Trust, the following actions (and any actions taken by the Depositor's predecessor or the Depositor in furtherance of the following prior to the date of this Trust Agreement are hereby ratified and confirmed in all respects):

(i) to file by the Trust with the Commission and to execute on behalf of the Trust a registration statement on the appropriate form in relation to the Preferred Securities, including any amendments thereto;

(ii) to determine the States and foreign jurisdictions in which to take appropriate action to qualify or register for sale all or part of the Preferred Securities and to do any and all such acts, other than actions which must be taken by or on behalf of the Trust, and advise the Trustees of actions they must take on behalf of the Trust, and prepare for execution and filing any documents to be executed and filed by the Trust or on behalf of the Trust, as the Depositor deems necessary or advisable in order to comply with the applicable laws of any such States and foreign jurisdictions;

(iii) to the extent necessary, to prepare for filing by the Trust with the Commission and to execute on behalf of the Trust a registration statement on Form 8-A relating to the registration of the Preferred Securities under Section 12(b) or 12(g) of the Securities Exchange Act of 1934, as amended, including any amendments thereto (it being understood that neither the Trust nor the Depositor has any obligation under the Indenture, the Purchase Agreement or the Trust Agreement to register any Trust Securities under the Securities Exchange Act of 1934, as amended or to list any Trust Securities on any securities exchange);

(iv) any other actions necessary or incidental to carry out any of the foregoing activities.

(d) Notwithstanding anything herein to the contrary, the Administrative Trustees are authorized and directed to conduct the affairs of the Trust and to operate the Trust so that the Trust will not be deemed to be an "investment company" required to be registered under the 1940 Act, or taxed as a corporation for United States Federal income tax purposes and so that the Debentures will be treated as indebtedness of the Depositor for United States Federal income tax purposes. In this connection, the Depositor and the Administrative Trustees are authorized to take any action, not inconsistent with applicable law, the Certificate of Trust or this Trust Agreement, that each of the Depositor and the Administrative Trustees determines in their discretion to be necessary or desirable for such purposes, so long as such action does not adversely affect in any material respect the interests of the Holders of the Preferred Securities except as otherwise provided in Section 10.2(a).

SECTION 2.8. Assets of Trust. The assets of the Trust shall consist of only the Trust Property.

SECTION 2.9. Title to Trust Property. Legal title to all Trust Property shall be vested at all times in the Property Trustee (in its capacity as such) and shall be held and administered by the

Property Trustee for the benefit of the Trust and the Securityholders in accordance with this Trust Agreement. The Securityholder shall not have legal title to any part of the assets of the Trust, but shall have an undivided beneficial interest in the assets of the Trust.

ARTICLE 3
PAYMENT ACCOUNT

SECTION 3.1. Payment Account.

(a) On or prior to the Closing Date, the property trustee of the Old Trust established the Payment Account under the Amended and Restated Trust Agreement of the Old Trust. Pursuant to the Merger and by operation of law, the Property Trustee acquired title to the Payment Account and shall maintain the same in accordance with this Trust Agreement. The Property Trustee and any agent of the Property Trustee shall have exclusive control and sole right of withdrawal with respect to the Payment Account for the purpose of making deposits in and withdrawals from the Payment Account in accordance with this Trust Agreement. All monies and other property deposited or held from time to time in the Payment Account shall be held by the Property Trustee in the Payment Account for the exclusive benefit of the Securityholders and for distribution as herein provided including (and subject to) any priority of payments provided for herein.

(b) The Property Trustee shall deposit in the Payment Account, promptly upon receipt, all payments of principal of or interest on, and any other payments or proceeds with respect to, the Debentures. Amounts held in the Payment Account shall not be invested by the Property Trustee pending distribution thereof.

ARTICLE 4
DISTRIBUTIONS; REDEMPTION; EXCHANGE; CONVERSION

SECTION 4.1. Distributions.

(a) Distributions on the Trust Securities shall be cumulative, and shall accrue from the date of original issuance under the Amended and Restated Trust Agreement of the Old Trust, or the most recent Distribution Date (as defined herein) and, except in the event that the Depositor exercises its right to defer the payment of interest on the Debentures pursuant to the Indenture, have been paid quarterly in arrears on March 1, June 1, September 1 and December 1 of each year, commencing on March 1, 1997, and shall continue to be payable quarterly in arrears on March 1, June 1, September 1 and December 1 of each year, commencing on March 1, 1999 (which dates correspond to the interest payment dates on the Debentures), when, as and if available for payment by the Property Trustee, as further described in paragraph (c) of this Section 4.1. If any date on which Distributions are otherwise payable on the Trust Securities is not a Business Day, then the payment of such Distributions shall be made on the next succeeding day which is a Business Day (and no interest shall accrue for the period from and after such date until the next succeeding Business Day) with the same force and effect as if made on such date (each date on which Distributions are payable in accordance with this Section 4.1(a), a "Distribution Date").

(b) The Trust Securities represent undivided beneficial interests in the Trust Property, and the Distributions on the Trust Securities shall be payable at a rate of 6 3/4% per annum of the Liquidation Amount of the Trust Securities, such rate being the rate of interest payable on the Debentures to be held by the Property Trustee. The amount of Distributions payable for any period shall be computed on the basis of a 360-day year of twelve 30-day months. For periods less than a full month, distributions shall reflect interest on Debentures computed on the basis of the actual number of elapsed days based on a 360-day year. The amount of Distributions payable for any period shall include the Additional Amounts, if any.

(c) Distributions on the Trust Securities shall be made by the Property Trustee from the Payment Account and shall be payable on each Distribution Date only to the extent that the Trust has funds then on hand and available in the Payment Account for the payment of such Distributions.

(d) Distributions on the Trust Securities with respect to a Distribution Date shall be payable to the Holders thereof as they appear on the Securities Register for the Trust Securities on the relevant record date, which shall be the date which is the fifteenth day (whether or not a Business Day) next preceding such Distribution Date.

SECTION 4.2. Redemption. (a)

(i) Upon an optional redemption (as set forth in the Indenture) of Debentures, the proceeds from such redemption shall be applied to redeem Trust Securities having an aggregate Liquidation Amount equal to the aggregate principal amount of the Debentures so redeemed by the Depositor, including pursuant to Section 4.4, at the Optional Redemption Price, and upon a mandatory redemption (as set forth in the Indenture) of Debentures, the proceeds from such redemption shall be applied to redeem Trust Securities, having an aggregate Liquidation Amount equal to the aggregate principal amount of the Debentures so redeemed by the Depositor, at the Redemption Price.

(ii) If at any time following the Conversion Expiration Date, less than five percent (5%) in principal amount of the Debentures originally issued by the Depositor remain outstanding, such Debentures are redeemable, at the option of the Depositor, in whole but not in part, at a redemption price equal to the aggregate principal amount thereof, and all accrued and unpaid interest; in such event, the proceeds from such redemption shall be applied to redeem the Outstanding Trust Securities.

(b) Notice of redemption (which notice will be irrevocable) shall be given by the Property Trustee by first-class mail, postage prepaid, mailed not less than 30 nor more than 60 days prior to the Redemption Date to the Depositor and each Holder of Trust Securities to be redeemed, at such Holder's address as it appears in the Securities Register. All notices of redemption shall state:

(i) the Redemption Date;

(ii) the Redemption Price or the Optional Redemption Price, as the case may be;

(iii) the CUSIP number;

(iv) if less than all of the Outstanding Trust Securities are to be redeemed, the identification and the aggregate Liquidation Amount of the particular Trust Securities to be redeemed;

(v) If the Preferred Securities are convertible, (A) that a Holder of Preferred Securities who desires to convert such Preferred Securities called for redemption must satisfy the requirements for conversion contained in Section 4.3 below, (B) the Conversion Price and (C), if previously determined, the Conversion Expiration Date;

(vi) that on the Redemption Date the Redemption Price or the Optional Redemption Price, as the case may be, will become due and payable upon each such Trust Security to be redeemed and that Distributions thereon will cease to accrue on and after said date; and

(vii) the place or places where such Trust Securities are to be surrendered for payment of the Redemption Price or the Optional Redemption Price, as the case may be.

(c) The Trust Securities redeemed on each Redemption Date shall be redeemed at the Redemption Price or the Optional Redemption Price, as the case may be, with the proceeds from the contemporaneous redemption of Debentures. Redemptions of the Trust Securities shall be made and the Redemption Price or the Optional Redemption Price, as the case may be, shall be payable on each Redemption Date only to the extent that the Trust has funds then on hand and available in the Payment Account for the payment of such Redemption Price or the Optional Redemption Price, as the case may be.

(d) If the Property Trustee gives a notice of redemption in respect of any Preferred Securities, then, by 12:00 noon, New York City time, on the Redemption Date, subject to Section 4.2(c), the Property Trustee will, so long as and to the extent the Preferred Securities are in book-entry-only form, irrevocably deposit with the Clearing Agency for the Preferred Securities funds sufficient to pay the applicable Redemption Price. If the Preferred Securities are no longer in book-entry only form, the Property Trustee, subject to Section 4.2(c), will irrevocably deposit with the Paying Agent funds sufficient to pay the applicable Redemption Price or Optional Redemption Price, as the case may be, on such Preferred Securities held in certificated form and will give the Paying Agent irrevocable instructions and authority to pay the Redemption Price or the Optional Redemption Price, as the case may be, to the Holders thereof upon surrender of their Preferred Securities Certificates. Notwithstanding the foregoing, Distributions payable on or prior to the Redemption Date for any Trust Securities called for redemption shall be payable to the Holders of such Trust Securities as they appear on the Securities Register for the Trust Securities on the relevant record dates for the related Distribution Dates. If notice of redemption shall have been

given and funds deposited as required, then, upon the date of such deposit, all rights of Securityholders holding Trust Securities so called for redemption will cease, except the right of such Securityholders to receive the Redemption Price or the Optional Redemption Price, as the case may be, but without interest, and such Trust Securities will cease to be Outstanding. In the event that any date on which any Redemption Price or the Optional Redemption Price, as the case may be, is payable is not a Business Day, then payment of the Redemption Price or the Optional Redemption Price, as the case may be, payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay), with the same force and effect as if made on such date.

(e) If less than all the Outstanding Trust Securities are to be redeemed on a Redemption Date, then the aggregate Liquidation Amount of Trust Securities to be redeemed shall be allocated on a pro rata basis (based on Liquidation Amounts) among the Common Securities and the Preferred Securities that are to be redeemed. The particular Preferred Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Property Trustee from the Outstanding Preferred Securities not previously called for redemption, by lot or by such other method as the Property Trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions (equal to $50 or an integral multiple of $50 in excess thereof) of the liquidation amount of the Preferred Securities. The Property Trustee shall promptly notify the Securities Registrar and the Conversion Agent in writing of the Preferred Securities selected for redemption and, in the case of any Preferred Securities selected for partial redemption, the Liquidation Amount thereof to be redeemed; it being understood that, in the case of Preferred Securities registered in the name of and held of record by the Clearing Agency (or any successor) or any nominee, the distribution of the proceeds of such redemption will be made in accordance with the procedures of the Clearing Agency or its nominee. For all purposes of this Trust Agreement, unless the context otherwise requires, all provisions relating to the redemption of Preferred Securities shall relate, in the case of any Preferred Securities redeemed or to be redeemed only in part, to the portion of the Liquidation Amount of Preferred Securities which has been or is to be redeemed. In the event of any redemption in part, the Trust shall not be required to (i) issue, register the transfer of or exchange of any Preferred Security during a period beginning at the opening of business 15 days before any selection for redemption of Preferred Securities and ending at the close of business on the earliest date in which the relevant notice of redemption is deemed to have been given to all holders of Preferred Securities to be so redeemed or (ii) register the transfer of or exchange of any Preferred Securities so selected for redemption, in whole or in part, except for the unredeemed portion of any Preferred Securities being redeemed in part.

SECTION 4.3. Conversion. The Holders of Trust Securities, subject to the limitations set forth in this Section, shall have the right at any time prior to the Conversion Expiration Date, at their option, to cause the Conversion Agent to convert Trust Securities, on behalf of the converting Holders, into shares of Common Stock in the manner described herein on and subject to the following terms and conditions:

(i) The Trust Securities will be convertible into fully paid and nonassessable shares of Common Stock pursuant to the Holder's direction to the Conversion Agent to exchange such Trust Securities for a portion of the Debentures, and immediately convert such amount of Debentures into fully paid and nonassessable shares of Common Stock at an initial rate of 2.6876 shares of Common

Stock for each Trust Security (which is equivalent to a conversion price of $18.604 per $50 principal amount of Debentures), subject to certain adjustments set forth in the Indenture (as so adjusted, "Conversion Price").

(ii) In order to convert Trust Securities into Common Stock, the Holder of such Trust Securities shall submit to the Conversion Agent an irrevocable Notice of Conversion to convert Trust Securities on behalf of such Holder, together, if the Trust Securities are in certificated form, with such certificates. The Notice of Conversion shall (i) set forth the number of Trust Securities to be converted and the name or names, if other than the Holder, in which the shares of Common Stock should be issued and (ii) direct the Conversion Agent (a) to exchange such Trust Securities for a portion of the Debentures held by the Property Trustee (at the rate of exchange specified in the preceding paragraph) and (b) to immediately convert such Debentures, on behalf of such Holder, into Common Stock (at the conversion rate specified in the preceding paragraph). The Conversion Agent shall notify the Property Trustee of the Holder's election to exchange Trust Securities for a portion of the Debentures held by the Property Trustee and the Property Trustee shall, upon receipt of such notice, deliver to the Conversion Agent the appropriate principal amount of Debentures for exchange in accordance with this Section. The Conversion Agent shall thereupon notify the Depositor of the Holder's election to convert such Debentures into shares of Common Stock. Holders of Trust Securities at the close of business on a Distribution payment record date will be entitled to receive the Distribution paid on such Trust Securities on the corresponding Distribution Date notwithstanding the conversion of such Trust Securities following such record date but prior to such Distribution Date. Except as provided above, neither the Trust nor the Depositor will make, or be required to make, any payment, allowance or adjustment upon any conversion on account of any accumulated and unpaid Distributions whether or not in arrears accrued on the Trust Securities surrendered for conversion, or on account of any accumulated and unpaid dividends on the shares of Common Stock issued upon such conversion. Trust Securities shall be deemed to have been converted immediately prior to the close of business on the day on which an irrevocable Notice of Conversion relating to such Trust Securities is received by the Conversion Agent in accordance with the foregoing provision (the "Conversion Date"). The Person or Persons entitled to receive the Common Stock issuable upon conversion of the Debentures shall be treated for all purposes as the record holder or holders of such Common Stock on the date of conversion. As promptly as practicable on or after the Conversion Date, the Depositor shall issue and deliver at the office of the Conversion Agent a certificate or certificates for the number of full shares of Common Stock issuable upon such conversion, together with the cash payment, if any, in lieu of any fraction of any share to the Person or Persons entitled to receive the same, unless otherwise directed by the Holder in the notice of conversion and the Conversion Agent shall distribute such certificate or certificates to such Person or Persons.

(iii) On and after December 2, 1999, the Depositor may, at its option, cause the conversion rights of holders of the Debentures (and the corresponding conversion rights of Holders of Trust Securities) to expire; provided, however, that the Depositor may exercise this option only if for 20 trading days within any period of 30 consecutive trading days, including the last trading day of such period, the Current Market Price of Common Stock exceeds 120% of the Conversion Price. In order to exercise its option to terminate the conversion rights of the Debentures, the Depositor must issue a press release for publication on the Dow Jones News Service announcing the Conversion Expiration Date prior to the opening of business on the second trading day after any

period in which the condition in the preceding sentence has been met, but in no event prior to December 2, 1999. The press release shall announce the Conversion Expiration Date (which may not occur sooner than 30 nor more than 60 days after the Depositor issues the press release announcing its intention to terminate the conversion rights of the Debentures) and provide the current Conversion Price and Current Market Price of Common Stock, in each case as of the close of business on the trading day next preceding the date of the press release. Conversion rights will terminate at the close of business on the Conversion Expiration Date. The Depositor, or at the request of the Depositor, the Property Trustee shall send notice of the expiration of conversion rights by first-class mail to the Holders of the Trust Securities and the holders of the Debentures not more than four Business Days after the Depositor issues the press release or, if the Property Trustee is requested to send such notice, which shall be on the date of such press release, after the Depositor delivers written instructions to the Property Trustee containing the information required by the next sentence to be in the notice. Such mailed notice of the expiration of the conversion rights of the Holders shall state: (A) the Conversion Expiration Date; (B) the Conversion Price of the Trust Securities and the Current Market Price of the Common Stock, in each case as of the close of business on the Business Day next preceding the date of the notice of expiration of the conversion rights of the Holders; (C) the place or places at which Trust Securities may be surrendered prior to the Conversion Expiration Date for certificates representing shares of Common Stock; and (D) such other information or instructions as the Depositor deems necessary or advisable to enable a Holder to exercise its conversion right hereunder. No defect in the notice of expiration of the conversion rights of the Holders or in the mailing thereof with respect to any Trust Security shall affect the validity of such notice with respect to any other Trust Security. As of the close of business on the Conversion Expiration Date, the Debentures (and correspondingly, the Trust Securities) shall no longer be convertible into Common Stock. In the event that the Depositor does not exercise its option to terminate the conversion rights of the Debentures, the Conversion expiration Date with respect to the Trust Securities will be the close of business two Business Days preceding the date set for redemption of the Trust Securities upon the mandatory or optional redemption of the Debentures.

(iv) Each Holder of a Trust Security by its acceptance thereof initially, pursuant to the Amended and Restated Trust Agreement of the Old Trust, appointed IBJ Schroder Bank & Trust Company not in its individual capacity but solely as conversion agent (the "Conversion Agent") for the purpose of effecting the conversion of Trust Securities in accordance with this Section. IBJ Schroder Bank & Trust Company, not in its individual capacity but solely as Conversion Agent shall remain the Conversion Agent under this Trust Agreement. In effecting the conversion and transactions described in this Section, the Conversion Agent shall be acting as agent of the Holders of Trust Securities directing it to effect such conversion transactions. The Conversion Agent is hereby authorized (i) to exchange Trust Securities from time to time for Debentures held by the Trust in connection with the conversion of such Trust Securities in accordance with this Section and (ii) to convert all or a portion of the Debentures into Common Stock and thereupon to deliver such shares of Common Stock in accordance with the provisions of this Section and to deliver to the Property Trustee any new Debenture or Debentures for any resulting unconverted principal amount delivered to the Conversion Agent by the Debenture Trustee.

(v) No fractional shares of Common Stock will be issued as a result of conversion, but, in lieu thereof, such fractional interest will be paid in cash by the Depositor to the Conversion

Agent in an amount equal to the Current Market Price of the fractional share of the Common Stock, and the Conversion Agent will in turn make such payment to the Holder or Holders of Trust Securities so converted.

(vi) Nothing in this Section 4.3 shall limit the requirement of the Trust to withhold taxes pursuant to the terms of the Trust Securities or as set forth in this Agreement or otherwise required of the Property Trustee or the Trust to pay any amounts on account of such withholdings.

SECTION 4.4. Special Event Exchange or Redemption.

(a) If a Special Event shall occur and be continuing, the Property Trustee shall direct the Conversion Agent to exchange all Outstanding Trust Securities for Debentures having a principal amount equal to the aggregate Liquidation Amount of the Trust Securities to be exchanged and with accrued interest in an amount equal to any unpaid Distribution (including any Additional Amounts) on the Trust Securities; provided, however, that, in the case of a Tax Event, the Depositor shall have the right to (i) direct that less than all, or none, as appropriate, of the Trust Securities be so exchanged if and for so long as the Depositor shall have elected to pay any Additional Sums (as defined in the Indenture) such that the amount received by Holders of Trust Securities not so exchanged in respect of Distributions and other distributions are not reduced as a result of such Tax Event, and shall not have revoked any such election or failed to make such payments or (ii) cause the Trust Securities to be redeemed in the manner set forth below. If a Tax Event shall occur or be continuing, the Depositor shall have the right, upon not less than 30 nor more than 60 days' notice, to redeem the Debentures, in whole or in part, for cash upon the later of (i) 90 days following the occurrence of such Tax Event or (ii) December 2, 1999. Promptly following such redemption, Trust Securities with an aggregate liquidation amount equal to the aggregate principal amount of the Debentures so redeemed will be redeemed by the Trust at the Optional Redemption Price on a pro rata basis.

(b) Notice of any exchange pursuant to this Section 4.4 (an "Exchange Notice") of the Trust Securities, which Exchange Notice shall be irrevocable, will be given by the Property Trustee by first-class mail to the Depositor and to each record Holder of Trust Securities to be exchanged not fewer than 30 nor more than 60 days prior to the date fixed for exchange thereof. For purposes of the calculation of the date of exchange and the dates on which notices are given pursuant to this paragraph (b), an Exchange Notice shall be deemed to be given on the day such notice is first mailed by first-class mail, postage prepaid, to each Holder. Each Exchange Notice shall be addressed to each Holder of Trust Securities at the address of such Holder appearing in the books and records of the Trust. Each Exchange Notice shall state: (A) the exchange date; (B) the aggregate Liquidation Amount and any unpaid Distributions (including any Additional Amounts) on the Trust Securities to be exchanged and the aggregate principal amount and any accrued interest on the Debentures to be exchanged therefor; (C) that on the exchange date the Trust Securities to be so exchanged shall be exchanged for Debentures and that Distributions on the Trust Securities so exchanged will cease to accumulate on and after said date; and (D) the identity of the Conversion Agent, if any, and the place or places where each Trust Certificate to be exchanged is to be surrendered in exchange for Debentures. No defect in the Exchange Notice or in the mailing

thereof with respect to any Trust Security shall affect the validity of the exchange proceedings for any other Trust Security.

(c) In the event that fewer than all the Outstanding Preferred Securities are to be exchanged, then, on the exchange date, (i) if all of the Outstanding Preferred Securities are represented by Definitive Preferred Securities Certificates, the particular Preferred Securities to be exchanged will be selected by the Property Trustee from the Outstanding Preferred Securities not previously called for redemption or exchange on a pro rata basis, (ii) if all of the Outstanding Preferred Securities are represented by Book-Entry Preferred Securities Certificates, the Property Trustee shall provide for the selection for exchange of a portion of the Global Certificate representing the Book-Entry Preferred Securities Certificates on a pro rata basis and (iii) if Outstanding Trust Securities are represented by both Definitive Preferred Securities Certificates and Book-Entry Preferred Securities Certificates, the Property Trustee shall select the portion of the Global Certificate representing the Book-Entry Preferred Securities Certificates and the particular Outstanding Preferred Securities represented by Definitive Preferred Securities Certificates to be exchanged on a pro rata basis. In the case of clause (ii) or (iii) above, the particular Book-Entry Preferred Securities Certificates to be exchanged shall be selected in accordance with the applicable rules and procedures for the Clearing Agency in whose name, or whose nominee's name, such global certificate is then held. Any Preferred Securities Certificate that is to be exchanged only in part shall be surrendered with due endorsement or by a written instrument of transfer fully executed by the Holder thereof (or its attorney duly authorized in writing) and the Trust shall prepare and deliver to such Holder, without service charge, a new Preferred Securities Certificate or Certificates in aggregate stated Liquidation Amount equal to, and in exchange for, the unredeemed portion of the Preferred Securities Certificate so surrendered. The Common Securities shall be exchanged in a similar manner.

(d) In the event of an exchange pursuant to this Section 4.4, on the date fixed for any such exchange, (i) if the Preferred Securities are represented by Book-Entry Preferred Securities Certificates, the Clearing Agency of its nominee, as the record Holder of the Preferred Securities, will exchange through the Conversion Agent the Global Certificate representing the Preferred Securities to be exchanged for a registered Global Certificate or certificates representing the Debentures to be delivered upon such exchange, (ii) if the Preferred Securities are represented by Definitive Preferred Securities Certificates, the certificates representing the Preferred Securities to be so exchanged will be deemed to represent Debentures having a principal amount equal to the aggregate stated Liquidation Amount of such Preferred Securities until such certificates are presented to the Conversion Agent for exchange for definitive certificates representing Debentures and (iii) all rights of the Holders of the Preferred Securities so exchanged will cease, except for the right of such Holders to receive Debentures. The Common Securities shall be exchanged in a similar manner.

(e) Each Holder, by becoming a party to the Amended and Restated Trust Agreement of the Old Trust and remaining a Holder pursuant to the Merger and by operation of law, will be deemed, in accordance with Section 10.11 of this Trust Agreement, to have agreed to be bound by these exchange provisions in regard to the exchange of Trust Securities for Debentures pursuant to the terms described above.

(f) Nothing in this Section 4.4 shall limit the requirement of the Trust to withhold taxes pursuant to the terms of the Trust Securities or as set forth in this Agreement or otherwise require the Property Trustee or the Trust to pay any amounts on account of such withholdings.

SECTION 4.5. Subordination of Common Securities. Payment of Distributions (including Additional Amounts, if applicable) on, and the Redemption Price of, the Trust Securities, as applicable, shall be made pro rata based on the Liquidation Amount of the Trust Securities; provided, however, that if on any Distribution Date or Redemption Date an Event of Default shall have occurred and be continuing, no payment of any Distribution (including Additional Amounts, if applicable) on, or the Redemption Price of, any Common Security, and no other payment on account of the redemption, liquidation or other acquisition of Common Securities, shall be made unless payment in full in cash of all accumulated and unpaid Distributions (including Additional Amounts, if applicable) on all Outstanding Preferred Securities for all Distribution periods terminating on or prior thereto, or in the case of payment of the Redemption Price the full amount of such Redemption Price on all Outstanding Preferred Securities, shall have been made or provided for, and all funds immediately available to the Property Trustee shall first be applied to the payment in full in cash of all Distributions (including Additional Amounts, if applicable) on, or the Redemption Price of, Preferred Securities then due and payable.

SECTION 4.6. Payment Procedures. Payments in respect of the Preferred Securities shall be made by check mailed to the address of the Person entitled thereto as such address shall appear on the Securities Register or, if the Preferred Securities are held by a Clearing Agency, such Distributions shall be made to the Clearing Agency in immediately available funds, in accordance with the Certificate Depositary Agreement on the applicable Distribution Dates. Payments in respect of the Common Securities shall be made in such manner as shall be mutually agreed between the Property Trustee and the Holder of the Common Securities.

SECTION 4.7. Tax Returns and Reports. The Administrative Trustees shall prepare (or cause to be prepared), at the Depositor's expense, and file all United States Federal, State and local tax and information returns and reports required to be filed by or in respect of the Trust. In this regard, the Administrative Trustees shall (a) prepare and file (or cause to be prepared or filed) Form 1041 or the appropriate Internal Revenue Service form required to be filed in respect of the Trust in each taxable year of the Trust and (b) prepare and furnish (or cause to be prepared and furnished) to each Securityholder a Form 1099 or the appropriate Internal Revenue Service form required to be furnished to such Securityholder or the information required to be provided on such form. The Administrative Trustees shall provide the Depositor and the Property Trustee with a copy of all such returns, reports and schedules promptly after such filing or furnishing. The Trustees shall comply with United States Federal withholding and backup withholding tax laws and information reporting requirements with respect to any payments to Securityholders under the Trust Securities.

SECTION 4.8. Payment of Taxes, Duties, Etc. of the Trust. Upon receipt under the Debentures of Additional Sums, the Property Trustee, upon receipt of written notice from the Depositor or the Administrative Trustees, shall promptly pay from such Additional Sums any taxes, duties or governmental charges of whatsoever nature (other than withholding taxes) imposed on the Trust by the United States or any other taxing authority.

SECTION 4.9. Payments under Indenture. Any amount payable hereunder to any Holder of Preferred Securities (and any Owner with respect thereto) shall be reduced by the amount of any corresponding payment such Holder (or Owner) has directly received pursuant to Section 5.8 of the Indenture in accordance with the terms of Section 6.8 hereof.

ARTICLE 5
TRUST SECURITIES CERTIFICATES

SECTION 5.1. Initial Ownership. Upon the formation of the Trust and until the assumption by the Trust of all of the duties and obligations of the Old Trust under the Trust Securities, no Trust Securities were Outstanding, and the Depositor was the sole beneficial owner of the Trust.

SECTION 5.2. The Trust Securities Certificates. The Preferred Securities Certificates shall be issued in minimum denominations of $50 Liquidation Amount and integral multiples of $50 in excess thereof, and the Common Securities Certificates shall be issued in denominations of $50 Liquidation Amount and integral multiples thereof. The consideration received by the Trust for the issuance of the Trust Securities shall constitute a contribution to the capital of the Trust and shall not constitute a loan to the Trust. Preferred Securities initially sold by the Old Trust to qualified institutional buyers in reliance on Rule 144A under the Securities Act ("Rule 144A Preferred Securities") were represented by one or more certificates in registered, global form (collectively, the "Restricted Global Certificate"). Preferred Securities initially sold by the Old Trust in off-shore transactions in reliance on Regulation S ("Regulation S Preferred Securities") were represented by one or more certificates in registered, global form (collectively, the "Regulation S Global Certificate" and, together with the Restricted Global Certificate, the "Global Certificates"). Preferred Securities initially transferred, in accordance with Section 5.4, to institutional accredited investors in a manner exempt from the registration requirements of the Securities Act will be exchanged for Preferred Securities in registered, certificated form (the "Certificated Preferred Securities"). Trust Securities Certificates issued by the Old Trust shall represent Trust Securities of the Trust and need not be reissued by the Trust. Except as set forth in the preceding sentence, the Trust Securities Certificates shall be executed on behalf of the Trust by manual or facsimile signature of at least one Administrative Trustee and authenticated by the Property Trustee. Trust Securities Certificates bearing the manual or facsimile signatures of individuals who were, at the time when such signatures shall have been affixed, authorized to sign on behalf of the Trust, or the Old Trust, as the case may be, shall be validly issued and entitled to the benefit of this Trust Agreement, notwithstanding that such individuals or any of them shall have ceased to be so authorized prior to the delivery of such Trust Securities Certificates or did not hold such offices at the date of delivery of such Trust Securities Certificates. A transferee of a Trust Securities Certificate shall become a Securityholder, and shall be entitled to the rights and subject to the obligations of a Securityholder hereunder, upon due registration of such Trust Securities Certificate in such transferee's name pursuant to Section 5.4.

SECTION 5.3. Delivery of Trust Securities Certificates. On the Closing Date, the administrative trustees of the Old Trust caused Trust Securities Certificates, in an aggregate Liquidation Amount as provided in Sections 2.4 and 2.5, to be executed on behalf of the Trust and delivered to or upon the written order of the Depositor's predecessor, signed by its Chairman of the

Board, any Vice Chairman, its President, any Senior Vice President or any Vice President, Treasurer or Assistant Treasurer or Controller without further corporate action by the Depositor's predecessor, in authorized denominations. A Trust Security Certificate shall not be valid until authenticated by the manual signature of an authorized signatory of the Property Trustee. The signature shall be conclusive evidence that the Trust Security Certificate has been authenticated under this Trust Agreement. Upon a written order of the Trust signed by one Administrative Trustee, the Property Trustee shall authenticate the Trust Security Certificates for original issue. The Property Trustee may appoint an authenticating agent acceptable to the Administrative Trustees to authenticate Trust Security Certificates. An authenticating agent may authenticate Trust Security Certificates whenever the Property Trustee may do so. Each reference in this Trust Agreement to authentication by the Property Trustee includes authentication by such agent. An authenticating agent has the same rights as the Property Trustee to deal with the Depositor or an Affiliate with respect to the authentication of Trust Securities. Notwithstanding the foregoing, Trust Securities Certificates issued by the Old Trust shall represent Trust Securities of the Trust and need not be reissued by the Trust.

SECTION 5.4. Registration of Transfer and Exchange of Preferred Securities; Restrictions on Transfer.

(a) The Securities Registrar shall keep or cause to be kept, at the office or agency maintained pursuant to Section 5.8, a Securities Register in which, subject to such reasonable regulations as it may prescribe, the Securities Registrar shall provide for the registration of Preferred Securities Certificates and Common Securities Certificates (subject to Section 5.10 in the case of the Common Securities Certificates) and registration of transfers and exchanges of Preferred Securities Certificates as herein provided. The Property Trustee shall be the initial Securities Registrar. Subject to the other provisions of this Trust Agreement regarding restrictions on transfer, upon surrender for registration of transfer of any Preferred Security at an office or agency of the Depositor designated pursuant to Section 5.8 for such purpose, the Depositor shall execute, and the Property Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Preferred Securities of any authorized denominations and of a like aggregate principal amount and bearing such restrictive legends as may be required by this Trust Agreement. At the option of the Holder, and subject to the other provisions of this Section 5.4, Preferred Securities may be exchanged for other Preferred Securities of any authorized denomination and of a like Liquidation Amount, upon surrender of the Preferred Securities to be exchanged at any such office or agency. Whenever any Preferred Securities are so surrendered for exchange, the Depositor shall execute, and the Property Trustee shall authenticate and deliver, the Preferred Securities which the Holder making the exchange is entitled to receive. All Preferred Securities issued upon any registration of transfer or exchange of Preferred Securities shall be the valid obligations of the Depositor, evidencing the same debt, and entitled to the same benefits under this Trust Agreement, as the Securities surrendered upon such registration of transfer or exchange. Every Preferred Security presented or surrendered for registration of transfer or for exchange shall (if so requested by the Depositor or the Securities Registrar) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Depositor and the Securities Registrar duly executed, by the Holder thereof or his attorney duly authorized in writing. No service charge shall be made for any registration of transfer or exchange of Preferred Securities Certificates, but

the Securities Registrar may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer or exchange of Preferred Securities Certificates.

(b) Certain Transfers and Exchanges. Notwithstanding any other provision of this Trust Agreement or the Preferred Securities, transfers and exchanges of Preferred Securities and beneficial interests in a Global Certificate of the kinds specified in this Section 5.4(b) shall be made only in accordance with this Section 5.4(b).

(i) Restricted Global Certificate to Regulation S Global Certificate. If the owner of a beneficial interest in the Restricted Global Certificate wishes at any time to transfer such interest to a Person who wishes to acquire the same in the form of a beneficial interest in the Regulation S Global Certificate, such transfer may be effected in accordance with the provisions of this Clause (b)(i) and Clause (b)(vii) below and subject to the Applicable Procedures. Upon receipt by the Property Trustee, as Securities Registrar, of (A) an order given by the Clearing Agency or its authorized representative directing that a beneficial interest in the Regulation S Global Certificate in a specified principal amount be credited to a specified participant's account and that a beneficial interest in the Restricted Global Certificate in an equal principal amount be debited from another specified participant's account and (B) a Regulation S Certificate, satisfactory to the Property Trustee and duly executed by the owner of such beneficial interest in the Restricted Global Certificate or his attorney duly authorized in writing, then the Property Trustee, as Securities Registrar but subject to Clause (b)(vii) below, shall reduce the share number of the Restricted Global Certificate and increase the share number of the Regulation S Global Certificate by such specified principal amount as provided in Section 5.11(b).

(ii) Regulation S Global Certificate to Restricted Global Certificate. If the owner of a beneficial interest in the Regulation S Global Certificate wishes at any time to transfer such interest to a Person who wishes to acquire the same in the form of a beneficial interest in the Restricted Global Certificate, such transfer may be effected only in accordance with this Clause (b)(ii) and subject to the Applicable Procedures. Upon receipt by the Property Trustee, as Securities Registrar, of (A) an order given by the Clearing Agency or its authorized representative directing that a beneficial interest in the Restricted Global Certificate in a specified principal amount be credited to a specified participant's account and that a beneficial interest in the Regulation S Global Certificate in an equal principal amount be debited from another specified participant's account and (B) if such transfer is to occur during the Restricted Period, a Restricted Securities Certificate, satisfactory to the Property Trustee and duly executed by the owner of such beneficial interest in the Regulation S Global Certificate or his attorney duly authorized in writing, then the Property Trustee, as Securities Registrar, shall reduce the principal amount of the Regulation S Global Certificate and increase the principal amount of the Restricted Global Certificate by such specified principal amount as provided in Section 5.11(b).

(iii) Restricted Non-Global Certificate to Restricted Global Certificate or Regulation S Global Certificate. If the Holder of a Restricted Security (other than a Global Certificate) wishes at any time to transfer all or any portion of such Restricted Security to a

Person who wishes to take delivery thereof in the form of a beneficial interest in the Restricted Global Certificate or the Regulation S Global Certificate, such transfer may be effected only in accordance with the provisions of this Clause (b)(iii) and Clause (b)(vii) below and subject to the Applicable Procedures. Upon receipt by the Property Trustee, as Securities Registrar, of (A) such Restricted Security as provided in Section 5.4(a) and instructions satisfactory to the Property Trustee directing that a beneficial interest in the Restricted Global Certificate or Regulation S Global Certificate in a specified principal amount not greater than the share amount of such Preferred Security be credited to a specified participant's account and (B) a Restricted Securities Certificate, if the specified account is to be credited with a beneficial interest in the Restricted Global Certificate, or a Regulation S Certificate, if the specified account is to be credited with a beneficial interest in the Regulation S Global Certificate, in either case satisfactory to the Property Trustee and duly executed by such Holder or his attorney duly authorized in writing, then the Property Trustee, as Securities Registrar but subject to Clause (b)(vii) below, shall cancel such Restricted Security (and issue a new Restricted Security in respect of any untransferred portion thereof) as provided in Section 5.4(a) and increase the principal amount of the Restricted Global Certificate or the Regulation S Global Certificate, as the case may be, by the specified principal amount as provided in Section 5.11(b).

(iv) Regulation S Non-Global Certificate to Restricted Global Certificate or Regulation S Global Certificate. If the Holder of a Regulation S Preferred Security (other than a Global Certificate) wishes at any time to transfer all or any portion of such Regulation S Security to a Person who wishes to acquire the same in the form of a beneficial interest in the Restricted Global Certificate or the Regulation S Global Certificate, such transfer may be effected only in accordance with this Clause (b)(iv) and Clause (b)(vii) below and subject to the Applicable Procedures. Upon receipt by the Property Trustee, as Securities Registrar, of (A) such Regulation S Security as provided in Section 5.4(a) and instructions satisfactory to the Property Trustee directing that a beneficial interest in the Restricted Global Certificate or Regulation S Global Certificate in a specified share amount not greater than the share amount of such Preferred Security be credited to a specified participant's account and (B) if the transfer is to occur during the Restricted Period and the specified account is to be credited with a beneficial interest in the Restricted Global Certificate, a Restricted Securities Certificate satisfactory to the Property Trustee and duly executed by such Holder or his attorney duly authorized in writing then the Property Trustee, as Securities Registrar but subject to Clause (b)(vii) below, shall cancel such Regulation S Security (and issue a new Regulation S Security in respect of any untransferred portion thereof) as provided in Section 5.4(a) and increase the principal amount of the Restricted Global Certificate or the Regulation S Global Certificate, as the case may be, by the specified principal amount as provided in Section 5.11(b).

(v) Non-Global Certificate to Non-Global Certificate. A Security that is not a Global Certificate may be transferred, in whole or in part, to a Person who takes delivery in the form of another Security that is not a Global Certificate as provided in Section 5.11, provided that, if the Security to be transferred in whole or in part is a Restricted Security, or is a Regulation S Preferred Security and the transfer is to occur during the Restricted Period, then the Property Trustee shall have received (A) a Restricted Securities Certificate,

satisfactory to the Property Trustee and duly executed by the transferor Holder or his attorney duly authorized in writing, in which case the transferee Holder shall take delivery in the form of a Restricted Security, or (B) a Regulation S Certificate, satisfactory to the Property Trustee and duly executed by the transferor Holder or his attorney duly authorized in writing, in which case the transferee Holder shall take delivery in the form of a Regulation S Preferred Security (subject in every case to Section 5.4(c)).

(vi) Exchanges between Global Certificate and Non-Global Certificate. A beneficial interest in a Global Certificate may be exchanged for a Preferred Security that is not a Global Certificate as provided in Section 5.11 to an institution that is an accredited investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D of the Securities Act of 1933, as amended, provided that, if such interest is a beneficial interest in the Restricted Global Certificate, or if such interest is a beneficial interest in the Regulation S Global Certificate and such exchange is to occur during the Restricted Period, then such interest shall be exchanged for a Restricted Security (subject in each case to Section 5.4(c)). A Preferred Security that is not a Global Certificate may be exchanged for a beneficial interest in a Global Certificate only if (A) such exchange occurs in connection with a transfer effected in accordance with Clause (b)(iii) or (iv) above or (B) such Security is a Regulation S Preferred Security and such exchange occurs after the Restricted Period.

(vii) Regulation S Global Certificate to be Held Through Euroclear or Cedel during Restricted Period. The Depositor shall use its best efforts to cause the Clearing Agency to ensure that, until the expiration of the Restricted Period, beneficial interests in the Regulation S Global Certificate may be held only in or through accounts maintained at the Clearing Agency by Euroclear or Cedel (or by participants acting for the account thereof), and no person shall be entitled to effect any transfer or exchange that would result in any such interest being held otherwise than in or through such an account; provided that this Clause (b)(vii) shall not prohibit any transfer or exchange of such an interest in accordance with Clause (b)(ii) or (vi) above.

(c) Securities Act Legends. Rule 144A Securities, Certificated Preferred Securities and their respective Successor Securities shall bear a Restricted Securities Legend as set forth in Section 5.15, and the Regulation S Preferred Securities and their Successor Securities shall bear a Regulation S Legend, subject to the following:

(i) subject to the following Clauses of this Section 5.4(c), a Preferred Security or any portion thereof which is exchanged, upon transfer or otherwise, for a Global Certificate or any portion thereof shall bear the Securities Act Legend borne by such Global Certificate while represented thereby;

(ii) subject to the following Clauses of this Section 5.4(c), a new Preferred Security which is not a Global Certificate and is issued in exchange for another Preferred Security (including, a Global Certificate) or any portion thereof, upon transfer or otherwise, shall bear the Securities Act Legend borne by such other Preferred Security, provided that, if such new Preferred Security is required pursuant to Section 5.4(b)(v) or (vi) to be issued in the form of a Restricted Security, it shall bear a Restricted Securities Legend and, if such

new Preferred Security is so required to be issued in the form of a Regulation S Preferred Security, it shall bear a Regulation S Legend;

(iii) Any Preferred Securities which are sold or otherwise disposed of pursuant to an effective registration statement under the Securities Act (including the Shelf Registration Statement), together with their Successor Securities shall not bear a Securities Act Legend; the Depositor shall inform the Property Trustee in writing of the effective date of any such registration statement registering the Preferred Securities under the Securities Act and shall notify the Property Trustee at any time when prospectuses may not be delivered with respect to Preferred Securities to be sold pursuant to such registration statement. The Property Trustee shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the aforementioned registration statement;

(iv) at any time after the Preferred Securities may be freely transferred without registration under the Securities Act or without being subject to transfer restrictions pursuant to the Securities Act, a new Preferred Security which does not bear a Securities Act Legend may be issued in exchange for or in lieu of a Preferred Security (other than a Global Certificate) or any portion thereof which bears such a legend if the Property Trustee has received an Unrestricted Securities Certificate, satisfactory to the Property Trustee and duly executed by the Holder of such legended Preferred Security or his attorney duly authorized in writing, and after such date and receipt of such certificate, the Property Trustee shall authenticate and deliver such a new Preferred Security in exchange for or in lieu of such other Preferred Security as provided in this Article 5;

(v) a new Preferred Security which does not bear a Securities Act Legend may be issued in exchange for or in lieu of a Preferred Security (other than a Global Certificate) or any portion thereof which bears such a legend if, in the Depositor's judgment, placing such a legend upon such new Preferred Security is not necessary to ensure compliance with the registration requirements of the Securities Act, and the Property Trustee, at the direction of the Depositor, shall authenticate and deliver such a new Preferred Security as provided in this Article 5; and

(vi) notwithstanding the foregoing provisions of this Section 5.4(c), a Successor Security of a Preferred Securities that does not bear a particular form of Securities Act Legend shall not bear such form of legend unless the Depositor has reasonable cause to believe that such Successor Security is a "restricted security" within the meaning of Rule 144, in which case the Property Trustee, at the direction of the Depositor, shall authenticate and deliver a new Preferred Security bearing a Restricted Securities Legend in exchange for such Successor Security as provided in this Article 5.

SECTION 5.5. Mutilated, Destroyed, Lost or Stolen Trust Securities Certificates.

If (a) any mutilated Trust Securities Certificate shall be surrendered to the Securities Registrar, or if the Securities Registrar shall receive evidence to its satisfaction of the destruction, loss or theft of any Trust Securities Certificate and (b) there shall be delivered to the Securities Registrar and the Administrative Trustees such security or indemnity as may be required by them to

save each of them harmless, then in the absence of notice that such Trust Securities Certificate shall have been acquired by a bona fide purchaser, the Administrative Trustees, or any one of them, on behalf of the Trust shall execute and make available for authentication and delivery, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Trust Securities Certificate, a new Trust Securities Certificate of like denomination. In connection with the issuance of any new Trust Securities Certificate under this Section, the Securities Registrar may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith. Any duplicative Trust Securities Certificate issued pursuant to this Section shall constitute conclusive evidence of an undivided beneficial interest in the assets of the Trust, as if originally issued, whether or not the lost, stolen or destroyed Trust Securities Certificate shall be found at any time.

SECTION 5.6. Persons Deemed Securityholders. The Property Trustee and the Securities Registrar shall treat the Person in whose name any Trust Securities Certificate shall be registered in the Securities Register as the owner of such Trust Securities Certificate for the purpose of receiving Distributions and for all other purposes whatsoever, and neither the Property Trustee nor the Securities Registrar shall be bound by any notice to the contrary.

SECTION 5.7. Access to List of Securityholders' Names and Addresses. The Administrative Trustees or the Depositor shall furnish or cause to be furnished (unless the Property Trustee is acting as Securities Registrar with respect to the Trust Securities under the Trust Agreement) a list, in such form as the Property Trustee may reasonably require, of the names and addresses of the Securityholders as of the most recent record date (a) to the Property Trustee, quarterly at least 5 Business Days before each Distribution Date, and (b) to the Property Trustee, promptly after receipt by the Depositor of a request therefor from the Property Trustee in order to enable the Property Trustee to discharge its obligations under this Trust Agreement, in each case to the extent such information is in the possession or control of the Administrative Trustees or the Depositor and is not identical to a previously supplied list or has not otherwise been received by the Property Trustee in its capacity as Securities Registrar. The rights of Securityholders to communicate with other Securityholders with respect to their rights under this Trust Agreement or under the Trust Securities, and the corresponding rights of the Trustee shall be as provided in the Trust Indenture Act, except to the extent Section 3819 of the Delaware Business Trust Act would require greater access to such information, in which case the latter shall apply. Each Holder, by receiving and holding a Trust Securities Certificate, and each Owner shall be deemed to have agreed not to hold the Depositor, the Property Trustee or the Administrative Trustees accountable by reason of the disclosure of its name and address, regardless of the source from which such information was derived.

SECTION 5.8. Maintenance of Office or Agency. The Securities Registrar shall maintain in The City of New York an office or offices or agency or agencies where Preferred Securities Certificates may be surrendered for registration of transfer, exchange or conversion and where notices and demands to or upon the Trustees in respect of the Trust Securities Certificates may be served. The Securities Registrar initially designates One State Street, 11th Floor, New York, New York 10004, Attention: Corporate Trust Department, as its principal corporate trust office for such purposes. The Securities Registrar shall give prompt written notice to the Depositor and to the

Securityholders of any change in the location of the Securities Register or any such office or agency.

SECTION 5.9. Appointment of Paying Agent. In the event that the Preferred Securities are not in book-entry form only, the Trust shall maintain in the Borough of Manhattan, City of New York, an office or agency (the "Paying Agent") where the Preferred Securities may be presented for payment. The Paying Agent shall make Distributions to Securityholders from the Payment Account and shall report the amounts of such Distributions to the Property Trustee and the Administrative Trustees. Any Paying Agent shall have the revocable power to withdraw funds from the Payment Account for the purpose of making the Distributions referred to above. The Administrative Trustees may revoke such power and remove the Paying Agent if such Trustees determine in their sole discretion that the Paying Agent shall have failed to perform its obligations under this Trust Agreement in any material respect. The Paying Agent shall initially be the Property Trustee, and any co-paying agent chosen by the Property Trustee and acceptable to the Administrative Trustees and the Depositor. Any Person acting as Paying Agent shall be permitted to resign as Paying Agent upon 30 days' written notice to the Property Trustee and the Depositor. In the event that the Property Trustee shall no longer be the Paying Agent or a successor Paying Agent shall resign or its authority to act be revoked, the Administrative Trustees shall appoint a successor that is acceptable to the Property Trustee and the Depositor to act as Paying Agent (which shall be a bank or trust company). Each successor Paying Agent or any additional Paying Agent shall agree with the Trustees that, as Paying Agent, such successor Paying Agent or additional Paying Agent will hold all sums, if any, held by it for payment to the Securityholders in trust for the benefit of the Securityholders entitled thereto until such sums shall be paid to each Securityholder. The Paying Agent shall return all unclaimed funds to the Property Trustee and upon removal of a Paying Agent such Paying Agent shall also return all funds in its possession to the Property Trustee. The provisions of Sections 8.1, 8.3 and 8.6 shall apply to the Property Trustee also in its role as Paying Agent, for so long as the Property Trustee shall act as Paying Agent and, to the extent applicable, to any other paying agent appointed hereunder. Any reference in this Agreement to the Paying Agent shall include any co-paying agent unless the context requires otherwise.

SECTION 5.10. Ownership of Common Securities by Depositor. On the Closing Date provided for in Section 2.5, the Depositor's predecessor acquired beneficial and record ownership of the Common Securities. On or around the date hereof, the Depositor acquired such Common Securities by operation of law pursuant to a merger of Depositor's predecessor with and into the Depositor. To the fullest extent permitted by law, any attempted transfer of the Common Securities other than further to the aforementioned merger of Depositor's predecessor with and into the Depositor, shall be void. The administrative trustees of the Old Trust shall cause each Common Securities Certificate issued to the Depositor to contain a legend stating "THIS CERTIFICATE IS NOT TRANSFERABLE".

SECTION 5.11. Global Securities; Non-Global Securities; Common Securities Certificate.

(a) Each Global Certificate authenticated under this Trust Agreement shall be registered in the name of the Clearing Agency designated by the Depositor for such Global Certificate or a nominee thereof and delivered to such Clearing Agency or a nominee thereof or custodian therefor,

and each such Global Certificate shall constitute a Preferred Security for all purposes of this Trust Agreement.

(b) If a Global Certificate is to be exchanged for Certificated Preferred Securities or canceled in whole, it shall be surrendered by or on behalf of the Clearing Agency, its nominee or custodian to the Property Trustee, as Securities Registrar, for exchange or cancellation as provided in this Article 5. If any Global Certificate is to be exchanged for Certificated Preferred Securities or cancelled in part, or if another Preferred Security is to be exchanged in whole or in part for a beneficial interest in any Global Certificate, in each case, as provided in Section 5.4, then either (i) such Global Certificate shall be so surrendered for exchange or cancellation as provided in this Article 5 or (ii) the principal amount thereof shall be reduced or increased by an amount equal to the portion thereof to be so exchanged or cancelled, or equal to the principal amount of such Certificated Preferred Security to be so exchanged for a beneficial interest therein, as the case may be, by means of an appropriate adjustment made on the records of the Property Trustee, as Securities Registrar, whereupon the Property Trustee, in accordance with the Applicable Procedures, shall instruct the Clearing Agency or its authorized representative to make a corresponding adjustment to its records. Upon any such surrender or adjustment of a Global Certificate, the Property Trustee shall, subject to Section 5.4 and as otherwise provided in this Article 5, authenticate and deliver any Preferred Securities issuable in exchange for such Global Certificate (or any portion thereof) to or upon the order of, and registered in such names as may be directed by, the Clearing Agency or its authorized representative. Upon the request of the Property Trustee in connection with the occurrence of any of the events specified in the preceding paragraph, the Depositor shall promptly make available to the Property Trustee a reasonable supply of Preferred Securities that are not in the form of Global Certificates. The Property Trustee shall be entitled to rely upon any order, direction or request of the Clearing Agency or its authorized representative which is given or made pursuant to this Article 5 if such order, direction or request is given or made in accordance with the Applicable Procedures.

(c) Every Preferred Security authenticated and delivered upon registration of transfer of, or in exchange for or in lieu of, a Global Certificate or any portion thereof, whether pursuant to this Article 5 or otherwise, shall be authenticated and delivered in the form of, and shall be, a Global Certificate, unless such Preferred Security is registered in the name of a Person other than the Clearing Agency for such Global Certificate or a nominee thereof.

(d) The Clearing Agency or its nominee, as registered owner of a Global Certificate, shall be the holder of such Global Certificate for all purposes under the Trust Agreement and the Preferred Securities, and owners of beneficial interests in a Global Certificate shall hold such interests pursuant to the Applicable Procedures. Accordingly, any such Owner's beneficial interest in a Global Certificate will be shown only on, and the transfer of such interest shall be effected only through, records maintained by the Clearing Agency or its nominee or its participants and such owners of beneficial interests in a Global Certificate will not be considered the owners or holders of such Global Certificate for any purpose of this Trust Agreement or the Preferred Securities.

(e) A single Common Securities Certificate representing the Common Securities was issued to Depositor's predecessor and shall be retained by the Depositor in the form of a definitive Common Securities Certificate.

SECTION 5.12. Notices to Clearing Agency. To the extent that a notice or other communication to the Owners is required under this Trust Agreement, unless and until Definitive Preferred Securities Certificates shall have been issued to Owners pursuant to Section 5.13, the Trustees shall give all such notices and communications specified herein to be given to Owners to the Clearing Agency, and shall have no obligations to provide notices directly to the Owners.

SECTION 5.13. Definitive Preferred Securities Certificates. Notwithstanding any other provision in this Trust Agreement other than as provided for in Section 5.4(b)(vi), no Global Certificate may be exchanged in whole or in part for Preferred Securities registered, and no transfer of a Global Certificate in whole or in part may be registered, in the name of any Person other than the Clearing Agency for such Global Certificate or a nominee thereof unless (i) such Clearing Agency (A) has notified the Depositor that it is unwilling or unable to continue as Clearing Agency for such Global Certificate or (B) has ceased to be a clearing agency registered as such under the Securities Exchange Act of 1934, as amended, and in either case the Trust and the Depositor thereupon fails to appoint a successor Clearing Agency, (ii) the Trust and the Depositor, at their option, notify the Property Trustee in writing that it elects to cause the issuance of the Preferred Securities in certificated form or (iii) there shall have occurred and be continuing an Event of Default or any event which after notice or lapse of time or both would be an Event of Default. In all cases, Certificated Preferred Securities delivered in exchange for any Global Certificate or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of the Clearing Agency (in accordance with its customary procedures).

SECTION 5.14. Rights of Securityholders. The legal title to the Trust Property is vested exclusively in the Property Trustee (in its capacity as such) in accordance with Section 2.9, and the Securityholders shall not have any right or title therein other than the undivided beneficial interest in the assets of the Trust conferred by their Trust Securities and they shall have no right to call for any partition or division of property, profits or rights of the Trust except as described below. The Trust Securities shall be personal property giving only the rights specifically set forth therein and in this Trust Agreement. The Trust Securities shall have no preemptive or similar rights and, when issued and delivered to Securityholders against payment of the purchase price therefor, will be fully paid and nonassessable by the Trust. The Holders of the Trust Securities, in their capacities as such, shall be entitled to the same limitation of personal liability extended to stockholders of private corporations for profit organized under the General Corporation Law of the State of Delaware.

SECTION 5.15. Restrictive Legends. (a) The Restricted Global Certificate and the Certificated Preferred Securities shall bear the following legend (the "Restricted Securities Legend") unless the Depositor determines otherwise in accordance with applicable law:

"THE SECURITIES EVIDENCED HEREBY AND THE COMMON STOCK ISSUABLE UPON THEIR CONVERSION HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) BY ANY INITIAL INVESTOR THAT IS NOT A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT, (1) TO A PERSON WHO THE TRANSFEROR REASONABLY

BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER ACQUIRING FOR ITS OWN ACCOUNT OR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION COMPLYING WITH RULE 144A, (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT OR (B) BY ANY INITIAL INVESTOR THAT IS A QUALIFIED INSTITUTIONAL BUYER OR BY ANY SUBSEQUENT INVESTOR, AS SET FORTH IN CLAUSE (A) ABOVE OR TO AN INSTITUTION THAT IS AN ACCREDITED INVESTOR WITHIN THE MEANING OF RULE 501(A)(1), (2), (3) OR (7) IN A TRANSACTION EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND, IN EACH CASE (A) AND (B), IN COMPLIANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS. SECURITIES OWNED BY AN INITIAL INVESTOR THAT IS NOT A QUALIFIED INSTITUTIONAL BUYER MAY NOT BE HELD IN BOOK-ENTRY FORM AND MAY NOT BE TRANSFERRED WITHOUT CERTIFICATION THAT THE TRANSFER COMPLIES WITH THE FOREGOING RESTRICTIONS, AS PROVIDED IN THE TRUST AGREEMENT REFERRED TO BELOW."

(b) The Regulation S Preferred Securities shall bear the following legend (the "Regulation S Legend") unless the Depositor determines otherwise in accordance with the applicable law:

"THE SECURITIES EVIDENCED HEREBY AND THE COMMON STOCK ISSUABLE UPON CONVERSION THEREOF (COLLECTIVELY, THE "SECURITIES") HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND MAY NOT BE OFFERED, SOLD OR DELIVERED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON, UNLESS SUCH SECURITIES ARE REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS THEREOF IS AVAILABLE."

ARTICLE 6
ACT OF SECURITYHOLDERS; MEETINGS; VOTING

SECTION 6.1. Limitations on Voting Rights.

(a) Except as provided in this Section, in Section 8.9 and 10.2 and in the Indenture and as otherwise required by law, no Holder of Preferred Securities shall have any right to vote or in any manner otherwise control the administration, operation and management of the Trust or the obligations of the parties hereto, nor shall anything herein set forth, or contained in the terms of the Trust Securities Certificates, be construed so as to constitute the Securityholders from time to time as partners or members of an association.

(b) Subject to Section 8.2 hereof, if an Event of Default with respect to the Preferred Securities has occurred and been subsequently cured, waived or otherwise eliminated, the provisions of Section 6.1(b)(ii) hereof shall apply. During (x) the period commencing on the date

of the occurrence of an Event of Default with respect to the Preferred Securities and ending on the date when such Event of Default is cured, waived or otherwise eliminated, or (y) any period not described in either the preceding sentence or the preceding clause (x), the provisions of Section 6.1(b)(i) shall apply.

(i) The holders of a majority in aggregate liquidation amount of the Preferred Securities will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Property Trustee or to exercise any trust or power conferred upon the Property Trustee under the Trust Agreement, including the right to direct the Property Trustee to exercise the remedies available to it as a holder of the Debentures but excluding the right to direct the Property Trustee to consent to an amendment, modification or termination of the Indenture (which shall be as provided below). So long as any Debentures are held by the Property Trustee, the Trustees shall not (A) direct the time, method and place of conducting any proceeding for any remedy available to the Debenture Trustee, or executing any trust or power conferred on the Debenture Trustee with respect to such Debentures, (B) waive any past default which is waivable under Section 5.13 of the Indenture, (C) exercise any right to rescind or annul a declaration that the principal of all the Debentures shall be due and payable or (D) consent to any amendment, modification or termination of the Indenture or the Debentures, where such consent shall be required, without, in each case, obtaining the prior approval of the Holders of a majority in aggregate Liquidation Amount of all Outstanding Preferred Securities (except in the case of clause (D), which consent, in the event that no Event of Default shall occur and be continuing, shall be of the Holders of all Trust Securities, voting together as a single class); provided, however, that where a consent under the Indenture would require the consent of each holder of Debentures affected thereby, no such consent shall be given by the Property Trustee without the prior written consent of each Holder of Preferred Securities. The Trustees shall not revoke any action previously authorized or approved by a vote of the Holders of the Preferred Securities, except by a subsequent vote of the Holders of the Preferred Securities. The Property Trustee shall notify all Holders of record of the Preferred Securities of any notice of default received from the Debenture Trustee with respect to the Debentures. In addition to obtaining the foregoing approvals of the Holders of the Preferred Securities, prior to taking any of the foregoing actions, the Trustees shall, at the expense of the Depositor, obtain an Opinion of Counsel experienced in such matters to the effect that the Trust will not be classified as an association taxable as a corporation or partnership for United States Federal income tax purposes on account of such action.

(ii) Subject to Section 8.2 of this Trust Agreement and only after the Event of Default with respect to the Preferred Securities has been cured, waived, or otherwise eliminated the holders of a majority in aggregate liquidation amount of the Common Securities will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Property Trustee or to exercise any trust or power conferred upon the Property Trustee under the Trust Agreement, including the right to direct the Property Trustee to exercise the remedies available to it as a holder of the Debentures but excluding the right to direct the Property Trustee to consent to an amendment, modification or termination of the Indenture (which shall be as provided

below). So long as any Debentures are held by the Property Trustee, the Trustees shall not (A) direct the time, method and place of conducting any proceeding for any remedy available to the Debenture Trustee, or executing any trust or power conferred on the Debenture Trustee with respect to such Debentures, (B) waive any past default which is waivable under Section 5.13 of the Indenture, (C) exercise any right to rescind or annul a declaration that the principal of all the Debentures shall be due and payable or (D) consent to any amendment, modification or termination of the Indenture or the Debentures, where such consent shall be required, without, in each case, obtaining the prior approval of the Holders of a majority in aggregate Liquidation Amount of all Common Securities (except in the case of clause (D), which consent, in the event that no Event of Default shall occur and be continuing, shall be of the Holders of all Trust Securities, voting together as a single class); provided, however, that where a consent under the Indenture would require the consent of each holder of Debentures affected thereby, no such consent shall be given by the Property Trustee without the prior written consent of each Holder of Common Securities. The Trustees shall not revoke any action previously authorized or approved by a vote of the Holders of the Common Securities, except by a subsequent vote of the Holders of the Common Securities. The Property Trustee shall notify all Holders of record of the Common Securities of any notice of default received from the Debenture Trustee with respect to the Debentures. In addition to obtaining the foregoing approvals of the Holders of the Common Securities, prior to taking any of the foregoing actions, the Trustees shall, at the expense of the Depositor, obtain an Opinion of Counsel experienced in such matters to the effect that the Trust will not be classified as an association taxable as a corporation or partnership for United States Federal income tax purposes on account of such action.

(c) If any proposed amendment to the Trust Agreement provides for, or the Trustees otherwise propose to effect the dissolution, winding-up or termination of the Trust, other than pursuant to the terms of this Trust Agreement, then the Holders of Outstanding Preferred Securities as a class will be entitled to vote on such amendment or proposal and such amendment or proposal shall not be effective except with the approval of the Holders of a majority in aggregate Liquidation Amount of the Outstanding Preferred Securities.

SECTION 6.2. Notice of Meetings. Notice of all meetings of the Holders of the Preferred Securities, stating the time, place and purpose of the meeting, shall be given by the Property Trustee pursuant to Section 10.8 to each Preferred Securityholder of record, at its registered address, at least 15 days and not more than 90 days before the meeting. At any such meeting, any business properly before the meeting may be so considered whether or not stated in the notice of the meeting. Any adjourned meeting may be held as adjourned without further notice.

SECTION 6.3. Meetings of Preferred Security-holders. No annual meeting of Securityholders is required to be held. The Administrative Trustees, however, shall call a meeting of Securityholders to vote on any matter upon the written request of the Preferred Securityholders of record of 25% of the Preferred Securities (based upon their Liquidation Amount) and the Administrative Trustees or the Property Trustee may, at any time in their discretion, call a meeting of the Holders of Preferred Securities to vote on any matters as to which such Holders are entitled to vote. Holders of record of 50% of the Preferred Securities (based upon their Liquidation Amount), present in person or by proxy, shall constitute a quorum at any meeting of Securityholders. If a

a quorum is present at a meeting, an affirmative vote by the Holders of record of Preferred Securities present, in person or by proxy, holding more than a majority of the Preferred Securities (based upon their Liquidation Amount) held by Holders of record of Preferred Securities present, either in person or by proxy, at such meeting shall constitute the action of the Securityholders, unless this Trust Agreement requires a greater number of affirmative votes.

SECTION 6.4. Voting Rights. Securityholders shall be entitled to one vote for each $50 of Liquidation Amount represented by their Trust Securities in respect of any matter as to which such Securityholders are entitled to vote. Notwithstanding that holders of Preferred Securities are entitled to vote or consent under any of the circumstances described above, any of the Preferred Securities that are owned at such time by the Depositor, the Trustees or any affiliate of any Trustee shall, for purposes of such vote or consent, be treated as if such Preferred Securities were not outstanding.

SECTION 6.5. Proxies, Etc. At any meeting of Securityholders, any Securityholders entitled to vote thereat may vote by proxy, provided that no proxy shall be voted at any meeting unless it shall have been placed on file with the Administrative Trustees, or with such other officer or agent of the Trust as the Administrative Trustees may direct, for verification prior to the time at which such vote shall be taken. Pursuant to a resolution of the Property Trustee, proxies may be solicited in the name of the Property Trustee or one or more officers of the Property Trustee. Only Securityholders of record shall be entitled to vote. When Trust Securities are held jointly by several Persons, any one of them may vote at any meeting in person or represented by proxy in respect of such Trust Securities, but if more than one of them shall be present at such meeting in person or by proxy, and such joint owners or their proxies so present disagree as to any vote to be cast, such vote shall not be received in respect of such Trust Securities. A proxy purporting to be executed by or on behalf of a Securityholder shall be deemed valid unless challenged at or prior to its exercise, and the burden of proving invalidity shall rest on the challenger. No proxy shall be valid more than three years after its date of execution.

SECTION 6.6 Securityholder Action by Written Consent. Any action which may be taken by Securityholders at a meeting may be taken without a meeting if Securityholders holding more than a majority of all Outstanding Trust Securities (based upon their Liquidation Amount) entitled to vote in respect of such action (or such larger proportion thereof as shall be required by any express provision of this Trust Agreement) shall consent to the action in writing.

SECTION 6.7. Record Date for Voting and Other Purposes. For the purposes of determining the Securityholders who are entitled to notice of and to vote at any meeting or by written consent, or to participate in any Distribution on the Trust Securities in respect of which a record date is not otherwise provided for in this Trust Agreement, or for the purpose of any other action, the Property Trustee may from time to time fix a date, not more than 90 days prior to the date of any meeting of Securityholders or the payment of Distributions or other action, as the case may be, as a record date for the determination of the identity of the Securityholders of record for such purposes.

SECTION 6.8. Acts of Securityholders. Any request, demand, authorization, direction, notice, consent, waiver or other action provided or permitted by this Trust Agreement to be given, made or taken by Securityholders or Owners may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Securityholders or Owners in person or by

an agent duly appointed in writing; and, except as otherwise expressly provided herein, such action shall become effective when such instrument or instruments are delivered to an Administrative Trustee. Such instrument or instruments (and the action embodied therein and evidence thereby) are herein sometimes referred to as the "Act" of the Securityholders or Owners signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Trust Agreement and (subject to Section 8.1) conclusive in favor of the Trustees, if made in the manner provided in this Section. The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgements of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which any Trustee receiving the same deems sufficient. The ownership of Preferred Securities shall be proved by the Securities Register. Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Securityholder of any Trust Security shall bind every future Securityholder of the same Trust Security and the Securityholder of every Trust Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustees or the Trust in reliance thereon, whether or not notation of such action is made upon such Trust Security. Without limiting the foregoing, a Securityholder entitled hereunder to take any action hereunder with regard to any particular Trust Security may do so with regard to all or any part of the Liquidation Amount of such Trust Security or by one or more duly appointed agents each of which may do so pursuant to such appointment with regard to all or any part of such Liquidation Amount. If any dispute shall arise between the Securityholders and the Administrative Trustees or among such Securityholders or Trustees with respect to the authenticity, validity or binding nature of any request, demand, authorization, direction, consent, waiver or other Act of such Securityholder or Trustee under this Article 6, then the determination of such matter by the Property Trustee shall be conclusive with respect to such matter. Upon the occurrence and continuation of an Event of Default, the holders of Preferred Securities shall rely on the enforcement by the Property Trustee of its rights as holder of the Debentures against the Depositor. If the Property Trustee fails to enforce its rights as holder of the Debentures after a request therefor by a holder of Preferred Securities, such holder may proceed to enforce such rights directly against the Depositor. Notwithstanding the foregoing, if an Event of Default has occurred and is continuing and such event is attributable to the failure of the Depositor to pay interest or principal on the Debentures on the date such interest or principal is otherwise payable (or in the case of redemption, on the Redemption Date), then a holder of Preferred Securities shall have the right to institute a proceeding directly against the Depositor, for enforcement of payment to such holder of the principal amount of or interest on Debentures having a principal amount equal to the aggregate Liquidation Amount of the Preferred Securities of such holder after the respective due date specified in the Debentures (a "Direct Action"). In connection with any such Direct Action, the rights of the Depositor will be subrogated to the rights of any holder of the Preferred Securities to the extent of any payment made by the Depositor to such holder of Preferred Securities as a result of such Direct Action. A Securityholder may institute a legal proceeding directly against the Depositor under the Guarantee to enforce its rights under the

Guarantee without first instituting a legal proceeding against the Guarantee Trustee (as defined in the Guarantee), the Trust or any Person or entity.

SECTION 6.9. Inspection of Records. Upon reasonable notice to the Administrative Trustees and the Property Trustee, the records of the Trust shall be open to inspection by Securityholders during normal business hours for any purpose reasonably related to such Securityholder's interest as a Securityholder.

ARTICLE 7
REPRESENTATIONS AND WARRANTIES

SECTION 7.1. Representations and Warranties of the Property Trustee and the Delaware Trustee. The Property Trustee and the Delaware Trustee, each severally on behalf of and as to itself, hereby represents and warrants for the benefit of the Depositor and the Securityholders that (each such representation and warranty made by the Property Trustee and the Delaware Trustee being made only with respect to itself):

(a) the Property Trustee is a banking corporation duly organized, validly existing and in good standing under the laws of the State of New York;

(b) the Delaware Trustee is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware;

(c) each of the Property Trustee and the Delaware Trustee has full corporate power, authority and legal right to execute, deliver and perform its obligations under this Trust Agreement and has taken all necessary action to authorize the execution, delivery and performance by it of this Trust Agreement;

(d) this Trust Agreement has been duly authorized, executed and delivered by each of the Property Trustee and the Delaware Trustee and constitutes the valid and legally binding agreement of the Property Trustee and the Delaware Trustee enforceable against it in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles; (e) the execution, delivery and performance by each of the Property Trustee and the Delaware Trustee of this Trust Agreement have been duly authorized by all necessary corporate or other action on the part of the Property Trustee and the Delaware Trustee and does not require any approval of stockholders of the Property Trustee or the Delaware Trustee and such execution, delivery and performance will not (i) violate either of the Property Trustee's or the Delaware Trustee's charter or by-laws, (ii) violate any provision of, or constitute, with or without notice or lapse of time, a default under, or result in the creation or imposition of any Lien on any properties included in the Trust Property pursuant to the provisions of, any indenture, mortgage, credit agreement, license or other agreement or instrument to which the Property Trustee or the Delaware Trustee is a party or by which it is bound, or (iii) violate any law, governmental rule or regulation of the United States or the State of Delaware, as the case may be, governing the banking, corporate, or

trust powers of the Property Trustee or the Delaware Trustee (as appropriate in context) or any order, judgment or decree applicable to the Property Trustee or the Delaware Trustee;

(f) neither the authorization, execution or delivery by the Property Trustee or the Delaware Trustee of this Trust Agreement nor the consummation of any of the transactions by the Property Trustee or the Delaware Trustee (as appropriate in context) contemplated herein or therein requires the consent or approval of, the giving of notice to, the registration with or the taking of any other action with respect to, any governmental authority or agency under any existing Federal law governing the banking, corporate or trust powers of the Property Trustee or the Delaware Trustee, as the case may be, under the laws of the United States or the State of Delaware;

(g) there are no proceedings pending or, to the best of each of the Property Trustee's and the Delaware Trustee's knowledge, threatened against or affecting the Property Trustee or the Delaware Trustee in any court or before any governmental authority, agency or arbitration board or tribunal which, individually or in the aggregate, would materially and adversely affect the Trust or would question the right, power and authority of the Property Trustee or the Delaware Trustee, as the case may be, to enter into or perform its obligations as one of the Trustees under this Trust Agreement.

SECTION 7.2. Representations and Warranties of Depositor. The Depositor hereby represents and warrants for the benefit of the Securityholders that:

(a) the Trust Securities Certificates issued on the Closing Date on behalf of the Trust have been duly authorized and will have been duly and validly executed, issued and delivered by the Trustees pursuant to the terms and provisions of, and in accordance with the requirements of, this Trust Agreement and the Securityholders will be, as of such date, entitled to the benefits of this Trust Agreement; and

(b) there are no taxes, fees or other governmental charges payable by the Trust (or the Trustees on behalf of the Trust) under the laws of the State of Delaware or any political subdivision thereof in connection with the execution, delivery and performance by the Property Trustee or the Delaware Trustee, as the case may be, of this Trust Agreement.

ARTICLE 8
THE TRUSTEES

SECTION 8.1. Certain Duties and Responsibilities.

(a) The duties and responsibilities of the Trustees shall be as provided by this Trust Agreement and, in the case of the Property Trustee, by the Trust Indenture Act. The Property Trustee, before the occurrence of any Event of Default and after the curing or waiving of all Events of Default that may have occurred, shall undertake to perform only such duties and obligations as are specifically set forth in this Trust Agreement and the Trust Indenture Act and no implied covenants shall be read into this Trust Agreement against the Property Trustee. In case an Event of Default has occurred (that has not been cured or waived pursuant to Section 8.2) of which a

responsible officer of the Property Trustee has actual knowledge, the Property Trustee shall exercise such rights and powers vested in it by this Trust Agreement and the Trust Indenture Act, and use the same degree of care and skill in its exercise, as a prudent individual would exercise or use under the circumstances in the conduct of his or her own affairs. Notwithstanding the foregoing, no provision of this Trust Agreement shall require the Trustees to expend or risk their own funds or otherwise incur any financial liability in the performance of any of their duties hereunder, or in the exercise of any of their rights or powers, if they shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it. Whether or not therein expressly so provided, every provision of this Trust Agreement relating to the conduct or affecting the liability of or affording protection to the Trustees shall be subject to the provisions of this Section. Nothing in this Trust Agreement shall be construed to release the Administrative Trustees from liability for their own grossly negligent action, their own grossly negligent failure to act, or their own willful misconduct. To the extent that, at law or in equity, an Administrative Trustee has duties (including fiduciary duties) and liabilities relating thereto to the Trust or to the Securityholders, such Administrative Trustee shall not be liable to the Trust or to any Securityholder for such Administrative Trustee's good faith reliance on the provisions of this Trust Agreement. The provisions of this Trust Agreement, to the extent that they restrict the duties and liabilities of the Administrative Trustees otherwise existing at law or in equity, are agreed by the Depositor and the Securityholders to replace such other duties and liabilities of the Administrative Trustees.

(b) All payments made by the Property Trustee or a Paying Agent in respect of the Trust Securities shall be made only from the revenue and proceeds from the Trust Property and only to the extent that there shall be sufficient revenue or proceeds from the Trust Property to enable the Property Trustee or a Paying Agent to make payments in accordance with the terms hereof. Each Securityholder, by its acceptance of a Trust Security, agrees that it will look solely to the revenue and proceeds from the Trust Property to the extent legally available for distribution to it as herein provided and that the Trustees are not personally liable to it for any amount distributable in respect of any Trust Security or for any other liability in respect of any Trust Security. This Section 8.1(b) does not limit the liability of the Trustees expressly set forth elsewhere in this Trust Agreement or, in the case of the Property Trustee, in the Trust Indenture Act.

(c) No provision of this Trust Agreement shall be construed to relieve the Property Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) the Property Trustee shall not be liable for any error of judgment made in good faith by an authorized officer of the Property Trustee, unless it shall be proved that the Property Trustee was negligent in ascertaining the pertinent facts;

(ii) the Property Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority Liquidation Amount of the Trust Securities relating to the time, method and place of conducting any proceeding for any remedy available to the Property Trustee, or exercising any trust or power conferred upon the Property Trustee under this Trust Agreement;

(iii) the Property Trustee's sole duty with respect to the custody, safekeeping and physical preservation of the Debentures and the Payment Account shall be to deal with such property as fiduciary assets, subject to the protections and limitations on liability afforded to the Property Trustee under this Trust Agreement and the Trust Indenture Act;

(iv) The Property Trustee shall not be liable for any interest on any money received by it except as it may otherwise agree with the Depositor and money held by the Property Trustee need not be segregated from other funds held by it except in relation to the Payment Account maintained by the Property Trustee pursuant to Section 3.1 and except to the extent otherwise required by law; and

(v) the Property Trustee shall not be responsible for monitoring the compliance by the Administrative Trustees or the Depositor with their respective duties under this Trust Agreement, nor shall the Property Trustee be liable for the default or misconduct of the Administrative Trustees or the Depositor.

SECTION 8.2. Notice of Defaults.

(a) Within ten days after the occurrence of any Event of Default actually known to the Property Trustee, the Property Trustee shall transmit, in the manner and to the extent provided in Section 10.8, notice of such Event of Default to the holders of Preferred Securities, the Administrative Trustees and the Depositor, unless such Event of Default shall have been cured or waived, provided that, except for a default in the payment of principal of (or premium, if any) or interest on any of the Debentures, the Property Trustee shall be protected in withholding such notice if and so long as the Board of Directors, the executive committee, or a trust committee of directors and/or responsible officers of the Property Trustee in good faith determines that the withholding of such notice is in the interests of the Holders of the Preferred Securities.

(b) Within ten days after the receipt of notice of the Depositor's exercise of its right to extend the interest payment period for the Debentures pursuant to the Indenture, the Property Trustee shall transmit, in the manner and to the extent provided in Section 10.8, notice of such exercise to the Securityholders, unless such exercise shall have been revoked.

(c) The Holders of a majority in liquidation amount of Preferred Securities may, by vote, on behalf of the Holders of all of the Preferred Securities, waive any past Event of Default in respect of the Preferred Securities and its consequences, provided that, if the underlying Debenture Event of Default:

(i) is not waivable under the Indenture, the Event of Default under the Trust Agreement shall also not be waivable; or

(ii) requires the consent or vote of greater than a majority in principal amount of the holders of the Debentures (a "Super Majority") to be waived under the Indenture, the Event of Default under the Trust Agreement may only be waived by the vote of the Holders of the same proportion in liquidation amount of the Preferred Securities that the relevant

Super Majority represents of the aggregate principal amount of the Debentures outstanding. The provisions of Section 6.1(b) and this Section 8.2(c) shall be in lieu of (S) 316(a)(1)(B) of the Trust Indenture Act and such (S) 316(a)(1)(B) of the Trust Indenture Act is hereby expressly excluded from this Trust Agreement and the Preferred Securities, as permitted by the Trust Indenture Act. Upon such waiver, any such default shall cease to exist, and any Event of Default with respect to the Preferred Securities arising therefrom shall be deemed to have been cured, for every purpose of this Trust Agreement, but no such waiver shall extend to any subsequent or other default or an Event of Default with respect to the Preferred Securities or impair any right consequent thereon. Any waiver by the Holders of the Preferred Securities of an Event of Default with respect to the Preferred Securities shall also be deemed to constitute a waiver by the Holders of the Common Securities of any such Event of Default with respect to the Common Securities for all purposes of this Trust Agreement without any further act, vote, or consent of the Holders of the Common Securities.

(d) The Holders of a majority in liquidation amount of the Common Securities may, by vote, on behalf of the Holders of all of the Common Securities, waive any past Event of Default with respect to the Common Securities and its consequences provided that, if the underlying Debenture Event of Default:

(i) is not waivable under the Indenture, except where the Holders of the Common Securities are deemed to have waived such Event of Default under the Declaration as provided below in this Section 8.2(d), the Event of Default under the Trust Agreement shall also not be waivable; or

(ii) requires the consent or vote of a Super Majority to be waived, except where the Holders of the Common Securities are deemed to have waived such Event of Default under the Trust Agreement as provided below in this Section 8.2(d), the Event of Default under the Trust Agreement may only be waived by the vote of the Holders of the same proportion in liquidation amount of the Common Securities that the relevant Super Majority represents of the aggregate principal amount of the Debentures outstanding; provided further, that each Holder of Common Securities will be deemed to have waived any such Event of Default and all Events of Default with respect to the Common Securities and its consequences until all Events of Default with respect to the Preferred Securities have been cured, waived or otherwise eliminated, and until such Events of Default have been so cured, waived or otherwise eliminated, the Property Trustee will be deemed to be acting solely on behalf of the Holders of the Preferred Securities and only the Holders of the Preferred Securities will have the right to direct the Property Trustee in accordance with the terms of the Securities. The provisions of Section 6.1(b) and this Section 8.2(d) shall be in lieu of (S)316(a)(1)(B) of the Trust Indenture Act and such (S)316(a)(1)(B) of the Trust Indenture Act is hereby expressly excluded from this Trust Agreement and the Preferred Securities, as permitted by the Trust Indenture Act. Subject to the foregoing provisions of this Section 8.2(d), upon such waiver, any such default shall cease to exist and any Event of Default with respect to the Common Securities arising therefrom shall be deemed to have been cured for every purpose of this Trust Agreement, but no such waiver shall extend to any subsequent or

other default or Event of Default with respect to the Common Securities or impair any right consequent thereon.

(e) A waiver of an Event of Default under the Indenture by the Property Trustee at the direction of the Holders of the Preferred Securities, constitutes a waiver of the corresponding Event of Default under this Trust Agreement. The foregoing provisions of this Section 8.2(e) shall be in lieu of (S) 316(a)(1)(B) of the Trust Indenture Act and such (S) 316(a)(1)(B) of the Trust Indenture Act is hereby expressly excluded from this Trust Agreement and the Preferred Securities, as permitted by the Trust Indenture Act.

SECTION 8.3. Certain Rights of Property Trustee. Subject to the provisions of Section 8.1:

(a) The Property Trustee may rely and shall be protected in acting or refraining from acting in good faith upon any resolution, Opinion of Counsel, certificate, written representation of a Holder or transferee, certificate of auditors or any other certificate, statement, instrument, opinion, report, notice, request, consent, order, appraisal, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) if no Event of Default has occurred and is continuing and, (i) in performing its duties under this Trust Agreement the Property Trustee is required to decide between alternative courses of action or (ii) in construing any of the provisions in this Trust Agreement the Property Trustee finds the same ambiguous or inconsistent with any other provisions contained herein or (iii) the Property Trustee is unsure of the application of any provision of this Trust Agreement, then, except as to any matter as to which the Holders of Preferred Securities are entitled to vote under the terms of this Trust Agreement, the Property Trustee shall deliver a notice to the Depositor requesting written instructions of the Depositor as to the course of action to be taken and the Property Trustee shall take such action, or refrain from taking such action, as the Property Trustee shall be instructed in writing to take, or to refrain from taking, by the Depositor; provided, however, that if the Property Trustee does not receive such instructions of the Depositor within ten Business Days after it has delivered such notice, or such reasonably shorter period of time set forth in such notice (which to the extent practicable shall not be less than two Business Days), it may, but shall be under no duty to, take or refrain from taking such action not inconsistent with this Trust Agreement as it shall deem advisable and in the best interests of the Securityholders, in which event the Property Trustee shall have no liability except for its own bad faith, negligence or willful misconduct;

(c) any direction or act of the Depositor or the Administrative Trustees contemplated by this Trust Agreement shall be sufficiently evidenced by an Officers' Certificate;

(d) whenever in the administration of this Trust Agreement, the Property Trustee shall deem it desirable that a matter be established before undertaking, suffering or omitting any action hereunder, the Property Trustee (unless other evidence is herein specifically prescribed) may, in the absence of bad faith on its part, request and rely upon an Officers' Certificate and an Opinion of Counsel which, upon receipt of such request, shall be promptly delivered by the Depositor or the Administrative Trustees;

(e) the Property Trustee shall have no duty to accomplish any recording, filing or registration of any instrument (including any financing or continuation statement or any filing under tax or securities laws) or any rerecording, refiling or reregistration thereof;

(f) the Property Trustee may consult with counsel (which counsel may be counsel to the Depositor or any of its Affiliates, and may include any of its employees) and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon and in accordance with such advice; and the Property Trustee shall have the right at any time to seek instructions concerning the administration of this Trust Agreement from any court of competent jurisdiction;

(g) the Property Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Trust Agreement at the request or direction of any of the Securityholders pursuant to this Trust Agreement, unless such Securityholders shall have offered to the Property Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(h) the Property Trustee shall not be bound to make any investigation into the facts or matters stated in any resolutions, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, debenture, note or other evidence of indebtedness or other paper or document, unless requested in writing to do so by Holders of record of 25% or more of the Preferred Securities (based upon their Liquidation Amount), but the Property Trustee may make such further inquiry or investigation into such facts or matters as it may see fit;

(i) the Property Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through its agents or attorneys or an Affiliate, provided that the Property Trustee shall be responsible for its own negligence or recklessness with respect to selection of any agent or attorney appointed by it hereunder;

(j) whenever in the administration of this Trust Agreement the Property Trustee shall deem it desirable to receive instructions with respect to enforcing any remedy or right or taking any other action hereunder, the Property Trustee (i) may request instructions from the Holders of the Trust Securities, which instructions may only be given by the Holders of the same proportion in Liquidation Amount of the Trust Securities as would be entitled to direct the Property Trustee under the terms of the Trust Securities in respect of such remedy, right or action, (ii) may refrain from enforcing such remedy or right or taking such other action until such instructions are received, and (iii) shall be protected in acting in accordance with such instructions; and

(k) except as otherwise expressly provided by this Trust Agreement, the Property Trustee shall not be under any obligation to take any action that is discretionary under the provisions of this Trust Agreement. No provision of this Trust Agreement shall be deemed to impose any duty or obligation on the Property Trustee to perform any act or acts or exercise any right, power, duty or obligation conferred or imposed on it, in any jurisdiction in which it shall be illegal, or in which the Property Trustee shall be unqualified or incompetent in accordance with applicable law, to perform any such act or acts, or to exercise any such right, power, duty or

obligation. No permissive power or authority available to the Property Trustee shall be construed to be a duty.

SECTION 8.4. Not Responsible for Recitals or Issuance of Securities. The recitals contained herein and in the Trust Securities Certificates shall not be taken as the statements of the Trustees, and the Trustees do not assume any responsibility for their correctness. The Trustees shall not be accountable for the use or application by the Depositor of the proceeds of the Debentures.

SECTION 8.5. May Hold Securities. Except as provided in the definition of the term "Outstanding" in Article 1, any Trustee or any other agent of any Trustee or the Trust, in its individual or any other capacity, may become the owner or pledgee of Trust Securities and, subject to Section 8.8 and 8.12, may otherwise deal with the Trust with the same rights it would have if it were not a Trustee or such other agent.

SECTION 8.6. Compensation; Indemnity; Fees.

The Depositor agrees:

(a) to pay the Trustees from time to time reasonable compensation for all services rendered by them hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(b) except as otherwise expressly provided herein, to reimburse the Trustees upon request for all reasonable expenses, disbursements and advances incurred or made by the Trustees in accordance with any provision of this Trust Agreement (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith;

(c) to the fullest extent permitted by applicable law, to indemnify and hold harmless (i) each Trustee, (ii) any Affiliate of any Trustee, (iii) any officer, director, shareholder, employee, representative or agent of any Trustee, and (iv) any employee or agent of the Trust or its Affiliates (referred to herein as an "Indemnified Person") from and against any loss, damage, liability, tax, penalty, expense or claim of any kind or nature whatsoever incurred by such Indemnified Person by reason of the creation, operation or termination of the Trust or any act or omission performed or omitted by such Indemnified Person in good faith on behalf of the Trust and in a manner such Indemnified Person reasonably believed to be within the scope of authority conferred on such Indemnified Person by this Trust Agreement, except that no Indemnified Person shall be entitled to be indemnified in respect of any loss, damage or claim incurred by such Indemnified Person by reason of negligence or willful misconduct with respect to such acts or omissions; and

(d) no Trustee may claim any lien or charge on any Trust Property as a result of any amount due pursuant to this Section 8.6.

SECTION 8.7. Property Trustee Required; Eligibility of Trustees.

(a) There shall at all times be a Property Trustee hereunder with respect to the Trust Securities. The Property Trustee shall be a Person that is eligible pursuant to the Trust Indenture Act to act as such and has a combined capital and surplus of at least $50,000,000. If any such Person publishes reports of condition at least annually, pursuant to law or to the requirements of its supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Property Trustee with respect to the Trust Securities shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

(b) There shall at all times be one or more Administrative Trustees hereunder with respect to the Trust Securities. Each Administrative Trustee shall be either a natural person who is at least 21 years of age or a legal entity that shall act through one or more persons authorized to bind that entity.

(c) There shall at all times be a Delaware Trustee with respect to the Trust Securities. The Delaware Trustee shall either be (i) a natural person who is at least 21 years of age and a resident of the State of Delaware or (ii) a legal entity with its principal place of business in the State of Delaware and that otherwise meets the requirements of applicable Delaware law that shall act through one or more persons authorized to bind such entity.

SECTION 8.8. Conflicting Interests. If the Property Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Property Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Trust Agreement.

SECTION 8.9. Resignation and Removal; Appointment of Successor.

(a) Subject to Sections 8.9(b) and 8.9(c), Trustees (the "Relevant Trustee") may be appointed or removed without cause at any time: (i) until the issuance of any Trust Securities, by written instrument executed by the Depositor; and (ii) after the issuance of any Securities, by vote of the Holders of a majority in liquidation amount of the Common Securities voting as a class.

(b) The Trustee that acts as Property Trustee shall not be removed in accordance with Section 8.9(a) until a successor possessing the qualifications to act as a Property Trustee under Section 8.7 (a "Successor Property Trustee") has been appointed and has accepted such appointment by instrument executed by such Successor Property Trustee and delivered to the Trust, the Depositor and the removed Property Trustee.

(c) The Trustee that acts as Delaware Trustee shall not be removed in accordance with Section 8.9(a) until a successor possessing the qualifications to act as Delaware Trustee under Section 8.7 (a "Successor Delaware Trustee") has been appointed and has accepted such appointment by instrument executed by such Successor Delaware Trustee and delivered to the Trust, the Depositor and the removed Delaware Trustee.

(d) A Trustee appointed to office shall hold office until his, her or its successor shall have been appointed or until his, her or its death, removal, resignation, dissolution or liquidation. Any Trustee may resign from office (without need for prior or subsequent accounting) by an instrument in writing signed by the Trustee and delivered to the Depositor and the Trust, which resignation shall take effect upon such delivery or upon such later date as is specified therein; provided, however, that:

(i) No such resignation of the Trustee that acts as the Property Trustee shall be effective:

(1) until a Successor Property Trustee has been appointed and has accepted such appointment by instrument executed by such Successor Property Trustee and delivered to the Trust, the Sponsor and the resigning Property Trustee; or

(2) until the assets of the Trust have been completely liquidated and the proceeds thereof distributed to the holders of the Securities; and

(ii) no such resignation of the Trustee that acts as the Delaware Trustee shall be effective until a Successor Delaware Trustee has been appointed and has accepted such appointment by instrument executed by such Successor Delaware Trustee and delivered to the Trust, the Depositor and the resigning Delaware Trustee.

(e) The Holders of the Common Securities shall use their best efforts to promptly appoint a Successor Property Trustee or Successor Delaware Trustee, as the case may be, if the Property Trustee or the Delaware Trustee delivers an instrument of resignation in accordance with Section 8.9(d).

(f) If no Successor Property Trustee or Successor Delaware Trustee shall have been appointed and accepted appointment as provided in this Section 8.9 within 60 days after delivery pursuant to this Section 8.9 of an instrument of resignation or removal, the Property Trustee or Delaware Trustee resigning or being removed, as applicable, may petition any court of competent jurisdiction for appointment of a Successor Property Trustee or Successor Delaware Trustee. Such court may thereupon, after prescribing such notice, if any, as it may deem proper and prescribe, appoint a Successor Property Trustee or Successor Delaware Trustee, as the case may be.

(g) No Property Trustee or Delaware Trustee shall be liable for the acts or omissions to act of any Successor Property Trustee or Successor Delaware Trustee, as the case may be.

(h) The Property Trustee shall give notice of each resignation and each removal of a Trustee and each appointment of a successor Trustee to all Securityholders in the manner provided in Section 10.8 and shall give notice to the Depositor. Each notice shall include the name of the successor Relevant Trustee and the address of its Corporate Trust Office if it is the Property Trustee.

(i) Notwithstanding the foregoing or any other provision of this Trust Agreement, in the event any Administrative Trustee or a Delaware Trustee who is a natural person dies or becomes, in the opinion of the Depositor, incompetent or incapacitated, the vacancy created by such death, incompetence or incapacity may be filled by (a) the unanimous act of the remaining Administrative Trustees if there are at least two of them or (b) otherwise by the Depositor (with the successor in each case being a Person who satisfies the eligibility requirement for Administrative Trustees or the Delaware Trustee, as the case may be, set forth in Section 8.7).

(j) The indemnity provided to a Trustee under Section 8.6 shall survive any Trustee's resignation or removal.

SECTION 8.10. Acceptance of Appointment by Successor. In case of the appointment hereunder of a successor Trustee, such successor Trustee so appointed shall execute, acknowledge and deliver to the Trust and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee; but, on the request of the Depositor or the successor Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Depositor or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and if the Property Trustee is the resigning Trustee shall duly assign, transfer and deliver to the successor Trustee all property and money held by such retiring Property Trustee hereunder. In case of the appointment hereunder of a successor Relevant Trustee, the retiring Relevant Trustee and each successor Relevant Trustee shall execute and deliver an amendment hereto wherein each successor Relevant Trustee shall accept such appointment and which (a) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Relevant Trustee all the rights, powers, trusts and duties of the retiring Relevant Trustee and (b) shall add to or change any of the provisions of this Trust Agreement as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Relevant Trustee, it being understood that nothing herein or in such amendment shall constitute such Relevant Trustees co-trustees and upon the execution and delivery of such amendment the resignation or removal of the retiring Relevant Trustee shall become effective to the extent provided therein and each such successor Relevant Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Relevant Trustee; but, on request of the Trust or any successor Relevant Trustee, such retiring Relevant Trustee shall duly assign, transfer and deliver to such successor Relevant Trustee all Trust Property, all proceeds thereof and money held by such retiring Relevant Trustee hereunder.

Upon request of any such successor Relevant Trustee, the Trust shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Relevant Trustee all such rights, powers and trusts referred to in the first or second preceding paragraph, as the case may be. No successor Relevant Trustee shall accept its appointment unless at the time of such acceptance such successor Relevant Trustee shall be qualified and eligible under this Article.

SECTION 8.11. Merger, Conversion, Consolidation or Succession to Business. Any corporation into which the Property Trustee, the Delaware Trustee or any Administrative Trustee

that is not a natural person may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Relevant Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of such Relevant Trustee, shall be the successor of such Relevant Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto.

SECTION 8.12. Preferential Collection of Claims Against Depositor or Trust. If and when the Property Trustee shall be or become a creditor of the Depositor or the Trust (or any other obligor upon the Debentures or the Trust Securities), the Property Trustee shall be subject to and shall take all actions necessary in order to comply with the provisions of the Trust Indenture Act regarding the collection of claims against the Depositor or Trust (or any such other obligor).

SECTION 8.13. Reports by Property Trustee.

(a) To the extent required by the Trust Indenture Act, within 60 days after December 31 of each year commencing with December 31, 1996 the Property Trustee shall transmit to all Securityholders in accordance with Section 10.8 and to the Depositor, a brief report dated as of such December 31 with respect to:

(i) its eligibility under Section 8.7 or, in lieu thereof, if to the best of its knowledge it has continued to be eligible under said Section, a written statement to such effect;

(ii) a statement that the Property Trustee has complied with all of its obligations under this Trust Agreement during the twelve-month period (or, in the case of the initial report, the period since the Closing Date) ending with such December 31 or, if the Property Trustee has not complied in any material respects with such obligations, a description of such noncompliance; and

(iii) any change in the property and funds in its possession as Property Trustee since the date of its last report and any action taken by the Property Trustee in the performance of its duties hereunder which it has not previously reported and which in its opinion materially affects the Trust Securities.

(b) In addition, the Property Trustee shall transmit to Securityholders such reports concerning the Property Trustee and its actions under this Trust Agreement as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant thereto.

(c) A copy of such report shall, at the time of such transmissions to Holders, be filed by the Property Trustee with each national securities exchange or self-regulatory organization upon which the Trust Securities are listed, with the Commission and with the Depositor.

SECTION 8.14. Reports to the Property Trustee. The Depositor and the Administrative Trustees on behalf of the Trust shall provide to the Property Trustee such documents, reports and information as required by Section 314 of the Trust Indenture Act (if any)

and the compliance certificate required by Section 314(a) of the Trust Indenture Act in the form, in the manner and at the times required by Section 314 of the Trust Indenture Act.

SECTION 8.15. Evidence of Compliance with Conditions Precedent. Each of the Depositor and the Administrative Trustees on behalf of the Trust shall provide to the Property Trustee such evidence of compliance with any conditions precedent, if any, provided for in this Trust Agreement that relate to any of the matters set forth in Section 314(c) of the Trust Indenture Act. Any certificate or opinion required to be given by an officer pursuant to Section 314(c)(1) of the Trust Indenture Act shall be given in the form of an Officers' Certificate.

SECTION 8.16. Number of Trustees.

(a) The number of Trustees shall be five, provided that the Holder of all of the Common Securities by written instrument may increase or decrease the number of Administrative Trustees. The Property Trustee and the Delaware Trustee may be the same Person.

(b) If a Trustee ceases to hold office for any reason and the number of Administrative Trustees is not reduced pursuant to Section 8.16(a), or if the number of Trustees is increased pursuant to Section 8.16(a), a vacancy shall occur.

(c) The death, resignation, retirement, removal, bankruptcy, incompetence or incapacity to perform the duties of a Trustee shall not operate to annul the Trust. Whenever a vacancy in the number of Administrative Trustees shall occur, until such vacancy is filled by the appointment of an Administrative Trustee in accordance with Section 8.9, the Administrative Trustees in office, regardless of their number (and notwithstanding any other provision of this Agreement), shall have all the powers granted to the Administrative Trustees and shall discharge all the duties imposed upon the Administrative Trustees by this Trust Agreement.

SECTION 8.17. Delegation of Power.

(a) Any Administrative Trustee may, by power of attorney consistent with applicable law, delegate to any other natural person over the age of 21 his or her power for the purpose of executing any documents contemplated in Section 2.7(a), including any registration statement or amendment thereof filed with the Commission, or making any other governmental filing.

(b) The Administrative Trustees shall have power to delegate from time to time to such of their number or to the Depositor the doing of such things and the execution of such instruments either in the name of the Trust or the names of the Administrative Trustees or otherwise as the Administrative Trustees may deem expedient, to the extent such delegation is not prohibited by applicable law or contrary to the provisions of the Trust, as set forth herein.

ARTICLE 9
TERMINATION, LIQUIDATION AND MERGER

SECTION 9.1. Termination upon Expiration Date. Unless earlier terminated, the Trust shall automatically terminate on November 25, 2041 (the "Expiration Date"), following the distribution of the Trust Property in accordance with Section 9.4.

SECTION 9.2. Early Termination. The first to occur of any of the following events is an "Early Termination Event":

(a) the occurrence of a Bankruptcy Event in respect of, or the dissolution or liquidation of, the Depositor;

(b) the occurrence of a Special Event except in the case of a Tax Event following which the Depositor has elected (i) to pay any Additional Sums (in accordance with Section 4.4) such that the net amount received by Holders of Preferred Securities in respect of Distributions are not reduced as a result of such Tax Event and the Depositor has not revoked any such election or failed to make such payments or (ii) to redeem all or some of the Debentures pursuant to Section 4.4(a);

(c) the redemption, conversion or exchange of all of the Trust Securities;

(d) an order for dissolution of the Trust shall have been entered by a court of competent jurisdiction; and

(e) receipt by the Property Trustee of written notice from the Depositor at any time (which direction is optional and wholly within the discretion of the Depositor) of its intention to terminate the Trust and distribute the Debentures in exchange for the Preferred Securities.

SECTION 9.3. Termination. The respective obligations and responsibilities of the Trustees and the Trust created and continued hereby shall terminate upon the latest to occur of the following: (a) the distribution by the Property Trustee to Securityholders upon the liquidation of the Trust pursuant to Section 9.4, or upon the redemption of all of the Trust Securities pursuant to Section 4.2, of all amounts required to be distributed hereunder upon the final payment of the Trust Securities; (b) the payment of all expenses owed by the Trust; and (c) the discharge of all administrative duties of the Administrative Trustees, including the performance of any tax reporting obligations with respect to the Trust or the Securityholders.

SECTION 9.4. Liquidation.

(a) If an Early Termination Event specified in clause (a), (b), (d) or (e) of Section 9.2 occurs or upon the Expiration Date, the Trust shall be liquidated by the Trustees as expeditiously as the Trustees determine to be possible by distributing, after satisfaction of liabilities to creditors of the Trust as provided by applicable law, to each Securityholder an aggregate principal amount of Debentures equal to the aggregate Liquidation Amount of Trust Securities held by such Holder, subject to Section 9.4(d). Notice of liquidation shall be given by the Property Trustee by first-class mail, postage prepaid, mailed not later than 30 nor more than 60 days prior to the Liquidation Date

to each Holder of Trust Securities at such Holder's address as it appears in the Securities Register. All notices of liquidation shall:

(i) state the Liquidation Date;

(ii) state that, from and after the Liquidation Date, the Trust Securities will no longer be deemed to be Outstanding and any Trust Securities Certificates not surrendered for exchange will be deemed to represent an aggregate principal amount of Debentures equal to the aggregate Liquidation Amount of Preferred Securities held by such Holder; and

(iii) provide such information with respect to the mechanics by which Holders may exchange Trust Securities Certificates for Debentures, or, if Section 9.4(d) applies, receive a Liquidation Distribution, as the Administrative Trustees or the Property Trustee shall deem appropriate.

(b) Except where Section 9.2(c) or 9.4(d) applies, in order to effect the liquidation of the Trust and distribution of the Debentures to Securityholders, the Property Trustee shall establish a record date for such distribution (which shall be not more than 45 days prior to the Liquidation Date) and, either itself acting as exchange agent or through the appointment of a separate exchange agent, shall establish such procedures as it shall deem appropriate to effect the distribution of Debentures in exchange for the Outstanding Trust Securities Certificates.

(c) Except where Section 9.2(c) or 9.4(d) applies, after the Liquidation Date, (i) the Trust Securities will no longer be deemed to be Outstanding, (ii) the Clearing Agency or its nominee, as the record holder of such Trust Securities, will receive a registered global certificate or certificates representing the Debentures to be delivered upon such distribution and (iii) any Trust Securities Certificates not held by the Clearing Agency will be deemed to represent an aggregate principal amount of Debentures equal to the aggregate Liquidation Amount of Preferred Securities held by such Holders, and bearing accrued and unpaid interest in an amount equal to the accrued and unpaid Distributions on such Trust Securities until such certificates are presented to the Property Trustee for transfer or reissuance.

(d) In the event that, notwithstanding the other provisions of this Section 9.4, whether because of an order for dissolution entered by a court of competent jurisdiction or otherwise, distribution of the Debentures in the manner provided herein is determined by the Property Trustee not to be practicable, the Trust Property shall be liquidated, and the Trust shall be dissolved, wound-up or terminated, by the Property Trustee in such manner as the Property Trustee determines. In such event, on the date of the dissolution, winding up or other termination of the Trust, Securityholders will be entitled to receive out of the assets of the Trust available for distribution to Securityholders, after satisfaction of liabilities to creditors of the Trust as provided by applicable law, an amount equal to the Liquidation Amount per Trust Security plus accrued and unpaid Distributions thereon to the date of payment (such amount being the "Liquidation Distribution"). If, upon any such dissolution, winding-up or termination, the Liquidation Distribution can be paid only in part because the Trust has insufficient assets available to pay in full the aggregate Liquidation Distribution, then, subject to the next succeeding sentence, the amounts payable by the Trust on the Trust Securities shall be paid on a pro rata basis (based upon Liquidation Amounts). The Holder of

the Common Securities will be entitled to receive Liquidation Distributions upon any such dissolution, winding-up or termination pro rata (determined as aforesaid) with Holders of Preferred Securities, except that, if a Debenture Event of Default has occurred and is continuing, the Preferred Securities shall have a priority over the Common Securities.

SECTION 9.5. Mergers, Consolidations, Amalgamations or Replacements of the Trust. The Trust may not merge with or into, consolidate, amalgamate, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to any corporation or other body, except pursuant to this Section 9.5. At the request of the Depositor, with the consent of the Administrative Trustees and without the consent of the Property Trustee, the Delaware Trustee or the Holders of the Preferred Securities, the Trust may merge with or into, consolidate, amalgamate, be replaced by or convey, transfer or lease its properties and assets substantially as an entirety to a trust organized as such under the laws of any State; provided, that (i) such successor entity either (a) expressly assumes all of the obligations of the Trust with respect to the Preferred Securities or (b) substitutes for the Preferred Securities other securities having substantially the same terms as the Preferred Securities (the "Successor Securities") so long as the Successor Securities rank the same as the Preferred Securities rank in priority with respect to Distributions and payments upon liquidation, redemption and otherwise, (ii) the Depositor expressly appoints a trustee of such successor entity possessing the same powers and duties as the Property Trustee as the holder of the Debentures, (iii) the Successor Securities are listed, or any Successor Securities will be listed upon notification of issuance, on any national securities exchange or other organization on which the Preferred Securities are then listed, if any, (iv) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not cause the Preferred Securities (including any Successor Securities) to be downgraded by any nationally recognized statistical rating organization, (v) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the Holders of the Preferred Securities (including any Successor Securities) in any material respect, (vi) such successor entity has a purpose identical to that of the Trust, (vii) prior to such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease the Depositor has received an Opinion of Counsel to the effect that (a) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the Holders of the Preferred Securities (including any Successor Securities) in any material respect (other than with respect to any dilution of the Holder's interest in the new entity), (b) following such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease neither the Trust nor such successor entity will be required to register as an investment company under the 1940 Act, and (c) following such merger, consolidation, amalgamation or replacement, the Trust or such successor entity will be treated as a grantor trust for United States Federal income tax purposes and (viii) the Depositor or any permitted successor or assignee owns all of the Common Securities of such successor entity and guarantees the obligations of such successor entity under the Successor Securities at least to the extent provided by the Guarantee. Notwithstanding the foregoing, the Trust shall not, except with the consent of Holders of 100% in aggregate Liquidation Amount of the Preferred Securities, consolidate, amalgamate, merge with or into, be replaced by or convey, transfer or lease its properties and assets substantially as an entirety to any other entity or permit any other entity to consolidate, amalgamate, merge with or into, or replace it if such consolidation, amalgamation, merger, replacement, conveyance, transfer or lease would cause the Trust or the

successor entity to be classified as other than a grantor trust for United States Federal income tax purposes.

ARTICLE 10
MISCELLANEOUS PROVISIONS

SECTION 10.1. Limitation of Rights of Securityholders. The death or incapacity of any person having an interest, beneficial or otherwise, in Trust Securities shall not operate to terminate this Trust Agreement, nor entitle the legal representatives or heirs of such person or any Securityholder for such person to claim an accounting, take any action or bring any proceeding in any court for a partition or winding-up of the arrangements contemplated hereby, nor otherwise affect the rights, obligations and liabilities of the parties hereto or any of them.

SECTION 10.2. Amendment.

(a) This Trust Agreement may be amended from time to time by the Trustees and the Depositor, without the consent of any Securityholders, (i) to cure any ambiguity, correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Trust Agreement, which shall not be inconsistent with the other provisions of this Trust Agreement, (ii) to modify, eliminate or add to any provisions of this Trust Agreement to such extent as shall be necessary to ensure that the Trust will be classified for United States Federal income tax purposes as a grantor trust at all times that any Trust Securities are Outstanding or to ensure that the Trust will not be required to register as an "investment company" under the 1940 Act, or be classified as other than a grantor trust for United States Federal income tax purposes, or (iii) to comply with the requirements of the Commission in order to effect or maintain the qualification of this Trust Agreement under the Trust Indenture Act; provided, however, that in the case of clause (i), such action shall not adversely affect in any material respect the interests of any Securityholder, and any amendments of this Trust Agreement shall become effective when notice thereof is given to the Securityholders.

(b) Except as provided in Section 10.2(c) hereof, any provision of this Trust Agreement may be amended by the Trustees and the Depositor with (i) the consent of Holders representing not less than a majority (based upon Liquidation Amounts) of the Trust Securities then Outstanding, acting as a single class, and (ii) receipt by the Trustees of an Opinion of Counsel to the effect that such amendment or the exercise of any power granted to the Trustees in accordance with such amendment will not affect the Trustee's status as a grantor trust for United States Federal income tax purposes or the Trust's exemption from the status of an "investment company" under the 1940 Act, provided, however, if any amendment or proposal that would adversely affect the powers, preferences or special rights of the Trust Securities, whether by way of amendment or otherwise, would adversely affect only the Preferred Securities or only the Common Securities, then only the affected class will be entitled to vote on such amendment or proposal and such amendment or proposal shall not be effective except with the approval of a majority in liquidation amount of such class of Trust Securities.

(c) In addition to and notwithstanding any other provision in this Trust Agreement, without the consent of each affected Securityholder (such consent being obtained in accordance

with Section 6.3 or 6.6 hereof), this Trust Agreement may not be amended to (i) change the amount or timing of any Distribution on the Trust Securities or otherwise adversely affect the amount of any distribution required to be made in respect of the Trust Securities as of a specified date or (ii) restrict the right of a Securityholder to institute suit for the enforcement of any such payment on or after such date; notwithstanding any other provision herein, without the unanimous consent of the Securityholders (such consent being obtained in accordance with Section 6.3 or 6.6 hereof), this paragraph (c) of this Section 10.2 may not be amended.

(d) Notwithstanding any other provisions of this Trust Agreement, no Trustee shall enter into or consent to any amendment to this Trust Agreement which would cause the Trust to fail or cease to qualify for the exemption from the status of an "investment company" under the 1940 Act or be classified as other than a grantor trust for United States Federal income tax purposes.

(e) Notwithstanding anything in this Trust Agreement to the contrary, without the consent of the Depositor, this Trust Agreement may not be amended in a manner which imposes any additional obligation on the Depositor.

(f) In the event that any amendment to this Trust Agreement is made, the Administrative Trustees shall promptly provide to the Depositor a copy of such amendment.

(g) Neither the Property Trustee nor the Delaware Trustee shall be required to enter into any amendment to this Trust Agreement which affects its own rights, duties or immunities under this Trust Agreement. The Property Trustee shall be entitled to receive an Opinion of Counsel and an Officers' Certificate stating that any amendment to this Trust Agreement is in compliance with this Trust Agreement.

SECTION 10.3. Separability. In case any provision in this Trust Agreement or in the Trust Securities Certificates shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 10.4. GOVERNING LAW. THIS TRUST AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF EACH OF THE SECURITYHOLDERS, THE TRUST AND TRUSTEES WITH RESPECT TO THIS TRUST AGREEMENT IN THE TRUST SECURITIES SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO ITS CONFLICT OF LAWS PRINCIPLES AND EXCLUDING SECTIONS 3540 AND 3561 OF TITLE 12 THEREOF.

SECTION 10.5. Payments Due on Non-Business Day. If the date fixed for any payment on any Trust Security shall be a day which is not a Business Day, then such payment need not be made on such date but may be made on the next succeeding day which is a Business Day except as otherwise provided in Section 4.1(a) and Section 4.2(d)), with the same force and effect as though made on the date fixed for such payment, and no interest shall accrue thereon for the period after such date.

SECTION 10.6. Successors. This Trust Agreement shall be binding upon and shall inure to the benefit of any successor to the Depositor, the Trust or the Relevant Trustee, including

any successor by operation of law. Except in connection with a consolidation, merger or sale involving the Depositor that is permitted under Article 8 of the Indenture and pursuant to which the assignee agrees in writing to perform the Depositor's obligations hereunder, the Depositor shall not assign its obligations hereunder.

SECTION 10.7. Headings. The Article and Section headings are for convenience only and shall not affect the construction of this Trust Agreement.

SECTION 10.8. Reports, Notices and Demands. Any report, notice, demand or other communications which by any provision of this Trust Agreement is required or permitted to be given or served to or upon any Securityholder or the Depositor may be given or served in writing by deposit thereof, first-class postage prepaid, in the United States mail, hand delivery or facsimile transmission, in each case, addressed, (a) in the case of a Holder of Preferred Securities, to such Holder as such Holder's name and address may appear on the Securities Register; and (b) in the case of the Holder of the Common Securities. Any notice to Preferred Securityholders shall also be given to such Owners as have, within two years preceding the giving of such notice, filed their names and addresses with the Property Trustee for that purpose. Such notice, demand or other communication to or upon a Securityholder shall be deemed to have been sufficiently given, or made, for all purposes, upon hand delivery, mailing or transmission. Any notice, demand or other communication which by any provision of this Trust Agreement is required or permitted to be given or served to or upon the Trust, the Property Trustee, the Delaware Trustee or the Administrative Trustees shall be given in writing addressed (until another address is published by the Trust) as follows: (a) with respect to the Property Trustee, to IBJ Schroder Bank & Trust Company, One State Street, 11th Floor, New York, New York 10004, Attention: Corporate Trust & Agency Department, (b) with respect to the Delaware Trustee, to Delaware Trust Capital Management, Inc., 300 Delaware Avenue, 9th Floor, Wilmington, Delaware 19801, Attention: Corporate Trust Administration, with a copy of any such notice to the Property Trustee at its address above, and (c) with respect to the Administrative Trustees, to them at the address for notices to the Depositor, marked "Attention: Secretary". Such notice, demand or other communication to or upon the Trust or the Property Trustee shall be deemed to have been sufficiently given or made only upon actual receipt of the writing by the Trust or the Property Trustee.

SECTION 10.9. Agreement Not to Petition. Each of the Trustees and the Depositor agrees for the benefit of the Securityholders that, until at least one year and one day after the Trust has been terminated in accordance with Article 9, it shall not file, or join in the filing of, a petition against the Trust under any bankruptcy, insolvency, reorganization or other similar law (including, without limitation, the United States Bankruptcy Code) (collectively, "Bankruptcy Laws") or otherwise join in the commencement of any proceeding against the Trust under any Bankruptcy Law. In the event the Depositor takes action in violation of this Section 10.9, the Property Trustee agrees, for the benefit of Securityholders, that, at the expense of the Depositor, it shall file an answer with the bankruptcy court or otherwise properly contest the filing of such petition by the Depositor against the Trust or the commencement of such action and raise the defense that the Depositor has agreed in writing not to take such action and should be stopped and precluded therefrom and such other defenses, if any, as counsel for the Trustee or the Trust may assert. The provisions of this Section 10.9 shall survive the termination of this Trust Agreement.

SECTION 10.10. Trust Indenture Act; Conflict with Trust Indenture Act.

(a) This Trust Agreement is subject to the provisions of the Trust Indenture Act that are required to be part of this Trust Agreement and shall, to the extent applicable, be governed by such provisions.

(b) The Property Trustee shall be the only Trustee which is the trustee for the purposes of the Trust Indenture Act.

(c) If any provision hereof limits, qualifies or conflicts with another provision hereof which is required to be included in this Trust Agreement by any of the provisions of the Trust Indenture Act, such required provision shall control. If any provision of this Trust Agreement modifies or excludes any provision of the Trust Indenture Act which may be so modified or excluded, the latter provision shall be deemed to apply to this Trust Agreement as so modified or to be excluded, as the case may be.

(d) The application of the Trust Indenture Act to this Trust Agreement shall not affect the nature of the Trust Securities as equity securities representing undivided beneficial interests in the assets of the Trust.

SECTION 10.11. ACCEPTANCE OF TERMS OF TRUST AGREEMENT, GUARANTEE AND INDENTURE. THE RECEIPT AND ACCEPTANCE OF A TRUST SECURITY OR ANY INTEREST THEREIN BY OR ON BEHALF OF A SECURITYHOLDER OR BENEFICIAL OWNER (INCLUDING THE ACCEPTANCE OF ANY DISTRIBUTION ON OR AFTER THE DATE HEREOF), WITHOUT ANY SIGNATURE OR FURTHER MANIFESTATION OF ASSENT, SHALL CONSTITUTE THE UNCONDITIONAL ACCEPTANCE BY THE SECURITYHOLDER AND ALL OTHERS HAVING A BENEFICIAL INTEREST IN SUCH TRUST SECURITY OF ALL THE TERMS AND PROVISIONS OF THIS TRUST AGREEMENT AND AGREEMENT TO SUBORDINATION PROVISIONS AND OTHER TERMS OF THE GUARANTEE AND THE INDENTURE, AND SHALL CONSTITUTE THE AGREEMENT OF THE TRUST, SUCH SECURITYHOLDER AND SUCH OTHERS THAT THE TERMS AND PROVISIONS OF THIS TRUST AGREEMENT SHALL BE BINDING, OPERATIVE AND EFFECTIVE AS THE TRUST AND SUCH SECURITYHOLDER AND SUCH OTHERS.

SECTION 10.12. Counterparts. This Trust Agreement may contain more than one counterpart of the signature page and this Trust Agreement may be executed by the affixing of the signature of each of the Trustees to one of such counterpart signature pages. All of such counterpart signature pages shall be read as though one, and they shall have the same force and effect as though all of the signers had signed a single signature page.

ARTICLE 11
REGISTRATION RIGHTS

SECTION 11.1. Registration Rights. The Holders of the Preferred Securities, the Debentures and the Guarantee and the shares of Common Stock of the Depositor issuable upon conversion of the Debentures and/or the Preferred Securities (collectively, the "Registrable Securities") are entitled to the benefits of a Registration Rights Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Trust Agreement to be duly executed as of the day and year first above written.

HMC MERGER CORPORATION
as Depositor

By:_____
Name:
Title:

IBJ SCHRODER BANK & TRUST COMPANY,
as Property Trustee

By:_____
Name:
Title:

DELAWARE TRUST CAPITAL MANAGEMENT,
INC., as Delaware Trustee

By:_____
Name:
Title:

_____
Robert E. Parsons, Jr.,
as Administrative Trustee

_____
Ed Walter
as Administrative Trustee

_____
Christopher G. Townsend,
as Administrative Trustee

EXHIBIT A

CERTIFICATE OF TRUST
OF
HOST MARRIOTT FINANCIAL TRUST

EXHIBIT B

FORM OF CERTIFICATE
DEPOSITARY AGREEMENT

EXHIBIT C

THE SECURITIES EVIDENCED HEREBY AND THE COMMON STOCK ISSUABLE UPON THEIR CONVERSION HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) BY ANY INITIAL INVESTOR THAT IS NOT A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT, (1) TO A PERSON WHO THE TRANSFEROR REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER ACQUIRING FOR ITS OWN ACCOUNT OR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION COMPLYING WITH RULE 144A, (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT OR (B) BY ANY INITIAL INVESTOR THAT IS A QUALIFIED INSTITUTIONAL BUYER OR BY ANY SUBSEQUENT INVESTOR, AS SET FORTH IN CLAUSE (A) ABOVE OR TO AN INSTITUTION THAT IS AN ACCREDITED INVESTOR WITHIN THE MEANING OF RULE 501(A)(1), (2), (3) OR (7) IN A TRANSACTION EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND, IN EACH CASE (A) AND (B), IN COMPLIANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS. SECURITIES OWNED BY AN INITIAL INVESTOR THAT IS NOT A QUALIFIED INSTITUTIONAL BUYER MAY NOT BE HELD IN BOOK-ENTRY FORM AND MAY NOT BE TRANSFERRED WITHOUT CERTIFICATION THAT THE TRANSFER COMPLIES WITH THE FOREGOING RESTRICTIONS, AS PROVIDED IN THE TRUST AGREEMENT REFERRED TO BELOW.

THIS CERTIFICATE IS NOT TRANSFERABLE

Certificate Number Number of Common Securities

Certificate Evidencing Common Securities
of
Host Marriott Financial Trust

Common Securities
(liquidation amount $50 per Common Security)

Host Marriott Financial Trust, a statutory business trust formed under the laws of the State of Delaware (the "Trust"), hereby certifies that Host Marriott Corporation (the "Holder") is the registered owner of _____ common securities of the Trust representing undivided beneficial interests in the assets of the Trust (the "Common Securities"). In accordance with Section 5.10 of the Trust Agreement (as defined below) the Common Securities are not transferable and any attempted transfer hereof shall be void. The designations, rights, privileges, restrictions, preferences and other terms and provisions of the Common Securities are set forth in, and this certificate and the Common Securities represented hereby are issued and shall in all respects be subject to the terms and provisions of, the Amended and Restated Trust Agreement of the Trust dated as of December 2, 1996, as superseded by operation of law pursuant to a merger by that certain Amended and Restated Agreement of Trust dated as of December 29, 1998, as the same may be amended from time to time (the "Trust Agreement") including the designation of the terms of the Common Securities as set forth therein. The Holder is entitled to the benefits of the Common Securities Guarantee Agreement entered into by Host Marriott Corporation, a Delaware corporation, and IBJ Schroder Bank & Trust Company, as Guarantee Trustee, dated as of December 2, 1996 (the "Guarantee"), to the extent provided therein. The Trust will furnish a copy of the Trust Agreement and the Guarantee to the Holder without charge upon written request to the Trust at its principal place of business or registered office.

Upon receipt of this certificate, the Holder is bound by the Trust Agreement and is entitled to the benefits thereunder.

IN WITNESS WHEREOF, one of the Administrative Trustees of the Trust has executed this certificate this ___ day of _____ 199_.

HOST MARRIOTT FINANCIAL TRUST

By:_____
Name:
As Administrative Trustee

PROPERTY TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Common Securities referred to in the within-mentioned Trust Agreement.

Dated:_____

IBJ SCHRODER BANK & TRUST COMPANY,
as Property Trustee

By:_____
Authorized Signatory

EXHIBIT D

IF THE PREFERRED SECURITY IS TO BE A GLOBAL CERTIFICATE, INSERT - This Preferred Security is a Book-Entry Preferred Securities Certificate within the meaning of the Trust Agreement hereinafter referred to and is registered in the name of The Depository Trust Company ("DTC") or a nominee of DTC. This Preferred Security is exchangeable for Preferred Securities registered in the name of a person other than DTC or its nominee only in the limited circumstances described in the Trust Agreement and no transfer of this Preferred Security (other than a transfer of this Preferred Security as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC) may be registered except in limited circumstances.

Unless this Preferred Security is presented by an authorized representative of DTC (55 Water Street, New York), to Host Marriott Financial Trust or its agent for registration of transfer, exchange or payment, and any Preferred Security issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of DTC and any payment hereon is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC, ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY A PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

Certificate Number Number of Preferred Securities

CUSIP NO.

Certificate Evidencing Preferred Securities

of

Host Marriott Financial Trust

6 3/4% Convertible Preferred Securities
(liquidation amount $50 per Preferred Security)

Host Marriott Financial Trust, a statutory business trust formed under the laws of the State of Delaware (the "Trust"), hereby certifies that _____ (the "Holder") is the registered owner of _____ preferred securities of the Trust representing an undivided beneficial interest in the assets of the Trust and designated the Host Marriott Financial Trust 6 3/4% Convertible Preferred Securities (liquidation amount $50 per Preferred Security) (the "Preferred Securities"). The Preferred Securities are transferable on the books and records of the Trust, in person or by a duly authorized attorney, upon surrender of this certificate duly endorsed and in proper form for transfer as provided in Section 5.4 of the Trust Agreement (as defined below). The designations, rights, privileges, restrictions, preferences and other terms and provisions of the Preferred Securities are set forth in, and this certificate and the Preferred Securities represented hereby are issued and shall in all respects be subject to the terms and provisions of, the Amended and Restated Trust Agreement of the Trust dated as of December 2, 1996 as superseded by operation of law pursuant to a merger by that certain Amended and Restated Agreement of Trust dated as of December 29, 1998, as the same may be amended from time to time (the "Trust Agreement") including the designation of the terms of Preferred Securities as set forth therein. The Holder is entitled to the benefits of the Guarantee Agreement entered into by Host Marriott Corporation, a Delaware corporation, and IBJ Schroder Bank & Trust Company, as Guarantee Trustee, dated as of December 2, 1996 (the "Guarantee"), to the extent provided therein. The Trust will furnish a copy of the Trust Agreement and the Guarantee to the Holder without charge upon written request to the Trust at its principal place of business or registered office.

Upon receipt of this certificate, the Holder is bound by the Trust Agreement and is entitled to the benefits thereunder.

IN WITNESS WHEREOF, one of the Administrative Trustees of the Trust has executed this certificate this ___ day of _____ 199_.

HOST MARRIOTT FINANCIAL TRUST

By:_____
Name:
An Administrative Trustee

PROPERTY TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Preferred Securities referred to in the within-mentioned Trust Agreement.

Dated:_____

IBJ SCHRODER BANK & TRUST COMPANY,
as Property Trustee

BY:_____
Authorized Signatory

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned assigns and transfers this Preferred Security to:

- ---
- ---
- ---

(Insert assignee's social security or tax identification number)

- ---
- ---
- ---

(Insert address and zip code of assignee)

and irrevocably appoints

- ---
- ---
- ---

agent to transfer this Preferred Security Certificate on the books of the Trust. The agent may substitute another to act for him or her.

Date:_____

Signature:_____

(Sign exactly as our name appears on the other side of this Preferred Security Certificate)

TO BE ATTACHED TO GLOBAL CERTIFICATE

SCHEDULE A

The initial liquidation amount of this Global Certificate shall be $_____. The following increases or decreases in the liquidation amount of this Global Certificate have been made:

Date Made	Amount of increase in Liquidation Amount of this Global Certificate including upon exercise of over-allotment option	Amount of decrease in Liquidation Amount of this Global Certificate	Liquidation Amount of this Global Certificate following such decrease or increase	Signature of authorized officer of Trustee or Securities Custodian

EXHIBIT E -- Form of
Regulation S Certificate

REGULATION S CERTIFICATE

(For transfers pursuant to Sections 5.4(b)(i), (iii) and (v) of the Trust Agreement)

Property Trustee

Attention: Corporate Trust Department

Re: 6 3/4% Convertible Quarterly Income Preferred Securities of Host Marriott Financial Trust (the "Securities")

Reference is made to the Amended and Restated Trust Agreement, dated as of December 29, 1998 (the "Trust Agreement"), among HMC Merger Corporation (the "Company"), IBJ Schroder Bank & Trust Company, Delaware Trust Capital Management, Inc. and the Administrative Trustees named therein. Terms used herein and defined in the Trust Agreement or in Regulation S or Rule 144 under the U.S. Securities Act of 1933 (the "Securities Act") are used herein as so defined.

This certificate relates to _____ shares of Securities, which are evidenced by the following certificate(s) (the "Specified Securities"):

CUSIP No(s).____________________

CERTIFICATE No(s)._____________________

The Person in whose name this certificate is executed below (the "Undersigned") hereby certifies that either (i) it is the sole beneficial owner of the Specified Securities or (ii) it is acting on behalf of all the beneficial owners of the Specified Securities and is duly authorized by them to do so. Such beneficial owner or owners are referred to herein collectively as the "Owner". If the Specified Securities are represented by a Global Certificate, they are held through the Clearing Agency participants in the name of the Undersigned, as or on behalf of the Owner. If the Specified Securities are not represented by a Global Certificate, they are registered in the name of the Undersigned, as or on behalf of the Owner.

The Owner has requested that the Specified Securities be transferred to a person (the "Transferee") who will take delivery in the form of a Regulation S Security. In connection with such transfer, the Owner hereby certifies that, unless such transfer is being effected pursuant to an effective registration statement under the Securities Act, it is being effected in accordance with Rule 904 or Rule 144 under the Securities Act and with all applicable securities laws of the states of the United States and other jurisdictions.

Accordingly, the Owner hereby further certifies as follows:

(1) Rule 904 Transfers. If the transfer is being effected in accordance with Rule 904:

(A) the Owner is not a distributor of the Securities, an affiliate of the Company or any such distributor or a person acting on behalf of any of the foregoing;

(B) the offer of the Specified Securities was not made to a person in the United States;

(C) either:

(i) at the time the buy order was originated, the Transferee was outside the United States or the Owner and any person acting on its behalf reasonably believed that the Transferee was outside the United States, or

(ii) the transaction is being executed in, on or through the facilities of the Eurobond market, as regulated by the Association of International Bond Dealers, or another designated offshore securities market and neither the Owner nor any person acting on its behalf knows that the transaction has been prearranged with a buyer in the United States;

(D) no directed selling efforts have been made in the United States by or on behalf of the Owner or any affiliate thereof;

(E) if the Owner is a dealer in securities or has received a selling concession, fee or other remuneration in respect of the Specified Securities, and the transfer is to occur during the Restricted Period, then the requirements of Rule 904(c)(1) have been satisfied; and

(F) the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act.

(2) Rule 144 Transfers. If the transfer is being effected pursuant to Rule 144:

(A) the transfer is occurring after a holding period of at least two years (computed in accordance with paragraph (d) of Rule 144) has lapsed since the Specified Securities were last acquired from the Trust or from an affiliate of the Trust, whichever is later, and is being effected in accordance with the applicable amount, manner of sale and notice requirements of Rule 144; or

(B) the transfer is occurring after a holding period of at least three years has elapsed since the Specified Securities were last acquired from the Trust or from an affiliate

of the Trust, whichever is later, and the Owner is not, and during the preceding three months has not been, an affiliate of the Trust.

This certificate and the statements contained herein are made for your benefit and the benefit of the Trust and the Purchasers.

Dated:_____

(Print the name of the Undersigned, as such term is defined in the second paragraph of this certificate)

By:_____
Name:
Title:

(If the Undersigned is a corporation, partnership or fiduciary, the title of the person signing on behalf of the Undersigned must be stated.)

EXHIBIT F

Form of Restricted
Securities Certificate

RESTRICTED SECURITIES CERTIFICATE

(For transfers pursuant to Sections 5.4(b)(ii), (iii), (iv) and (v) of the Trust Agreement)

Property Trustee

Attention: Corporate Trust Department

Re: 6 3/4% Convertible Quarterly Income
Preferred Securities of Host Marriott
Financial Trust (the "Securities")

Reference is made to the Amended and Restated Trust Agreement, dated as of December 29, 1998 (the "Trust Agreement"), among HMC Merger Corporation (the "Company"), IBJ Schroder Bank & Trust Company, Delaware Trust Capital Management, Inc. and the Administrative Trustees named therein. Terms used herein and defined in the Trust Agreement or in Regulation S or Rule 144 under the U.S. Securities Act of 1933 (the "Securities Act") are used herein as so defined.

This certificate relates to _____ shares of Securities, which are evidenced by the following certificate(s) (the "Specified Securities"):

CUSIP No(s)._____

CERTIFICATE No(s)._____

The Person in whose name this certificate is executed below (the "Undersigned") hereby certifies that either (i) it is the sole beneficial owner of the Specified Securities or (ii) it is acting on behalf of all the beneficial owners of the Specified Securities and is duly authorized by them to do so. Such beneficial owner or owners are referred to herein collectively as the "Owner". If the Specified Securities are represented by a Global Certificate, they are held through the Clearing Agency or participant in the name of the Undersigned, as or on behalf of the Owner. If the Specified Securities are not represented by a Global Certificate, they are registered in the name of the Undersigned, as or on behalf of the Owner.

The Owner has requested that the Specified Securities be transferred to a person (the "Transferee") who will take delivery in the form of a Restricted Security. In connection with such transfer, the Owner hereby certifies that, unless such transfer is being effected pursuant to an effective registration statement under the Securities Act, it is being effected in accordance with Rule 144A or Rule 144 under the Securities Act and all applicable securities laws of the states of the

United States and other jurisdictions. Accordingly, the Owner hereby further certifies as follows: (1) Rule 144A Transfers. If the transfer is being effected in accordance with Rule 144A:

(A) the Specified Securities are being transferred to a person that the Owner and any person acting on its behalf reasonably believe is a "qualified institutional buyer" within the meaning of Rule 144A, acquiring for its own account or for the account of a qualified institutional buyer; and

(B) the Owner and any person acting on its behalf have taken reasonable steps to ensure that the Transferee is aware that the Owner may be relying on Rule 144A in connection with the transfer; and

(2) Rule 144 Transfers. If the transfer is being effected pursuant to Rule 144:

(A) the transfer is occurring after a holding period of at least two years (computed in accordance with paragraph (d) of Rule 144) has elapsed since the Specified Securities were last acquired from the Trust or from an affiliate of the Trust, whichever is later, and is being effected in accordance with the applicable amount, manner of sale, and notice requirements of rule 144; or

(B) the transfer is occurring after a holding period of at least three years has elapsed since the Specified Securities were last acquired from the Trust or from an affiliate of the Trust, whichever is later, and the Owner is not, and during the preceding three months has not been, an affiliate of the Trust.

(3) Regulation S Transfers. If the transfer is being effected in accordance with Regulation S:

(A) the transfer is being made to a person who is not a U.S. person; or

(B) the transferee is not acquiring such Specified Securities for the account or benefit of any U.S. person.

This certificate and the statements contained herein are made for your benefit and benefit of the Trust and the Purchasers.

Dated:_____

(Print the name of the Undersigned, as such term is defined in the second paragraph of this certificate.)

By:_____
Name:
Title:

(If the Undersigned is a corporation, partnership or fiduciary, the title of the person signing on behalf of the Undersigned must be stated.)

EXHIBIT G

Form of Unrestricted
Securities Certificate

UNRESTRICTED SECURITIES CERTIFICATE

(For removal of Securities Act Legends pursuant to Section 5.4(c))

Property Trustee

Attention: Corporate Trust Department

Re: 6 3/4% Convertible Quarterly Income Preferred Securities
of Host Marriott Financial Trust (the "Securities")

Reference is made to the Amended and Restated Trust Agreement, dated as of December 29, 1998 (the "Trust Agreement"), among HMC Merger Corporation (the "Company"), IBJ Schroder Bank & Trust Company, Delaware Trust Capital Management, Inc. and the Administrative Trustees named therein. Terms used herein and defined in the Trust Agreement or in Regulation S or Rule 144 under the U.S. Securities Act of 1933 (the "Securities Act") are used herein as so defined.

This certificate relates to _____ shares of Securities, which are evidenced by the following certificate(s) (the "Specified Securities"):

CUSIP No(s)._____

CERTIFICATE No(s)._____

The person in whose name this certificate is executed below (the "Undersigned") hereby certifies that either (i) it is the sole beneficial owner of the Specified Securities or (ii) it is acting on behalf of all the beneficial owners of the Specified Securities and is duly authorized by them to do so. Such beneficial owner or owners are referred to herein collectively as the "Owner". If the Specified Securities are represented by a Global Certificate, they are held through the Clearing Agency or participant in the name of the Undersigned, as or on behalf of the Owner. If the Specified Securities are not represented by a Global Certificate, they are registered in the name of the Undersigned as or on behalf of the Owner.

The Owner has requested that the Specified Securities be exchanged for Securities bearing no Securities Act Legend pursuant to Section 5.4(c) of the Trust Agreement. In connection with such exchange, the Owner hereby certifies that the exchange is occurring after a holding period of at least three years (computed in accordance with paragraph (d) of Rule 144) has elapsed since the Specified Securities were last acquired from the Trust or from an affiliate of the Trust, whichever is later, and the Owner is not, and during the preceding three months has not been, an affiliate of the Trust. The Owner also acknowledges that any future transfers of the Specified Securities must comply with all applicable securities laws of the states of the United States and other jurisdictions.

This certificate and the statements contained herein are made for your benefit and the benefit of the Trust and the Purchasers.

Dated:_____

(Print the name of the Undersigned, as such term is defined in the second paragraph of this certificate.)

By:_____
Name:
Title:

(If the Undersigned is a corporation, partnership or fiduciary, the title of the person signing on behalf of the Undersigned must be stated.)

EXHIBIT H

NOTICE OF CONVERSION

To: IBJ Schroder Bank & Trust Company
as Property Trustee of
Host Marriott Financial Trust

The undersigned owner of these Preferred Securities hereby irrevocably exercises the option to convert these Preferred Securities, or the portion below designated, into Common Stock of HOST MARRIOTT CORPORATION (the "Host Marriott Common Stock") in accordance with the terms of the Amended and Restated Trust Agreement (the "Trust Agreement"), dated as of December 29, 1998, by Robert E. Parsons, Jr., Ed Walter and Christopher G. Townsend, as Administrative Trustees, Delaware Trust Capital Management, Inc., as Delaware Trustee, IBJ Schroder Bank & Trust Company, as Property Trustee, HMC Merger Corporation, as Depositor, and by the Holders, from time to time, of individual beneficial interests in the Trust to be issued pursuant to the Trust Agreement. Pursuant to the aforementioned exercise of the option to convert these Preferred Securities, the undersigned hereby directs the Conversion Agent (as that term is defined in the Trust Agreement) to (i) exchange such Preferred Securities for a portion of the Debentures (as that term is defined in the Trust Agreement) held by the Trust (at the rate of exchange specified in the terms of the Preferred Securities set forth in the Trust Agreement) and (ii) immediately convert such Debentures on behalf of the undersigned, into Host Marriott Common Stock (at the conversion rate specified in the terms of the Preferred Securities set forth in the Trust Agreement).

The undersigned does also hereby direct the Conversion Agent that the shares issuable and deliverable upon conversion, together with any check in payment for fractional shares, be issued in the name of and delivered to the undersigned, unless a different name has been indicated in the assignment below. If shares are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto.

Any holder, upon the exercise of its conversion rights in accordance with the terms of the Trust Agreement and the Preferred Securities, agrees to be bound by the terms of the Registration Rights Agreement relating to the Host Marriott Common Stock issuable upon conversion of the Preferred Securities.

Date:_____, _____

in whole ____ in part ____

Number of Preferred Securities to be converted:

_____

If a name or names other than the undersigned, please indicate in the spaces below the name or names in which the shares of Host Marriott Common Stock are

to be issued, along with the address or addresses of such person or persons

_____
_____
_____
_____
_____
_____
_____
_____

_____
Signature (for conversion only)

Please Print or Typewrite Name and Address, Including Zip Code, and Social Security or Other Identifying Number

_____
_____
_____

Signature Guarantee:*_____

- ---------------

*(Signature must be guaranteed by an institution which is a member of the following recognized Signature Guaranty Programs: (i) The Securities Transfer Agent Medallion Program (STAMP); (ii) The New York Stock Exchange Medallion Program (MSP); (iii) the Stock Exchange Medallion Program (SEMP); or (iv) in such other guarantee programs acceptable to the Trustee.)

FIRST AMENDMENT AND WAIVER

FIRST AMENDMENT AND WAIVER (this "Amendment"), dated as of November 25, 1998, among HOST MARRIOTT CORPORATION, a Delaware corporation ("Host Marriott"), HOST MARRIOTT HOSPITALITY, INC., a Delaware corporation ("Hospitality"), HMH PROPERTIES, INC., a Delaware corporation ("HMH"), HOST MARRIOTT, L.P., a Delaware limited partnership (the "Operating Partnership"), HMC CAPITAL RESOURCES CORP., a Delaware corporation ("CRC"), the lenders (the "Banks") party to the Credit Agreement referred to below, WELLS FARGO BANK, NATIONAL ASSOCIATION, THE BANK OF NOVA SCOTIA and CREDIT LYONNAIS NEW YORK BRANCH, as Co-Arrangers (the "Co-Arrangers"), and BANKERS TRUST COMPANY, as Arranger and Administrative Agent (the "Administrative Agent"). Unless otherwise defined herein, all capitalized terms used herein and defined in the Credit Agreement are used herein as so defined.

W I T N E S S E T H:

WHEREAS, Host Marriott, Hospitality, HMH, the Operating Partnership, CRC, the Banks, the Co-Arrangers and the Administrative Agent are parties to a Credit Agreement, dated as of June 19, 1997 and amended and restated as of August 5, 1998 (the "Credit Agreement");

WHEREAS, the parties hereto wish to amend the Credit Agreement, and waive certain provisions thereunder, all as herein provided; and

WHEREAS, subject to the terms and conditions of this Amendment, the parties hereto agree as follows;

NOW, THEREFORE, it is agreed:

1. Notwithstanding anything to the contrary contained in Section 3.02(d) of the Credit Agreement, the Banks hereby agree that HMH may issue up to $500,000,000 of Indebtedness pursuant to Section 9.04(xi) of the Credit Agreement (as modified pursuant to Section 3 of this Amendment) on or prior to December 31, 1998 without any requirement to repay outstanding Term Loans pursuant to such Section 3.02(d).

2. Section 9.03(a) of the Credit Agreement is hereby amended by deleting the words "shall not be less than $100,000,000" appearing in sub-clause (II) of the proviso to clause (vi) of such Section 9.03(a) and inserting the words "shall not exceed $100,000,000" in lieu thereof.

3. Notwithstanding anything to the contrary contained in Section 9.04(xi) of the Credit Agreement or in the definition of "Permitted Refinancing Indebtedness" appearing in Section 11.01 of the Credit Agreement, the Banks hereby agree that HMH may issue up to $500,000,000 of additional senior notes

(the "Additional Senior Notes") on or prior to December 31, 1998 and on terms and conditions (other than interest rates) no less favorable to HMH than those set forth in the Senior Note Documents and that such indebtedness shall constitute "Permitted Refinancing Indebtedness" incurred pursuant to such Section 9.04(xi) so long as the Net Debt proceeds therefrom are used to refinance Indebtedness otherwise permitted to be refinance pursuant to Section 9.04(xi) on or prior to June 30, 1999, it being understood and agreed, however, (i) to the extent that the Net Debt Proceeds from the Additional Senior Notes are not so used by June 30, 1999, such Indebtedness will be deemed to have been incurred under (and will otherwise reduce the then available basket under) Section 9.04(xii) of the Credit Agreement without any requirement by Holdings or the borrower to demonstrate pro forma covenant compliance at such time and (ii) --- -----
that until the earlier of (x) such time as all of the Net Debt Proceeds from the Additional Senior Notes are used to effect a permitted refinancing as described above and (y) June 30, 1999, Holdings and the Borrower will ensure that there is sufficient availability to incur the Additional Senior Notes (or the portion thereof not theretofore used to effect such a refinancing) under Section 9.04(xii) of the Credit Agreement.

4. In the event (and only in the event) that more than $350,000,000 of Additional Series Notes are issued on or prior to December 31, 1998, Section 9.08 of the Credit Agreement shall be amended by deleting clause (b) thereof in its entirety and inserting the following new clause (b) in lieu thereof:

"(b) Holdings and the Borrower will not permit the Unsecured Interest Coverage Ratio (i) for the Test Period ended closet to September 30, 1998 to be less than 2.00:1.00, and (ii) for any Test Period ending thereafter to be less than 2.00:1.00."

5. In the event (and only in the event) that more than $350,000,000 of Additional Senior Notes are issued on or prior to December 31, 1998, Section 9.09 of the Credit Agreement shall be deleted in its entirety and the following new Section 9.09 shall be inserted in lieu thereof:

"9.09 Minimum Fixed Charge Coverage Ratio. Holdings and the Borrower ----------
will not permit the Consolidated Fixed Charge Coverage Ratio (i) for the Test period ended closest to September 30, 1998 to be less than 1.50:1.00, (ii) for the Test Period ending closest to December 31, 1998 to be less than 1.45:1.00 and (iii) for any Test Period ending thereafter to be less than 1.50:1.00."

6. Section 13.07 of the Credit Agreement is hereby amended by inserting the following new clause (c) at the end thereof:

"(c) Notwithstanding anything to the contrary contained in this Agreement, for purposes of determining compliance with Sections 9.08(b) and 9.09 only in respect of the Test Period ending closest to March 31, 1999, to

the extent that the Blackstone Acquisition, and Partnership Roll-Up and/or any refinancing of Indebtedness of Holdings or any of its Subsidiaries occurs after the last day of such Test Period and on or before April 1, 1999, such transactions shall be treated as having occurred on the first day of such Test Period."

7. (a) Sections 1, 2 and 3 of this Amendment shall become effective on the date (the "First Amendment Effective Date") when Host Marriott, Hospitality, HMH, CRC, the Operating Partnership and the Required Banks shall have signed a counterpart hereof (whether the same or different counterparts) and shall have delivered (including by way of facsimile transmission) the same to the Administrative Agent at the Notice Office and (b) Sections 4, 5 and 6 of this Amendment shall become effective on the date when Host Marriott, Hospitality, HMH, CRC, the Operating Partnership and the Supermajority Banks shall have signed a counterpart hereof (whether the same or different counterparts) and shall have delivered (including by way of facsimile transmission) the same to the Administrative Agent at the Notice Office.

8. In order to induce the Banks to enter into this Amendment, each Credit Party hereto hereby represents and warrants that (i) the representations, warranties and agreements contained in Section 7 of the Credit Agreement are true and correct in all material respects on and as of the First Amendment Effective Date, after giving effect to this Amendment and (ii) there exists no Default or Event of Default on the First Amendment Effective Date, after giving effect to this Agreement.

9. This Amendment is limited as specified and shall not constitute a modification, acceptance or waiver of any other provision of the Credit Agreement or any other Credit Document.

10. This Amendment may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which counterparts when executed and delivered shall be an original, but all of which shall together constitute one and the same instrument. A complete set of counterparts shall be lodged with the US Borrower and the Administrative Agent.

11. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE STATE OF NEW YORK.

12. From and after the First Amendment Effective Date, all references in the Credit Agreement and in the other Credit Documents to the Credit Agreement shall be deemed to be references to the Credit Agreement as modified hereby.

* * *

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized officers to execute and deliver this Agreement as of the date first above written.

HOST MARRIOTT CORPORATION

By:_____
Title:

HOST MARRIOTT HOSPITALITY, INC.

By:_____
Title:

HMH PROPERTIES, INC.

By:_____
Title:

HOST MARRIOTT, L.P.
By: HMC Real Estate LLC its General Partners

By:_____
Title:

HMC CAPITAL RESOURCES CORP.

By:_____
Title:

Exhibit 10.5

SECOND AMENDMENT AND CONSENT TO CREDIT AGREEMENT

SECOND AMENDMENT AND CONSENT TO CREDIT AGREEMENT (this "Amendment"), dated as of December 17, 1998, among HOST MARRIOTT CORPORATION, a Delaware corporation ("Host Marriott"), HOST MARRIOTT HOSPITALITY, INC., a Delaware corporation ("Hospitality"), HOST MARRIOTT, L.P., a Delaware limited partnership (the "Operating Partnership"), HMC CAPITAL RESOURCES CORP., a Delaware corporation ("CRC"), the lenders (the "Banks") party to the Credit Agreement referred to below, WELLS FARGO BANK, NATIONAL ASSOCIATION, THE BANK OF NOVA SCOTIA and CREDIT LYONNAIS NEW YORK BRANCH, as Co-Arrangers (the "Co-Arrangers"), and BANKERS TRUST COMPANY, as Arranger and Administrative Agent (the "Administrative Agent"). Unless otherwise defined herein, all capitalized terms used herein and defined in the Credit Agreement are used herein as so defined.

W I T N E S S E T H:

WHEREAS, Host Marriott, Hospitality, HMH Properties, Inc. (a Delaware corporation which has merged into the Operating Partnership pursuant to the HMH Merger), the Operating Partnership, CRC, the Banks, the Co-Arrangers and the Administrative Agent are parties to a Credit Agreement, dated as of June 19, 1997 and amended and restated as of August 5, 1998 (as amended, modified or supplemented through, but not including, the date hereof, the "Credit Agreement");

WHEREAS, the parties hereto wish to amend the Credit Agreement, and waive certain provisions thereunder, all as herein provided; and

WHEREAS, subject to the terms and conditions set forth below, the parties hereto agree as follows;

NOW, THEREFORE, it is agreed:

1. Conditions Precedent to REIT Conversion. Section 6 of the Credit Agreement is amended as follows:

(a) Subsidiaries Mergers. Schedule IV to the Credit Agreement shall be replaced in its entirety by Schedule IV attached hereto, and all references in the Credit Agreement to Schedule IV (including, without limitation, in Section 6.01 thereof) shall be deemed to be references to Schedule IV attached hereto.

(b) Hospitality Liquidation. All references in the Credit Agreement (including, without limitation, in Section 6.03 thereof) to "Hospitality Merger" shall instead be deemed to be references to "Hospitality Liquidation" and all references to "Hospitality Merger Agreement and the other Hospitality Merger

Documents" and to "Hospitality Merger Documents" shall instead be deemed to be references to "Hospitality Liquidation Documents," as each such term is defined below in this Amendment.

(c) REIT Retained Assets.

(i) The Credit Agreement is amended by attaching thereto a new Schedule XI in the form of Schedule XI attached hereto, with Part I and Part II of such Schedule XI to list certain assets expected to be owned by Holdings from and after the REIT Conversion Date and with Part III of such Schedule XI to list certain assets to be contributed to SLC.

(ii) Section 6.04(b) of the Credit Agreement is amended as follows:

(A) by adding the following words after the word "Company" appearing in the second parenthetical in clause (ii) thereof:

"and the assets listed in Part III of Schedule XI";

(B) by adding the following parenthetical after the word "Units" appearing in clause (iii) thereof:

"(including those equity interests in the Permitted REIT Subsidiaries listed in Part I of Schedule XI)"; and

(C) by adding the following new clause (v) after clause (iv) thereof and renumbering the existing clause (v) as clause (vi) thereof:

", (v) any or all of the assets listed in Part II of Schedule XI".

(d) Third Party Consents.

(i) Lender Consents. The Credit Agreement is amended by attaching thereto a new Schedule XII in the form of Schedule XII attached hereto, which Schedule XII lists certain Indebtedness of Holdings and its Subsidiaries which is not expected to be repaid in connection with the REIT Transaction and with respect to which a required consent of the applicable lender to one or more components of the REIT Transaction (each a "Lender Consent") has not been obtained as of December 16, 1998.

(ii) Ground Leases. The Credit Agreement is amended by attaching thereto a new Schedule XIII in the form of Schedule XIII attached hereto, which Schedule XIII lists ground leases with respect to certain Hotel Properties with respect to which a required consent of the applicable landlord to one

or more components of the REIT Transaction (each a "Landlord Consent") has not been obtained as of December 16, 1998.

(iii) Section 6.08(b) of the Credit Agreement is amended by (i) deleting the third parenthetical appearing therein and replacing it with the following new parenthetical:

"(other than (i) Lender Consents with respect to Indebtedness listed on Schedule XII in an aggregate principal amount at any time not to exceed the Total Unutilized Revolving Loan Commitment at such time, (ii) (I) Landlord Consents with respect to the ground leases listed in Part I of Schedule XIII, (II) until March 31, 1999, Landlord Consents with respect to the ground leases listed in Part II of Schedule XIII and (III) until December 31, 1999, Landlord Consents with respect to the ground leases listed in Part III of Schedule XIII and (iii) any other approvals and/or consents relating to the REIT Transaction or the other transactions contemplated by the REIT Transaction Documents where the failure to obtain the same, either individually or in the aggregate, could not reasonably be expected to have a material adverse effect on the REIT Transaction or on the business, operations, property, assets, liabilities, condition (financial or otherwise) or prospects of Holdings, the Borrower, Holdings and its Subsidiaries taken as a whole or the Borrower and its Subsidiaries taken as a whole)";

and (ii) inserting the following new sentence at the end thereof:

"Each Principal Credit Party represents and warrants that the failure to obtain any of the Lender Consents and/or Landlord Consents referred to above in this Section 6.08(b) could not, either individually or in the aggregate, reasonably be expected to have a material adverse effect on the REIT Transaction or on the business, operations, property, assets, liabilities, condition (financial or otherwise) or prospects of Holdings, the Borrower, Holdings and its Subsidiaries taken as a whole or the Borrower and its Subsidiaries taken as a whole."

(e) REIT Transaction. Notwithstanding anything to the contrary contained in Section 6 or elsewhere in the Credit Agreement, Holdings and its Subsidiaries shall be entitled to undertake any component of the REIT Transaction (including, without limitation, the E&P Distribution) whether or not all components of the REIT Transaction are ultimately completed and whether or not the REIT Conversion and the REIT Conversion Date ever occur, although Holdings and its Subsidiaries hereby covenant and agree to use all commercially reasonable best efforts to effectuate the REIT Conversion once the SLC Spinoff and the first part of the E&P Distribution have occurred.

2. Representations and Warranties.

(a) Management Agreements, Franchise Agreements, Operating Leases, Ground Leases; REIT Transaction. The representations and warranties contained in Section 7.22, Section 7.24 or elsewhere in the Credit Agreement (other than the representation and warranty contained in Section 6.08(b) thereof as modified hereby) shall be deemed true and correct in all material respects at any time made or deemed made notwithstanding (i) the failure to obtain any Lender Consent as permitted by Section 6.08(b), (ii) the failure to obtain any Landlord Consent as permitted by Section 6.08(b) and (iii) the failure to obtain any other approval and/or consent as permitted by Section 6.08(b), in each case so long as (A) no independent Default or Event of Default would otherwise occur under Section 10.03, 10.04, 10.10, 10.11 or 10.13 of the Credit Agreement (as modified hereby) as a result of the failure to obtain any Lender Consent, any Landlord Consent and/or any such other approval and/or consent and (B) the failure to obtain any Lender Consent, any Landlord Consent and/or any such other approval and/or consent, either individually or in the aggregate, could not reasonably be expected to have a material adverse effect on the REIT Transaction or on the business, operations, property, assets, liabilities, condition (financial or otherwise) or prospects of Holdings, the Borrower, Holdings and its Subsidiaries taken as a whole or the Borrower and its Subsidiaries taken as a whole.

(b) Status as a REIT. Section 7.25 of the Credit Agreement is amended by replacing the words "in a position to qualify" therein with the words "organized in conformity with the requirements for qualification".

3. Blackstone Acquisition. Schedule III to the Credit Agreement shall be replaced in its entirety by Schedule III attached hereto, and all references in the Credit Agreement to Schedule III shall be deemed to be references to Schedule III attached hereto.

4. Indebtedness.

(a) Section 9.04 of the Credit Agreement is amended by (i) deleting the word "and" appearing at the end of clause (xi) thereof, (ii) deleting the period appearing at the end of clause (xii) thereof and inserting a semi-colon in lieu thereof and (iii) inserting the following new clauses (xiii), (xiv) and (xv) immediately following clause (xii) thereof:

"(xiii) Contingent Obligations of the Borrower or any of its Subsidiaries under an Operating Lease or any agreement entered into in connection therewith, including, without limitation, the obligations listed on Schedule XIV (to the extent such obligations constitute Contingent Obligations);

(xiv) Contingent Obligations of the Borrower or any of its Subsidiaries to Host REIT or any Subsidiary of Host REIT in respect of (I) the QUIPs Debt or (II) Indebtedness of Host REIT incurred under the REIT Transaction Documents; and

(xv) Contingent Obligations of the Borrower or any of its Subsidiaries in respect of Indebtedness of any Subsidiary of the Borrower otherwise permitted under this Section 9.04 to any mortgage lender of Indebtedness with respect to any Hotel Property in an aggregate principal amount not to exceed $50,000,000."

(b) The Credit Agreement is amended by inserting as Schedule XIV thereto a new Schedule XIV in the form of Schedule XIV attached hereto, which Schedule XIV lists certain obligations in respect of which the Borrower or any Subsidiary thereof may be liable under an Operating Lease or any agreement entered into in connection therewith.

5. Unencumbered EBITDA Ratio. Section 9.12(b) of the Credit Agreement is amended by changing the Unencumbered EBITDA Ratio applicable to the Test Period corresponding to the fiscal quarter ending closest to December 31, 1998 from 0.425:1.00 to 0.40:1.00.

6. Business. Section 9.16 of the Credit Agreement is amended by deleting the first sentence of clause (b) thereof in its entirety and inserting the following new sentence in lieu thereof:

"Notwithstanding anything to the contrary contained in this Agreement, from and after the REIT Conversion Date, Holdings will not engage in any business activities, will not have any significant assets other than (i) any or all of the assets listed in Part I or Part II of Schedule XI, (ii) the ownership of the OP Units of the Borrower (or interests in Subsidiaries whose assets are OP Units, including, without limitation, those Subsidiaries listed in Part I of Schedule XI) and (iii) de minimis equity interests in Subsidiaries of the Borrower (other than a Subsidiary Guarantor), and will not have any significant liabilities other than (A) those under this Agreement, (B) those under the other Documents to which it is a party, (C) pre-existing liabilities (including contingent liabilities) of Holdings at the time of the REIT Conversion (which liabilities will be assumed by the Operating Partnership but which may still remain liabilities of Holdings) and (D) liabilities relating to the assets set forth in Part I or Part II of Schedule XI."

7. Certain Lender Consent and Landlord Consent Matters.

(a) Default Under Other Agreements. Notwithstanding anything to the contrary contained in Section 10.04 or elsewhere in the Credit

Agreement, from and after the distribution of the SLC stock in the SLC Spinoff and until March 31, 1999, (i) no failure to obtain a Lender Consent with respect to any Indebtedness listed on Schedule XII attached hereto shall give rise to a Default or an Event of Default so long as (A) the aggregate principal amount of such Indebtedness at any time does not exceed the Total Unutilized Revolving Loan Commitment at such time, (B) no event of default shall have occurred under the Senior Note Indenture as a result thereof, (C) the failure to obtain any Lender Consent, either individually or in the aggregate, could not reasonably be expected to have a material adverse effect on the REIT Transaction or on the business, operations, property, assets, liabilities, condition (financial or otherwise) or prospects of Holdings, the Borrower, Holdings and its Subsidiaries taken as a whole or the Borrower and its Subsidiaries taken as a whole, (D) such Indebtedness shall not have become due prior to its stated maturity and shall not have been declared due and payable, and shall not have been required to be prepaid other than by a regularly scheduled required prepayment, prior to the stated maturity thereof, unless the Borrower shall be able to satisfy all the conditions precedent to the incurrence of additional Revolving Loans (assuming the proceeds of such borrowing were used to repay such Indebtedness) for so long as such condition exists and (E) the Borrower complies with its obligations under paragraph 8(a) of this Amendment and (ii) no failure to obtain a Landlord Consent which would result in an Event of Default relating to any Indebtedness of Holdings or any of its Subsidiaries under Section 10.04 of the Credit Agreement (prior to giving effect to this paragraph 7(a)(ii)) shall give rise to a Default or an Event of Default so long as (A) such Indebtedness shall not have become due prior to its stated maturity and shall not have been declared due and payable, and shall not have been required to be prepaid other than by a regularly scheduled required prepayment, prior to the stated maturity thereof, (B) no lender in respect of such Indebtedness shall have taken any enforcement action in respect thereof (other than delivery of a notice of default), (C) no event of default shall have occurred under the Senior Note Indenture as a result thereof and (D) the Borrower complies with its obligations under paragraph 8 of this Amendment. Unless the Required Banks otherwise agree in writing, on April 1, 1999 the provisions of this paragraph 7(a) and the waivers effected hereby shall cease to be of any further force or effect.

(b) Adjustment to EBITDA for Terminated Ground Leases.

Notwithstanding anything to the contrary contained in the Credit Agreement, the following provisions shall apply with respect to those ground leases with respect to which Landlord Consents are required but have not been obtained. If any litigation commences with respect to any such ground lease as a result of the failure to obtain the applicable Landlord Consent and a final judgment is rendered against the Borrower or its applicable Subsidiary in such litigation (whether or not such judgment is appealable) and the result of such judgment is that the Borrower or its applicable Subsidiary either is required to pay damages of $1,000,000 or more or the applicable ground lease is terminated and the Borrower or its applicable Subsidiary must vacate the respective Hotel Property, then:

(i) if only one (1) such ground lease is subject to such an adverse judgment, then for purposes of determining Consolidated EBITDA under the Credit Agreement, fifty percent (50%) of the portion of such Consolidated EBITDA attributable to all ground leases subject to any such litigation (whether or not any adverse judgment has been rendered) shall be excluded from such calculation;

(ii) if two (2) such ground leases are subject to such an adverse judgment, then for purposes of determining Consolidated EBITDA under the Credit Agreement, seventy-five percent (75%) of the portion of such Consolidated EBITDA attributable to all ground leases subject to any such litigation (whether or not any adverse judgment has been rendered) shall be excluded from such calculation;

(iii) if three (3) such ground leases are subject to such an adverse judgment, then for purposes of determining Consolidated EBITDA under the Credit Agreement, all of such Consolidated EBITDA attributable to all ground leases subject to any such litigation (whether or not any such adverse judgment has been rendered) shall be excluded from such calculation; and

(iv) if it is determined in a final judgment of a court of competent jurisdiction that the Borrower or its applicable Subsidiary must vacate a Hotel Property or the Borrower or its applicable Subsidiary consents thereto in writing, following the date on which any such final judgment is no longer being appealed and all rights of appeal have been exhausted, then, in addition to the provisions of the preceding clauses (i), (ii) or (iii), as applicable, one-hundred percent (100%) of the portion of Consolidated EBITDA attributable to such Hotel Property shall be excluded from the calculation of Consolidated EBITDA under the Credit Agreement.

(c) Default Upon Termination of Ground Leases. Notwithstanding anything to the contrary contained in the Credit Agreement, upon the effective termination of a ground lease listed on Schedule XIII and the loss by the Borrower or its applicable Subsidiary of the right to the continued use of the respective Hotel Property (as finally determined by a court of competent jurisdiction and after such final judgment is no longer being appealed or all rights of appeal have been exhausted or as otherwise consented to in writing by the Borrower or such Subsidiary, as the case may be) as a result of a failure to obtain the applicable Landlord Consent, it shall be an Event of Default if the sum of:

(i) the amount of Consolidated EBITDA attributable to the Hotel Property which was subject to such ground lease, determined for the most recently ended Test Period; plus

(ii) the amount of Consolidated EBITDA attributable to each other Hotel Property which was subject to a ground lease listed on

Schedule XIII and which was effectively terminated or with respect to which the
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Borrower or its applicable Subsidiary lost the right to the continued use of the respective Hotel Property (as finally determined by a court of competent jurisdiction and after such final judgment is no longer being appealed or all rights of appeal have been exhausted or as otherwise consented to in writing by the Borrower or such Subsidiary, as the case may be) as a result of a failure to obtain the applicable Landlord Consent, determined for each such Hotel Property for the Test Period ending on the most recent March 31, June 30, September 30 or December 31 occurring prior to the effective termination of such ground lease;

exceeds five percent (5%) of Consolidated EBITDA for the most recently ended Test Period (without giving effect to any reduction in such Consolidated EBITDA pursuant to paragraph 7(b) above).

8. Reserves under the Credit Agreement, etc..

(a) Notwithstanding anything to the contrary contained in the Credit Agreement, until such time as all of the Lender Consents have been obtained and/or the Indebtedness in respect thereof has been repaid in full, the Borrower shall not be permitted to incur any Revolving Loans under the Credit Agreement to the extent that the amount of the Total Unutilized Revolving Loan Commitment after giving effect to the incurrence of such Revolving Loans would be less than (A) if prior to December 29, 1998, the lesser of (x) $600,000,000 and the amount necessary to repay in full all Indebtedness in respect of which Lender Consents have not been so obtained and (B) if on or after December 29, 1998, the amount necessary to repay in full all Indebtedness in respect of which Lender Consents have not been so obtained (although the Borrower shall be permitted to incur Revolving Loans the proceeds of which are used to repay all or any part of any such Indebtedness). In addition, (I) within 10 days after the last day of each month, commencing with the month ending December 31, 1998, the Borrower covenants and agrees to deliver to the Administrative Agent a status report identifying those Lender Consents which have theretofore been obtained as well as those Lender Consents which still need to be obtained and (II) together with each delivery of a Notice of Borrowing pursuant to Section 1.03 of the Credit Agreement, a status report showing the information set forth in the preceding clause (I) as well as the amount of the Total Unutilized Revolving Loan Commitment at such time, in each case until such time as all Lender Consents have been obtained or the underlying Indebtedness has been repaid in full.

(b) Within 10 days after the last day of each month, commencing with the month ending December 31, 1998, the Borrower covenants and agrees to deliver to the Administrative Agent a status report identifying those Landlord Consents which have theretofore been obtained as well as those Landlord Consents which still need to be obtained until such time as all Landlord Consents (other than those listed in Part I of Schedule XIII) have been obtained.

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9. Definitions. Section 11.01 of the Credit Agreement is amended as follows:

(a) Deletion of Hospitality Merger, etc.. The following definitions shall be deleted from Section 11.01 of the Credit Agreement in their entirety:

(i) Hospitality Merger;

(ii) Hospitality Merger Agreement; and

(iii) Hospitality Merger Documents

(b) Addition of Hospitality Liquidation, etc.. The following new definitions shall be inserted into Section 11.01 of the Credit Agreement in the correct alphabetical order:

"Hospitality Liquidation" shall mean the liquidation of Hospitality into Host Marriott in accordance with applicable law and the Hospitality Liquidation Documents.

"Hospitality Liquidation Documents" shall mean all agreements and documents related to the Hospitality Liquidation.

(c) SLC. The definition of "SLC" is amended in its entirety as follows (and the definition of "SLC" appearing in Section 6.04(a) shall be deemed to be modified accordingly):

"SLC" shall mean Crestline Capital Corporation (formerly known as HMC Senior Communities, Inc.).

(d) E&P Distribution. The definition of "E&P Distribution" is amended in its entirety as follows:

"E&P Distribution" shall mean, collectively, one or more distributions to the shareholders of Host Marriott and/or Host REIT of cash, securities or other property, with a cumulative aggregate value up to the amount estimated in good faith by Host Marriott or Host REIT from time to time as being necessary to assure that Host Marriott and Host REIT have distributed the accumulated earnings and profits (as referenced in Section 857(a)(2)(B) of the Code) of Host Marriott as of the last day of the first taxable year for which Host REIT's election to be taxed as a real estate investment trust is effective. Notwithstanding any other provision of this Agreement to the contrary, the E&P Distribution may include shares of common stock or redeemable preferred stock of Host REIT (and the Borrower

may issue OP Units corresponding to such shares), and, if redeemable preferred stock is issued in connection with the E&P Distribution, Host REIT shall be permitted to redeem (and within 60 days after the issuance thereof shall redeem) such redeemable preferred shares (and Borrower shall be permitted to redeem the corresponding OP Units) in accordance with the terms thereof, provided that the amount of such redemption obligation actually paid in cash shall be included in the limit on the portion of the E&P Distribution payable in cash as set forth in Section 9.03(b).

(e) Permitted REIT Subsidiary. The definition of "Permitted REIT Subsidiary" is amended in its entirety as follows:

"Permitted REIT Subsidiary" shall mean those entities listed in Part I of Schedule XI or a Wholly-Owned Subsidiary of Holdings established or existing solely for the purpose of holding de minimis equity interests in Subsidiaries of the Borrower or OP Units.

(f) REIT Transaction. The definition of "REIT Transaction" is amended as follows:

(i) clause (vii) thereof shall be deleted in its entirety and replaced by the following new clause (vii):

"the acquisition by the Operating Partnership and its Subsidiaries of substantially all of the assets of Holdings and its Subsidiaries other than any or all of the assets listed on Schedule XI and the assets constituting the SLC Spinoff and the E&P Distribution"; and

(ii) the following words shall be added at the end thereof:

"for its first taxable year commencing after the REIT Conversion Date."

(g) Subsidiary. The definition of "Subsidiary" is amended in its entirety as follows:

"Subsidiary" shall mean, as to any Person, (i) any corporation more than 50% of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time stock of any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned by such Person and/or one or more Subsidiaries of such Person, (ii) any partnership, limited liability company, association, joint venture or other entity (other than a corporation) in which such Person and/or one or more Subsidiaries of

such Person has more than a 50% equity interest at the time and (iii) any partnership in which such Person or one or more Subsidiaries of such Person is, at the time, a general partner and which is controlled by such Person in a manner sufficient to permit its financial statements to be consolidated with the financial statements of such Person in conformance with generally accepted accounting principles and the financial statements of which are so consolidated, provided that the term Subsidiary shall include for all purposes of this Agreement any Non-Controlled Entity (including its Subsidiaries for this purpose) if the Borrower has elected to treat such Non-Controlled Subsidiary as a Subsidiary under this Agreement, but only so long as the terms of the organizational documents of any such Non-Controlled Entity expressly require that at any time that an Event of Default exists and is continuing, such Non-Controlled Entity will pay, and will cause each of its Subsidiaries to pay, on a quarterly basis, the maximum amount of cash Dividends that such Non-Controlled Entity and/or any such Subsidiary is permitted to pay under applicable law and under contractual restrictions contained in any agreement or instrument evidencing, securing or relating to Indebtedness for borrowed money to which such Non-Controlled Entity or any Subsidiary thereof is a party or by which any of its assets are subject or bound and which is permitted to be incurred under this Agreement (although each such Non-Controlled Entity or any Subsidiary thereof may retain, and not pay as a Dividend, cash in an amount that such Non-Controlled Entity or such Subsidiary reasonably determines is necessary to meet its current liabilities and expenses as well as to make current anticipated Capital Expenditures). An election pursuant to this definition with respect to any Non-Controlled Entity shall be made on not less than ten Business Days prior written notice to the Administrative Agent and may not be made to the extent that a Default or an Event of Default then exists or would result from such an election.

(h) Addition of Definitions of Landlord Consent and Lender Consent.

The following new definitions shall be inserted into Section 11.01 of the Credit Agreement in the correct alphabetical order:

"Landlord Consent" shall have the meaning provided in paragraph 1(d)(ii) of the Second Amendment and Consent, dated as of December 17, 1998, to this Agreement.

"Lender Consent" shall have the meaning provided in paragraph 1(d)(i) of the Second Amendment and Consent, dated as of December 17, 1998, to this Agreement.

10. Effective Date. This Amendment shall become effective on the
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date (the "Second Amendment Effective Date") when (i) Host Marriott, Hospitality, CRC, the Operating Partnership and the Required Banks shall have signed a

counterpart hereof (whether the same or different counterparts) and shall have delivered (including by way of facsimile transmission) the same to the Administrative Agent at the Notice Office and (ii) Host Marriott and/or the Borrower shall have paid to each Bank that has signed a counterpart to this Amendment and delivered the same to the Administrative Agent at the Notice Office on or prior to 12:00 Noon (New York time) on December 17, 1998 an amendment fee equal to 7.5 basis points on the amount of each such Bank's outstanding Term Loans and Revolving Loan Commitment on December 17, 1998.

11. Bring-Down of Representations and Warranties; No Default. In order to induce the Banks to enter into this Amendment, each Credit Party party hereto represents and warrants that (i) the representations, warranties and agreements contained in Section 7 of the Credit Agreement are true and correct in all material respects on and as of the Second Amendment Effective Date, after giving effect to this Amendment, and (ii) there exists no Default or Event of Default on the Second Amendment Effective Date, after giving effect to this Amendment.

12. Scope of Amendment. This Amendment is limited as specified and shall not constitute a modification, acceptance or waiver of any other provision of the Credit Agreement or any other Credit Document.

13. Counterparts. This Amendment may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which counterparts when executed and delivered shall be an original, but all of which shall together constitute one and the same instrument. A complete set of counterparts shall be lodged with the Borrower and the Administrative Agent.

14. Governing Law. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE STATE OF NEW YORK.

15. Amendment to Credit Agreement. From and after the Second Amendment Effective Date, all references in the Credit Agreement and in the other Credit Documents to the Credit Agreement shall be deemed to be references to the Credit Agreement as modified hereby.

* * * * *

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized officers to execute and deliver this Amendment as of the date first above written.

HOST MARRIOTT CORPORATION

By:

Title:

HOST MARRIOTT HOSPITALITY, INC.

By:

Title:

HOST MARRIOTT, L.P.
By: HMC Real Estate LLC,
its General Partner

By:

Title:

HMC CAPITAL RESOURCES CORP.

By:

Title:

BANKERS TRUST COMPANY,
Individually and as Arranger and
Administrative Agent

By:

Title:

WELLS FARGO BANK, NATIONAL ASSOCIATION, Individually
and as Co-Arranger

By:

Title:

THE BANK OF NOVA SCOTIA,
Individually and as Co-Arranger

By:

Title:

CREDIT LYONNAIS NEW YORK BRANCH, Individually and as
Co-Arranger

By:

Title:

BARCLAYS BANK PLC

By:

Title:

CITICORP USA, INC.

By:

Title:

NATIONSBANK, N.A.

By:

Title:

SOCIETE GENERALE, SOUTHWEST AGENCY

By:

Title:

THE BANK OF NEW YORK

By:

Title:

DEUTSCHE BANK AG NEW YORK BRANCH AND/OR CAYMAN ISLAND BRANCH

By:

Title:

By:

Title:

DLJ CAPITAL FUNDING, INC.

By:

Title:

THE FIRST NATIONAL BANK OF CHICAGO

By:

Title:

AMSOUTH BANK

By:

Title:

BANK OF AMERICA NT&SA

By:

Title:

RIGGS BANK N.A.

By:

Title:

BANK OF HAWAII

By:

Title:

FIRST AMERICAN BANK TEXAS, S.S.B.

By:

Title:

FIRST COMMERCIAL BANK, NEW YORK AGENCY

By:

Title:

MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY

By:

Title:

THE INTERNATIONAL COMMERCIAL BANK OF CHINA,
NEW YORK AGENCY

By:

Title:

CHANG HWA COMMERCIAL BANK, LTD., NEW YORK BRANCH

By:

Title:

CONSECO LIFE INSURANCE COMPANY

By:

Title:

BANK LEUMI USA

By:

Title:

By:

Title:

KZH-CNC CORPORATION

By:

Title:

ERSTE BANK DER OESTERREICHISCHEN SPARKASSEN AG

By:

Title:

By:

Title:

Exhibit 10.6

THIRD AMENDMENT AND WAIVER TO CREDIT AGREEMENT

THIRD AMENDMENT AND WAIVER TO CREDIT AGREEMENT (this "Amendment"), dated as of March 15, 1999, among HOST MARRIOTT CORPORATION, a Maryland corporation ("Host REIT"), as successor by merger to Host Marriott Corporation, a Delaware corporation, HOST MARRIOTT, L.P., a Delaware limited partnership (the "Operating Partnership"), the lenders (the "Banks") party to the Credit Agreement referred to below, WELLS FARGO BANK, NATIONAL ASSOCIATION, THE BANK OF NOVA SCOTIA and CREDIT LYONNAIS NEW YORK BRANCH, as Co-Arrangers (the "Co-Arrangers"), and BANKERS TRUST COMPANY, as Arranger and Administrative Agent (the "Administrative Agent"). Unless otherwise defined herein, all capitalized terms used herein and defined in the Credit Agreement are used herein as so defined.

W I T N E S S E T H:

WHEREAS, Host REIT, the Operating Partnership, the Banks, the Co-Arrangers and the Administrative Agent are parties to a Credit Agreement, dated as of June 19, 1997 and amended and restated as of August 5, 1998 (as amended, modified or supplemented through, but not including, the date hereof, the "Credit Agreement");

WHEREAS, the parties hereto wish to amend the Credit Agreement, and waive certain provisions thereunder, all as herein provided; and

WHEREAS, subject to the terms and conditions set forth below, the parties hereto agree as follows;

NOW, THEREFORE, it is agreed:

1. For the purpose of allowing the Borrower to continue to directly own (A) limited partnership interests in each of (i) HMC AP LP, (ii) HMC Charlotte LP, (iii) HMC Toronto Airport LP and (iv) HMC Toronto EC LP, and (B) managing limited liability company interests in each of (i) HMC AP GP LLC, (ii) HMC Charlotte GP LLC, (iii) HMC Toronto Airport GP LLC and (iv) HMC Toronto EC GP LLC, all of which entities are not Look-Through Subsidiaries, the Banks hereby waive Section 8.11(b) of the Credit Agreement to the extent, but only to the extent, necessary for such allowances.

2. Section 7 of the Second Amendment and Consent to Credit Agreement, dated as of December 17, 1998, among Host REIT, the Operating Partnership, the Banks, the Co-Arrangers and the Administrative Agent (the "Second Amendment") is amended, to the extent, but only to the extent, necessary to extend the time by which (i) Toronto Eaton Centre must obtain a Lender Consent (as defined in the Second Amendment), by (a) changing the date "March 31, 1999" appearing therein to "April 30, 1999" and (b) changing the date "April 1, 1999"

appearing therein to "May 1, 1999", (ii) New Jersey Park Ridge must obtain a Landlord Consent (as defined in the Second Amendment), by (x) changing the date "March 31, 1999" appearing therein to "December 31, 1999" and (y) changing the date "April 1, 1999" appearing therein to "January 1, 2000" and (iii) Virginia Key Bridge must obtain a Landlord Consent (as defined in the Second Amendment) in connection with the Ground Lease with John E. Fowler and the Pear G. Fowler Foundation, by (x) changing the date "March 31, 1999" appearing therein to "April 30, 1999" and (y) changing the date "April 1, 1999" appearing therein to "May 1, 1999".

3. Section 9.01(vii) of the Credit Agreement is amended by deleting clause (vii) thereof in its entirety and inserting the following new clause (vii) in lieu thereof:

"(vii) to the extent that the respective Indebtedness is permitted to be incurred at such time pursuant to Section 9.04(xii), Liens securing Permitted Non-Recourse Indebtedness incurred by any Specified Subsidiary as and to the extent permitted by the definition of "Permitted Non-Recourse Indebtedness;".

4. Section 9.02(vii) of the Credit Agreement is amended by deleting the number "$100,000,000" appearing in sub-clause (v)(B) thereof and inserting the number "$150,000,000" in lieu thereof.

5. (A) Section 9.04(xi) of the Credit Agreement is amended by (i) deleting the word "or" at the end of the sub-clause (x) therein and inserting a comma in lieu thereof and (ii) inserting after the words "Section 9.04(x))" in sub-clause (y) therein the following words: "or (z) to refinance up to $250,000,000 of Permitted Refinancing Indebtedness that is incurred after March 15, 1999 and on or before June 30, 2000 and is secured by the New York Marriott Marquis Hotel but only to the extent that such Permitted Refinancing Indebtedness does not constitute intercompany Indebtedness among or between Holdings or any of its Subsidiaries".

(B) Section 9.04(xii) of the Credit Agreement is amended by deleting the proviso in sub-clause (iii) thereof and inserting the following new proviso in lieu thereof:

"provided, however, that up to $400,000,000 in aggregate outstanding
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principal amount of such Indebtedness at any time (less the aggregate principal amount of all Excess Permitted Refinancing Indebtedness outstanding at such time) may be secured Indebtedness in the form of Permitted Non-Recourse Indebtedness, Capitalized Lease Obligations, Construction Loans (although such Construction Loans may not exceed $150,000,000 in aggregate principal amount outstanding at any time), and/or purchase money Indebtedness in respect of equipment and materials, and".

(C) Section 9.04 of the Credit Agreement is further amended by (i) inserting "(i)" immediately before the words "in no event" appearing in the last sentence thereof and (ii) inserting the following words at the end of such last sentence:

> "and (ii) in no event shall the aggregate outstanding principal amount of all Excess Permitted Refinancing Indebtedness incurred pursuant to clause (xi) above, when added to the aggregate outstanding principal amount of all Indebtedness incurred pursuant to clause (xii) above, exceed $1,200,000,000 at any time outstanding".

6. Section 9.08 of the Credit Agreement is amended by deleting clause (a) thereof in its entirety and inserting the following new clause (a) in lieu thereof:

> "(a) Holdings and the Borrower will not permit the Consolidated Interest Coverage Ratio for any Test Period (i) ending on or prior to the last day of Holdings' fiscal quarter ending closest to June 30, 2000, to be less than 2.25:1.00, (ii) ending after such date and on or prior to the last day of Holdings' fiscal quarter ending closest to December 31, 2000, to be less than 2.30:1.00, (iii) ending after such date and on or prior to the last day of Holding's fiscal quarter ending closest to June 30, 2001, to be less than 2.375:1.00 and (iv) ending after such date, to be less than 2.50:1.00."

7. The Credit Agreement is amended by deleting Section 9.11 thereof in its entirety and inserting the following new Section 9.11 in lieu thereof:

"9.11 Maximum Total Leverage Ratio. Holdings and the Borrower will not permit the Total Leverage Ratio at any time during a period set forth below to be greater than the ratio set forth opposite such period below:

Period	Ratio
Effective Date through but not including the last day of Holdings' fiscal quarter ending closest to September 30, 2000	5.50:1.00
The last day of Holdings' fiscal quarter ending closest to September 30, 2000 through but not including the last day of Holdings' fiscal quarter ending closest to March 31, 2001	5.25:1.00

The last day of Holdings' fiscal quarter ending closest to March 31, 2001 through but not including the last day of Holdings' fiscal quarter ending closest to September 30, 2001	5.00:1.00
The last day of Holdings' fiscal quarter ending closest to September 30, 2001 through but not including the last day of Holdings' fiscal quarter ending closest to March 31, 2002	4.75:1.00
Thereafter	4.50:1.00;

provided, however, that in the event of any issuance by Holdings, the Borrower or any of its Subsidiaries of capital stock or other equity securities, for each $50,000,000 (or portion thereof) of Net Equity Proceeds (other than Net Equity Proceeds received from Holdings, the Borrower or any of its Subsidiaries) in excess of the first $150,000,000 of Net Equity Proceeds (other than Net Equity Proceeds received from Holdings, the Borrower or any of its Subsidiaries) in the aggregate received after March 15, 1999, the maximum permitted Total Leverage Ratio, for each period set forth above, will be reduced by 0.0375 (with such reduction to be effective 45 days after each such issuance), provided further, that in no event will the maximum permitted Total Leverage Ratio at any time during a period set forth above be reduced to below the ratio set forth opposite the period below which encompasses the corresponding period (or portion thereof) set forth above:

Period	Ratio
Effective Date through but not including the last day of Holdings' fiscal quarter ending closest to June 30, 1999	5.50:1.00
The last day of Holdings' fiscal quarter ending closest to June 30, 1999 through but not including the last day of Holdings' fiscal quarter ending closest to December 31, 1999	5.25:1.00
The last day of Holdings' fiscal	

quarter ending closest to December 31, 1999 through but not including the last day of Holdings' fiscal quarter ending closest to June 30, 2000	5.00:1.00
The last day of Holdings' fiscal quarter ending closest to June 30, 2000 through but not including the last day of Holdings' fiscal quarter ending closest to March 31, 2002	4.75:1.00
Thereafter	4.50:1.00"

8. Section 9.12 of the Credit Agreement is amended by deleting clause (b) thereof in its entirety and inserting the following new clause (b) in lieu thereof:

"(b) Unencumbered EBITDA Ratio. Holdings and the Borrower will not permit the Unencumbered EBITDA Ratio for any Test Period ending on the last day of a fiscal quarter of Holdings set forth below to be less than the ratio opposite such fiscal quarter below:

Fiscal Quarter Ending Closest To	Ratio
September 30, 1998	0.425:1.00
December 31, 1998	0.425:1.00
March 31, 1999	0.425:1.00
June 30, 1999	0.475:1.00
September 30, 1999	0.50:1.00
December 31, 1999	0.50:1.00
March 31, 2000	0.50:1.00
June 30, 2000	0.50:1.00
September 30, 2000	0.50:1.00
December 31, 2000	0.50:1.00
March 31, 2001	0.50:1.00
June 30, 2001	0.50:1.00
September 30, 2001	0.55:1.00
December 31, 2001	0.55:1.00

March 31, 2002	0.55:1.00
June 30, 2002	0.55:1.00
September 30, 2002	0.60:1.00
December 31, 2002	0.60:1.00
March 31, 2003	0.60:1.00
June 30, 2003	0.60:1.00"

9. Section 9.14(vii) of the Credit Agreement is amended by adding after the words "the Specified Subsidiary" the following words: "or Specified Subsidiaries".

10. Section 11.01 of the Credit Agreement is amended as follows:

(a) The definition of "Consolidated Interest Expense" is amended by deleting the date "June 30, 2000" appearing therein and inserting the date "June 30, 2001" in lieu thereof.

(b) The definition of "Consolidated Total Debt" is amended by inserting the following text immediately after the words "Permitted Non-Recourse Indebtedness," appearing therein:

> "plus, without duplication, the maximum amount available to be drawn under all letters of credit, bankers acceptances and similar obligations issued for the account of the Borrower or any of its Subsidiaries and all unpaid drawings or reimbursement obligations in respect thereof,".

(c) The definition of "Excess Cash Flow" is amended by inserting the following text immediately after the words "Refinancing Transaction" appearing in the second parenthetical of clause (b)(ii) thereof:

> ", repayments to the extent made with Indebtedness, Insurance Proceeds or Condemnation Proceeds, equity issuances or capital contributions or Net Sale Proceeds".

(d) The definition of "Permitted Non-Recourse Indebtedness" is amended in its entirety as follows:

> "Permitted Non-Recourse Indebtedness" shall mean, with respect to any Specified Subsidiary, Indebtedness permitted to be incurred by such Specified Subsidiary pursuant to Section 9.04(xii), which Indebtedness (i) shall be secured only by the Real Property, including any fixtures, furniture, equipment and other personal property related thereto and the

revenues and proceeds derived therefrom, of the Specified Subsidiary that has incurred such Indebtedness, (ii) shall be made expressly non-recourse to Holdings and its other Subsidiaries (subject to customary limited recourse for such customary exceptions as fraud, intentional misconduct, intentional misrepresentation, misapplication of proceeds, environmental liabilities and similar matters) and (iii) shall have (A) a final maturity date of not earlier than August 5, 2004, (B) a remaining amortization schedule based upon a schedule of no less than 20 years and (C) a market rate of interest."

(e) The definition of "Permitted Refinancing Indebtedness" is amended by:

(i) adding after the words "Existing Indebtedness" therein the following words: ", up to $250,000,000 of Indebtedness that is incurred after March 15, 1999 and on or before June 30, 2000 and is secured by the New York Marriott Marquis Hotel (but only to the extent that such Permitted Refinancing Indebtedness does not constitute intercompany Indebtedness among or between Holdings or any of its Subsidiaries)";

(ii) deleting clause (i) of the proviso thereof in its entirety and inserting the following new clause (i) in lieu thereof:

"(i) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness so Refinanced (plus any additional amount or value pursuant to the proviso at the end of this definition) plus (x) the reasonable costs and fees associated therewith, (y) (A) up to an additional $25,000,000 of Indebtedness that is incurred after March 15, 1999 and on or before June 30, 2000 and is secured by the New York Marriott Marquis Hotel and (B) up to an additional $25,000,000 of Indebtedness that is incurred after March 15, 1999 and on or before May 31, 2002 and is secured by the Harbor Beach Resort, less, in either case, any such Indebtedness that is also intercompany Indebtedness permitted pursuant to Section 9.04(iv) or (v), and (z) up to an additional $400,000,000 in aggregate principal amount of such Permitted Refinancing Indebtedness (less the aggregate principal amount of secured Indebtedness incurred pursuant to the proviso in sub-clause (iii) of Section 9.04(xii) and outstanding at such time) of the Borrower and its Subsidiaries (such additional Permitted Refinancing Indebtedness referred to in this sub-clause (z), the "Excess Permitted Refinancing Indebtedness");";

(iii) inserting the following words before the semi-colon at the end of clause (ii) of the proviso thereof:

", provided that the remaining amortization schedule with respect to up to $4,250,000 in aggregate principal amount of Permitted Refinancing Indebtedness relating to the Harbor Beach Resort that is incurred from Marriott International, Inc. may be based upon a remaining amortization schedule of no less than 8 years";

(iv) deleting clause (iv) of the proviso thereof in its entirety and inserting the following new clause (iv) in lieu thereof:

"(iv) no Permitted Refinancing Indebtedness shall have different obligors, or greater guarantees or security, than the Indebtedness being Refinanced (except that, (x) from and after the REIT Conversion Date, such Permitted Refinancing Indebtedness may be incurred by the Borrower and/or one or more Subsidiary Guarantors so long as such Permitted Refinancing Indebtedness is unsecured, except as otherwise permitted by Section 9.01(iv), and (y) in connection with the simultaneous Refinancing of individual Indebtedness of all of the Subsidiaries that each own a Designated Hotel securing all or any part of the Indebtedness to be Refinanced, such Subsidiaries (or their successors in a merger contemplated by Section 9.02(xi) or (xii)) may jointly incur Permitted Refinancing Indebtedness, which Indebtedness may be secured and cross-collateralized only by one or more of the Designated Hotels and shall otherwise be expressly non-recourse to Holdings and its other Subsidiaries (subject to customary limited recourse for such customary exceptions as fraud, intentional misconduct, intentional misrepresentation, misapplication of proceeds, environmental liabilities and similar matters)) and"; and

(v) adding the following words to the end of clause (v) of the proviso thereof:

"; provided further that if the principal amount (or accreted value, if applicable) of the Permitted Refinancing Indebtedness described in (iv)(y) above is secured and cross-collateralized by less than all of the Designated Hotels, then the aggregate principal amount (or accreted value, if applicable) of all of the Indebtedness that, in one or more instances, is secured by a Designated Hotel immediately prior to the incurrence of such Permitted Refinancing Indebtedness and is prepaid at the same time that such Permitted Refinancing Indebtedness is incurred shall be deemed to be Indebtedness that is Refinanced in connection with such Permitted Refinancing Indebtedness)".

(f) The definition of "Specified Indebtedness for Borrowed Money" is amended by inserting the following proviso at the end thereof:

"; provided further, that Specified Indebtedness for Borrowed Money shall not include (A) up to $250,000,000 of Permitted Refinancing Indebtedness that is incurred after March 15, 1999 by a Subsidiary of the Borrower that is not a Subsidiary Guarantor and is secured by the New York Marriott Marquis and (B) up to $105,000,000 of Permitted Refinancing Indebtedness that is incurred after March 15, 1999 by a Subsidiary of the Borrower that is not a Subsidiary Guarantor and is secured by the Harbor Beach Resort, less, in either case, any such Indebtedness that is also intercompany Indebtedness permitted pursuant to Section 9.04(iv) or (v)."

(g) The definition of "Specified Subsidiary" is deleted and the following new definition of "Specified Subsidiary" is inserted in lieu thereof:

"Specified Subsidiary" shall mean any Subsidiary of the Borrower so long as such Subsidiary has no material assets other than the single Hotel Property to be encumbered with Permitted Non-Recourse Indebtedness incurred by such Subsidiary pursuant to Section 9.04(xii).

(h) The following new definitions shall be inserted into Section 11.01 of the Credit Agreement in the correct alphabetical order:

(i) "Construction Loan" shall mean Indebtedness incurred by a Specified Subsidiary pursuant to Section 9.04(xii) to finance the construction or development of a new Hotel or the expansion or renovation of a then existing Hotel, which Indebtedness (in either case) may only be secured by such Hotel.

(ii) "Designated Hotel" shall mean each of the following Hotels: New York Marriott Marquis; Hyatt Regency, Burlingame; Hyatt Regency, Cambridge; Hyatt Regency, Reston; Swissotel, Atlanta; Swissotel, Boston; Swissotel, Chicago; and Swissotel, New York.

(iii) "Excess Permitted Refinancing Indebtedness" shall have the meaning provided in Section 11.01 in the definition of "Permitted Refinancing Indebtedness".

11. The Banks hereby agree that the Borrower and its Subsidiaries may, in connection with the incurrence of the Permitted Refinancing Indebtedness referred to in clause (iv)(y) of the definition of "Permitted Refinancing Indebtedness", establish special purpose Subsidiaries for the sole purpose of owning (and whose sole material assets shall constitute) individual Designated Hotels and that (i) such Subsidiaries shall not be required to enter into the Subsidiaries Guaranty if prohibited from doing so by the terms of the Permitted Refinancing Indebtedness secured by the Designated Hotels (but only so long as such prohibitions are in effect, after which time such Subsidiaries shall be required to

enter into the Subsidiaries Guaranty to the extent and in the manner required by Section 8.18(d)) of the Credit Agreement and (ii) notwithstanding anything to the contrary in Sections 9.02 or 9.05 of the Credit Agreement, the Borrower and its Subsidiaries may contribute individual Designated Hotels to such special purpose Subsidiaries.

12. Effective Date. This Amendment shall become effective on the date (the "Third Amendment Effective Date") when (i) Host REIT, the Operating Partnership and the Required Banks shall have signed a counterpart hereof (whether the same or different counterparts) and shall have delivered (including by way of facsimile transmission) the same to the Administrative Agent at the Notice Office, provided that Sections 6 and 7 of this Amendment shall become effective on the date when Host REIT, the Operating Partnership and the Supermajority Banks shall have signed a counterpart hereof (whether the same or different counterparts) and shall have delivered (including by way of facsimile transmission) the same to the Administrative Agent at the Notice Office and (ii) the Borrower shall have paid to each Bank that has signed a counterpart of this Amendment and delivered the same to the Administrative Agent at the Notice Office on or prior to 1:00 p.m. (New York time) on March 26, 1999 an amendment fee equal to 25 basis points on the amount of each such Bank's outstanding Terms Loans and Revolving Loan Commitment on March 26, 1999.

13. Bring-Down of Representations and Warranties; No Default. In order to induce the Banks to enter into this Amendment, each Credit Party party hereto represents and warrants that (i) the representations, warranties and agreements contained in Section 7 of the Credit Agreement are true and correct in all material respects on and as of the Third Amendment Effective Date, both before and after giving effect to this Amendment, and (ii) there exists no Default or Event of Default on the Third Amendment Effective Date, both before and after giving effect to this Amendment.

14. Scope of Amendment. This Amendment is limited as specified and shall not constitute a modification, acceptance or waiver of any other provision of the Credit Agreement or any other Credit Document.

15. Counterparts. This Amendment may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which counterparts when executed and delivered shall be an original, but all of which shall together constitute one and the same instrument. A complete set of counterparts shall be lodged with the Borrower and the Administrative Agent.

16. Governing Law. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE CONSTRUED IN

ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE STATE OF NEW YORK.

17. Amendment to Credit Agreement. From and after the Third Amendment Effective Date, all references in the Credit Agreement and in the other Credit Documents to the Credit Agreement shall be deemed to be references to the Credit Agreement as modified hereby.

* * * * *

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized officers to execute and deliver this Amendment as of the date first above written.

HOST MARRIOTT CORPORATION

By:_____
Title:

HOST MARRIOTT, L.P.
By: Host Marriott Corporation,
its General Partner

By:_____
Title:

Exhibit 10.7

HOST MARRIOTT, L.P.

EXECUTIVE DEFERRED COMPENSATION PLAN

As amended and restated effective January 1, 1999

TABLE OF CONTENTS

HOST MARRIOTT, L.P.
EXECUTIVE DEFERRED COMPENSATION PLAN

PREAMBLE

WHEREAS, Host Marriott Corporation sponsors the Host Marriott Corporation Executive Deferred Compensation Plan; and

WHEREAS, HMC intends to enter into certain transactions pursuant to a plan to reorganize its business operations so that it will qualify as a real estate investment trust ("Host REIT Conversion"); and

WHEREAS, as part of the Host REIT Conversion, (i) Host Marriott Corporation will transfer its liabilities, including but not limited to liabilities relating to employee benefits to Host Marriott, L.P. and (ii) Host Marriott Corporation will merge with and into HMC Merger Corporation (to be renamed Host Marriott Corporation); and

WHEREAS, pursuant to the Contribution Agreement, Host Marriott Corporation and Host Marriott, L.P. have also agreed to enter into an agreement allocating responsibilities with respect to employee compensation, benefits, labor, and certain other employment matters pursuant to the terms and conditions set forth in the Employee Benefits and Other Employment Matters Allocation Agreement (the "Allocation Agreement"); and

WHEREAS, pursuant to the Allocation Agreement, Host Marriott Corporation shall transfer to Host Marriott, L.P. sponsorship of the Host Marriott Corporation Executive Deferred Compensation Plan (the "Plan") and all liabilities and obligations for accrued benefits (including any earnings attributable to such benefits) for Retained Individuals and Retained Employees, effective as of Contribution Date (as such terms are defined in the Allocation Agreement) and the name of the Plan shall be changed to the Host Marriott, L.P. Executive Deferred Compensation Plan (the "Plan"); and

NOW, THEREFORE, set forth herein are the terms of two plans, the Host Marriott L.P. Executive Deferred Compensation Plan (the "Executive Plan") and the Host Marriott, L.P. Non-Employee Directors Deferred Compensation Plan (the "Director Plan") (individually, the "Plan", collectively the "Plans").

ARTICLE I
DEFINITIONS

For purposes of this Plan, unless the context requires otherwise, the following words and phrases, when used herein with initial capital letters, shall have the meanings indicated:

1.1 "Administrator" means the person appointed by the Committee pursuant to Article 5.1 of this Plan to administer this Plan.

1.2 "Benefit Allocation Agreement" means the Employee Benefits & Other Employment Matters Allocation Agreement entered into between Host Marriott Corporation, Host Marriott, L.P. and Crestline Capital Corporation in connection with the Host REIT Conversion.

1.3 "Code" shall refer to the Internal Revenue Code of 1986, as amended, or any successor statute, including the regulations issued thereunder.

1.4 "Company" shall refer, with respect to the Executive Plan, to Host Marriott, L.P. and any Subsidiary that (a) elects to join the Plan, and (b) obtains the consent of the Committee to do so, and with respect to the Director Plan, Host Marriott Corporation..

1.5 "Committee" means the Compensation Policy Committee appointed by the Board of Directors of Host Marriott Corporation.

1.6 "Compensation" means: (a) for purposes of the Executive Plan, all wages or salary, overtime, cash bonus, annual leave, sick leave, funeral leave and holiday pay payable by the Company to an Employee, benefits under the Host Marriott, L.P. Flexible Benefits Plan, and "Flexible Compensation" as defined in Section 5.1 of the Retirement Plan, all without regard to any Elections made by the Employee to defer such amounts under the Plan or in accordance with any other plan or agreement with the Company, but excluding any and all other forms of compensation and (b) for purposes of the Director Plan, all directors' fees payable by the Company to a non-employee director of Host Marriott Corporation.

1.7 "Contribution Date" means the Contribution Date as defined in the Benefit Allocation Agreement.

1.8 "Deferral Percentage" means the percentage of a Participant's Compensation for the Election Year to be deferred in accordance with an Election pursuant to Article II of the Plan.

1.9 "Deferred Compensation" means Compensation with respect to which a Participant has made an Election to defer receipt thereof in accordance with Article II of the Plan, and Section 401(k) Contributions, if any, elected in accordance with Article V of the Retirement and Savings Plan.

1.10 "Deferred Compensation Reserve" means the book reserve reflecting the total aggregate amounts credited to the individual accounts of Participants under Article III of the Plan.

1.11 "Director" means a member of the Board of Directors of Host Marriott Corporation.

1.12 "Effective Date" means the Contribution Date.

1.13 "Election" means an election made by a Participant in accordance with Article II of this Plan.

1.14 "Election Year" means the fiscal year of the Company for which a Participant earns Compensation with respect to which the Participant makes an Election pursuant to Article II of the Plan.

1.15 "Employee" means any individual employed by the Company and any Retained Employee or Retained Individual as such terms are defined in the Allocation Agreement.

1.16 "Host Marriott Corporation" means Host Marriott Corporation, a Delaware corporation for the period before the Contribution Date (as such term is defined in the Allocation Agreement) and Host Marriott Corporation, a Maryland corporation, for the period beginning on or after the Contribution Date.

1.17 "Participant" means:

(a) For purposes of the Executive Plan,

(i) All Employees of the Company who are notified by the Administrator that they are eligible to participate in this Plan and (A) whose annual base salary plus cash bonus before any Election under this Plan exceeds $120,000, or such other amount designated by the Committee; or (B) who have three years of service with the Company, are bonus-eligible and whose annual base salary before any Election under this Plan exceeds $75,000, or such other amount designated by the Committee; or (C) who are select management employees of an acquired company who are covered by a deferred compensation program of such acquired company;

(ii) All Employees who participated in the Retirement and Savings Plan (or with respect to the Election Year beginning on the Effective Date, the Host Marriott Corporation (HMC) Retirement and Savings Plan and Trust) during the immediately preceding calendar year, and were subject to a reduction during such year in the amounts allocable to their "Company Contribution Accounts" in the Retirement and Savings Plan (or with respect to the Election Year, the Host Marriott Corporation (HMC) Retirement and Savings Plan and Trust) for such year as a result of Section 401(m) of the Code;

(iii) All Employees who participated in the Retirement and Savings Plan during the current fiscal year of the Company and who have Compensation in excess of the limits set forth under Section 401(a)(17) of the Code, provided such Employees have not made an election to participate for the current year under paragraph (a) of this section;

(iii) Former Participants, terminated Participants, and their beneficiaries, as appropriate to the context.

(b) For purposes of the Director Plan,

(i) All non-employee Directors of Host Marriott Corporation; and

(ii) Former Directors and their beneficiaries, as appropriate to the context.

1.18 "Plan" means the Host Marriott L.P. Executive Deferred Compensation Plan or the Host Marriott, L.P. Director Deferred Compensation Plan, as appropriate to the context.

1.19 "Retirement and Savings Plan" means the Host Marriott, L.P. Retirement and Savings Plan and Trust.

1.20 "Subsidiary" means either (a) a member of a controlled group of corporations of which the Company is a member, or (b) an unincorporated trade or business which is under common control by or with the Company as determined in accordance with Section 414(c) of the Code. For purposes hereof, a "controlled group of corporations" shall have the meaning set forth in Section 1563(a) of the Code, determined without regard to Sections 1563(a)(4) and (e)(3)(C) of the Code.

1.21 "Termination of Services" means:

(a) For purposes of the Executive Plan:

(i) termination of employment with the Company in any of the following circumstances:

(A) Where the Employee voluntarily resigns or retires;

(B) Where the Employee is discharged;

(C) Where the Employee is totally and permanently disabled and thereby unable to perform the usual duties of his employment with the Company, as determined by the Administrator in accordance with standards set forth in the Retirement and Savings Plan; or

(D) Where the Employee dies;

(b) For purposes of the Director Plan, the date the Participant ceases to be a member of the Board of Directors of Host Marriott Corporation.

ARTICLE II
PARTICIPANT ELECTIONS

2.1 Deferred Compensation Reserve. The Company shall establish and maintain a book reserve (the "Deferred Compensation Reserve"), to which it shall credit the total aggregate amount designated by Participants each year in Elections pursuant to Section 2.3(d).

2.2 Annual Elections.

(a) Each Participant shall have the option to designate in an Election in the form prescribed in Section 2.3 an amount or a percentage of such Participant's Compensation for any Election Year to be credited to the Deferred Compensation Reserve; provided, however, that the Committee shall have the right to approve or disapprove such Election by any Participant, in whole or in part, in the sole discretion of the Administrator.

(b) Elections shall be made on or before the last business day of the fiscal year immediately preceding the Election Year. Notwithstanding the foregoing, a Participant may make an Election during the Election Year with respect to Compensation earned for any subsequent payroll period of the Company that begins during the remainder of the Election Year, provided such Election is made within 30 days of notification by the Administrator of the Participant's eligibility to participate in the Plan.

(c) Except as provided in Section 4.3, an Election shall be irrevocable with respect to all Compensation earned during an Election Year. Notwithstanding the foregoing, an Election made as to an Election Year shall not remain in effect with respect to Compensation earned for any subsequent year.

2.3 Form of Election.

(a) Each Election shall be made on a form provided by the Administrator within the period described in Section 2.2(b), and shall designate either (i) a Deferral Percentage; (ii) a fixed dollar amount of the Participant's Compensation for the Election Year to be deferred; (iii) a fixed dollar amount of the Participant's Compensation for the Election Year to be paid currently; or (iv) any combination of these methods with the consent of the Administrator acting in his or her sole discretion; provided, however, that a Participant who is also a participant in the Host Marriott Corporation Non-Employee Directors' Deferred Stock Compensation Plan for the concurrent Election Year may only designate a Deferral Percentage. Such Elections shall designate a distribution commencement date and manner of distribution in accordance with Section 4.1; provided, however, that such distribution commencement date shall be no later or earlier than the respective dates specified in Section 4.1(a). If no designation is received by the Administrator within the prescribed time period, the Administrator shall elect the time and manner of distribution and notify the Participant of such selection.

(b) Each Participant shall be entitled to Deferred Compensation for the Election Year in an amount determined as follows: (i) if the Participant elects a Deferral Percentage in accordance with paragraph (a)(i) of this section, an amount equal to the product of such Deferral Percentage times the Participant's total Compensation for each pay period of the Election Year; (ii) if the Participant elects to designate a fixed dollar amount to be deferred in accordance with paragraph (a)(ii) of this section, the amount so deferred; (iii) if the Participant elects to designate a fixed dollar amount to be paid currently in accordance with paragraph (a)(iii) of this section, the amount by which such Participant's total Compensation for the Election Year exceeds such fixed dollar amount; or (iv) if the Participant elects a combination of the above in accordance with paragraph (a)(iv) of this section, the appropriate amount shall be determined by the Administrator based on the above principles.

(c) Deferred Compensation shall first be credited to the Participant's "Section 401(k) Contribution Account" in the Retirement and Savings Plan to the extent designated by the Participant as "Section 401(k) Contributions" in accordance with the terms of the Retirement and Savings Plan, or to such lesser extent permitted by law provided the amount so designated corresponds to the maximum amount permissible under Sections 401(k)(3), 402(g) or 415 of the Code, as amended.

(d) The difference between the total amount determined under paragraph (b) of this section and the amount determined under paragraph (c) of this section shall be credited to the Deferred Compensation Reserve on behalf of the Participant. In addition, there shall also be credited to the Deferred Compensation Reserve on behalf of Participants described in Section 1.17(a)(iii) the difference between (i) the total amount of "After-tax Savings" plus "Section 401(k) Contributions" in the Retirement and Savings Plan elected by each such Participant for the current fiscal year, and (ii) the amount of "After-tax Savings" and "Section 401(k) Contributions" permitted to be contributed to the Retirement and Savings Plan for the current fiscal year on behalf of each such Participant under the Compensation limits set forth in Section 401(a)(17) of the Code. The preceding sentence shall be applied after first taking into account limitations under Section 401(m) of the Code on such amounts.

(e) For purposes of this Section 2.3, Participants eligible to make Elections provided herein shall include only Participants described in Sections 1.17(a)(i) and (b)(i), and shall exclude all other Participants. Participants described in Section 1.17(a)(i)(B) shall be entitled to make Elections only with respect to an amount of Compensation not exceeding such Participant's bonus for a year during which a timely Election is made as provided herein. In addition to any other Election permitted under this Section 2.3, each Participant described in Section 1.17(a)(i)(C) shall also be entitled to make an Election to have Deferred Compensation credited to his or her account in this Plan in an amount equal to the amount which such Participant agrees to forfeit under a deferred compensation plan of an acquired company.

ARTICLE III
PARTICIPANT ACCOUNTS

3.1 Individual Accounts. The Administrator shall establish and maintain records reflecting each Participant's interest in the Deferred Compensation Reserve to which the Administrator shall credit Deferred Compensation in accordance with each Participant's Election pursuant to Section 2.3(d), Company Accruals pursuant to Section 3.2, Forfeiture Accruals pursuant to Section 3.3, and earnings pursuant to Section 3.4.

3.2 Company Accruals. The Company shall credit to the Deferred Compensation Reserve on behalf of each Participant an amount ("Company Accruals") each Election Year which shall be determined in the following manner:

(a) The Administrator shall determine for the Election Year the ratio for allocating "Company Contributions" under Section 6.4 of the Retirement Plan.

(b) The Administrator shall then determine for each Participant in this Plan an amount equal to six percent (6%) of the Participant's total Compensation for the Election Year, or, if less, the sum of (i) the Participant's Deferred Compensation for the Election Year (as determined under Section 2.3(b)) and (ii) the amount of the Participant's After-Tax Basic Savings contributed to the Retirement Plan for the Election Year in accordance with Section 4.2 of the Retirement Plan. The Committee may in its sole discretion limit the dollar amount of a Participant's Deferred Compensation taken into account for purposes of this Section 3.2 based on uniform standards, provided that the Administrator notifies such Participant of such limitation on or prior to the due date for Elections under Section 2.2(b).

(c) The amount determined in paragraph (b) of this section shall be reduced by subtracting (i) the amount credited to the Participant as "Combined Basic Savings" in the Retirement and Savings Plan for the Election Year.

(d) The Administrator shall then allocate to the Deferred Compensation Reserve on behalf of each Participant the product of (i) the ratio determined in accordance with paragraph (a) of this section, times (ii) the amount determined in accordance with paragraph (c) of this section.

(e) The Administrator shall allocate to the Deferred Compensation Reserve on behalf of each Participant described in Section 1.13(b) the amount of any reduction of allocations to the "Company Contribution Accounts" of such Participants under Section 6.7 of the Retirement and Savings Plan as of the same date such amounts would have been allocated under the Retirement and Savings Plan but for such reduction; provided however, as of the same date such amounts would have been allocated under the Retirement and Savings Plan but for such reduction, that in no event shall an amount be credited to a Participant's account herein under this paragraph (e) if an equivalent amount is distributed currently to such Participant.

(f) In addition to the foregoing, the Administrator shall allocate to the Deferred Compensation Reserve on behalf of each Participant described in Section 1.13(b)(ii) an amount equal to the difference between (i) the total amount of allocations that would have been made to the "Company Contribution Account" of such Participant in the Retirement and Savings Plan for the current fiscal year in the absence of the Compensation limits set forth in Section 401(a)(17) of the Code, and (ii) the amount permitted to be allocated under such Compensation limi t

(g) Company Accruals under this Section 3.2 shall be allocated only on behalf of Participants in the Plan (other than terminated Participants) as of the last day of the fiscal year of the Company for which the allocation is made.

3.3 Crediting of Earnings. The Company shall credit earnings to the Deferred Compensation Reserve in an amount determined as follows:

(a) Company contributions determined in accordance with Section 3.2 and earnings attributable thereto, along with forfeitures determined in accordance with Section 3.3 and earnings attributable thereto, shall be credited with earnings at the same rate and with the same frequency as earnings credited to the "Stable Value Fund" described in the Retirement and Savings Plan.

(b) Deferred Compensation allocated to the Deferred Compensation Reserve in accordance with Section 2.3(d), along with earnings attributable thereto, shall be credited with earnings at the same rate and with the same frequency as earnings credited to the "Stable Value Fund" described in the Retirement and Savings Plan.

3.4 Accounts Do Not Result in Property Rights.

(a) The Deferred Compensation Reserve and the accounts maintained thereunder on behalf of each Participant are for administrative purposes only, and do not vest in the Participants any right, title or interest in such reserve or such accounts, except as expressly set forth in this Plan.

(b) Title to and beneficial ownership of any assets, whether cash or investments which the Company may designate to make payments of Deferred Compensation hereunder, shall at all times remain in the Company, and no Participant shall have any property interest whatsoever in any specific assets of the Company.

3.5 Tax-Qualified Plans. Amounts credited to a Participant's account in the Deferred Compensation Reserve shall not be deemed compensation to such Participant for purposes of computing employer contributions or benefits under any tax-qualified plan of deferred compensation maintained by the Company.

3.6 No Assignment of Interests. The rights of Participants or any other persons to the payment of amounts from the Deferred Compensation Reserve under this Plan shall not be assigned, transferred, pledged or encumbered except by will or by the laws of descent and distribution.

ARTICLE IV
DISTRIBUTIONS

4.1 Commencement of Distribution.

(a) Except as otherwise specified in paragraph (d) of this section or Section 4.3, Deferred Compensation, Company Accruals, Forfeiture Accruals and earnings thereon credited to a Participant's account shall become distributable as soon as administratively feasible following notification to the Administrator of such Participant's Termination of Services or death (whichever occurs first). Distribution shall be made in the manner specified in paragraph (b) of this section. Alternatively, a Participant may elect in accordance with Section 2.3(a) for distribution to commence prior to Termination of Services, but no earlier than the beginning of the sixth (6th) fiscal year of the Company following the Election Year for which such Deferred Compensation was earned, if applicable, or otherwise in a single lump sum cash payment. Such distribution prior to Termination of Services will be permitted only to the extent that it relates to an Election Year or Years for which the amount deferred exceeds six percent (6%) of the Participant's total Compensation for such Election Year, and the amount so distributed will consist solely of the amount of such excess inclusive of any earnings attributable thereto.

(b)(l) A Participant shall designate in an Election made in accordance with Section 2.3 whether distribution of his account shall be made in the form of (i) a single lump sum cash payment; (ii) annual cash installments payable over a designated term not to exceed ten (10) years; or (iii) any other manner of distribution requested by the Participant, with the consent of the Administrator acting in his or her sole discretion. Notwithstanding the foregoing, a Participant who is actively employed by the Company or serving on the Company's Board of Directors shall be entitled to a change in the manner of distribution of his account under paragraph (a) of this section as designated on a form provided by the Administrator, with the consent of the Committee acting in its sole discretion. An approved request for change shall become effective on the first anniversary (the "Anniversary Date") of the date such request was received by the Administrator, provided such request shall be invalid if the Participant has a Termination of Services as described in Section 1.17 (but not including Section 1.17(b) or (c)) prior to the Anniversary Date, or, as to Deferred Compensation relating to any Election Year, if any amount of such Deferred Compensation for an Election Year would otherwise become distributable prior to the Anniversary Date. Notwithstanding the foregoing, a Participant who has a Termination of Services as described in Section 1.17(b) or (c) may cancel the request for change at his or her option as designated on a form provided by the Administrator.

(b)(2) A Participant requesting a change pursuant to paragraph (b)(l) of this section shall be prohibited from making an Election in accordance with Section 2.3, and any Election previously made shall be ineffective, to the extent such Election applies to the next Election Year beginning after the date of the Participant's change request.

(b)(3) No earnings shall be credited under Section 3.4(a) on amounts allocated to the Deferred Compensation Reserve under Section 3.2(e) for the period from the date of a Participant's

Termination of Services (or the date on which a Participant's status as a member of the Company's Board of Directors ceases) until the date of the first distribution of such amounts, in the event a change in the manner of distribution of such amounts has been approved by the Committee as provided above.

(c) If payment is deferred and paid in installments in accordance with paragraph (b) of this section, the remaining balance in the Participant's account shall continue to be credited with earnings as provided in Sections 3.1 and 3.4(b).

(d) Notwithstanding the foregoing, no distribution shall be made of Company Accruals credited to a Participant's account under Section 3.2, of Forfeiture Accruals credited under Section 3.3, or of earnings credited thereon under Section 3.4(a), except to the extent such amounts would be vested if they had been contributed on behalf of the Participant as Company contributions or forfeitures under the Retirement Plan. For this purpose, such amounts shall be deemed to vest in accordance with the schedule set forth in Section 7.3 of the Retirement and Savings Plan, and nonvested amounts shall be forfeited if the Participant terminates employment with the Company in circumstances in which the Participant would not be fully vested under the Retirement and Savings Plan. The Company shall have no further obligation to the Plan or to any Participant for nonvested amounts forfeited hereunder.

4.2 Beneficiaries. Each Participant may designate a beneficiary on a form provided by the Administrator to receive distributions made pursuant to Section 4.1; provided, however, that the beneficiary designated by the Participant under the Retirement Plan shall be deemed to be the beneficiary under this Plan unless the Participant specifically designates otherwise. If no beneficiary is designated under the Retirement and Savings Plan or under this Plan, or if the beneficiary shall not survive the Participant, the Participant shall be deemed to have designated the following beneficiaries (if then living) in the following order of priority: (i) spouse; (ii) children; including adopted children, in equal shares; (iii) parents, in equal shares; and (iv) the Participant's estate.

4.3 Emergency Distributions. Notwithstanding the provisions of Section 4.1, the vested portion of a Participant's account may be distributed prior to such Participant's Termination of Services, death, or other distribution date elected by the Participant in the sole discretion of the Committee. Distribution shall be made under this Section 4.3 only in cases of serious financial emergency which is beyond the control of the Participant, as determined by the Committee, and only if failure to make the distribution would result in severe financial hardship to the Participant or beneficiary. Amounts distributed under this Section 4.3 shall not exceed the amount needed to satisfy such emergency and to pay all applicable taxes on the amount of the distribution.

4.4 Discharge of Obligation For Payment. If the Administrator shall find that any person to whom any payment is payable under this Plan is unable to care for such person's affairs because of illness or accident, or is a minor, any payment due (unless a prior claim therefor shall have been made by a duly appointed guardian, committee or other legal representative) may be paid to the spouse, a child, a parent, or a brother or sister, or to any person deemed by the Administrator to have incurred expense for such person otherwise entitled to payment, in such manner and

proportions as the Administrator may determine. Any such payment shall be complete discharge of the liabilities of the Company under this Plan.

ARTICLE V
ADMINISTRATION

5.1 Administrator. The Committee shall appoint an Administrator who shall be responsible for the management, operation and administration of the Plan. The Administrator shall have full power and authority to interpret, construe and administer this Plan and the Administrator's interpretations and construction thereof, and actions hereunder, including any valuation of the Deferred Compensation Reserve, or the amount or recipient of the payment to be made therefrom, shall be binding and conclusive on all persons for all purposes. The Company shall not be liable to any person for any action taken or omitted in connection with the interpretation and administration of this Plan unless attributable to willful misconduct or lack of good faith by the Company.

5.2 Expenses. The expenses of administering this Plan shall be borne by the Company and shall not be charged against the Deferred Compensation Reserve.

5.3 Acceleration of Payments. Notwithstanding anything in this Plan to the contrary, the Committee in its sole discretion may direct the Administrator to pay any or all amounts credited to a Participant's account in a single lump sum cash payment or accelerate payment of installments distributable under Article IV of this Plan, in order to clear out small balances, terminate the Plan, or otherwise to relieve costs of maintaining and administering the Plan.

5.4 Indemnification. To the extent permitted by applicable state law, the Company shall indemnify and save harmless the Board of Directors and each member or delegate thereof, each employee or delegate thereof, so long as it is composed of individuals appointed by the Company, the Plan Administrator and each employee or delegate thereof, against any and all expenses, liabilities and claims, including legal fees to defend against such liabilities and claims, arising out of their discharge of responsibilities under or incident to the Plan, excepting only expenses and liabilities arising out of willful misconduct or gross negligence. This indemnity shall not preclude such further indemnities as may be available under insurance purchased by the Company or provided by the Company under any by-law, agreement, vote of stockholders or disinterested directors or otherwise, as such indemnities are permitted under state law. Payments with respect to any indemnity and payment of expenses or fees under this section shall be made only from assets of the Company and shall not be made directly or indirectly from Trust assets.

5.5 Administration of Directors Plan. The Directors Plan shall be administered solely in the State of Maryland. All actions with respect to Directors will occur in the State of Maryland.

ARTICLE VI
MISCELLANEOUS

6.1 Disclaimer of Rights. Nothing contained herein shall be construed as conferring upon any Participant the right to continue in the employ or service of or to maintain a relationship with the Company as an executive or in any other capacity.

6.2 No Trust Created. Nothing contained in this Plan and no action taken pursuant to the provisions of this Plan shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any person, including any Participant or any other person. Any amounts which may be credited to the Deferred Compensation Reserve shall continue for all purposes to be a part of the general funds of the Company and no person other than the Company shall by virtue of the provisions of this Plan have any interest in such funds. To the extent that any person acquires a right to receive payments from the Company under this Plan, such right shall be no greater than the right of any unsecured general creditor of the Company.

6.3 Amendment or Termination of Plan.

(a) The Board of Directors of the Company may amend or terminate the Plan at any time and from time to time, and/or distribute all account balances under the Plan, pursuant to written resolutions adopted by such Board of Directors. In no event will any such amendment or termination of the Plan have the effect of reducing the accrued account balance or then vested percentage of any Participant under this Plan.

(b) If a determination is made by the Internal Revenue Service that the account balance of any Participant is subject to current income taxation, such account balance will be immediately distributed to the Participant or the Participant's beneficiary to the extent of such taxable amount; provided, however, that if the Participant is contesting the above mentioned determination of the Internal Revenue Service, the Administrator may in his or her sole discretion delay distribution until the determination is final.

(c) In the event the Retirement and Savings Plan is terminated, the Committee may at its sole discretion distribute all account balances under this Plan. Alternatively, in the event of such termination the Committee may at its sole discretion establish another basis for crediting earnings under this Plan, provided that any rate so credited shall not be less than the Company's borrowing rate from time to time.

6.4 Effect of Plan. This Plan shall be binding upon and inure to the benefit of the Company, its successors and assigns, and the Participants and their heirs, beneficiaries, executors, administrators and legal representatives.

6.5 Severability. If any provision of this Plan shall for any reason be invalid or unenforceable, the remaining provisions shall nevertheless remain in full force and effect.

6.6 Applicable Law. This Plan shall be construed in accordance with and governed by the laws of the State of Maryland.

ARTICLE VII
SPECIAL RULES FOR PRE-EFFECTIVE DATE EMPLOYEES

7.1 Governing Rules. Notwithstanding anything contained elsewhere in this Plan to the contrary, the following rules shall apply to Employees who were employed by Host Marriott Corporation on the date before the Effective Date.

(a) Any election in effect under the Host Marriott Corporation Executive Deferred Compensation Plan, and the Host Marriott Corporation (HMC) Retirement and Savings Plan and Trust (the "Prior Profit Sharing Plan") on the date before the Effective Date shall continue to be effective under this Plan for the Election Year beginning on or immediately after the Effective Date, and any compensation taken into account under the Prior Profit Sharing Plan shall be taken into account under this Plan for purposes of Articles II and IV for the such Election Year.

(b) Any notification by the administrator under the Host Marriott Corporation Executive Deferred Corporation Plan as in effect on or prior to the Effective Date (the "Prior Plan") concerning eligibility to participate in such plan for the 1999 year shall continue to be effective under this Plan for the Election Year beginning on or after the Effective Date.

(c) Any service with Host Marriott Corporation prior to the Effective Date shall be taken into account in determining service with the Company for purposes of determining years of service under Section 1.17(a)(i).

(d) For purposes of Section 1.17(a)(iii), participation in the Plan for the 1999 Election Year shall include participation in the Prior Plan for such year.

(e) Any approved request in effect under the Prior Plan to change the Participant's manner of distribution of his account shall continue to be effective under this Plan as if such request had been approved under this Plan.

(f) Any beneficiary designation in effect under the Prior Plan on the date before the Effective Date shall continue to be effective under this Plan.

CERTIFICATE OF SECRETARY

I, the undersigned secretary of Host Marriott Corporation (the "Corporation") as General Partner of Host Marriott L.P., do hereby certify that the attached copy of the Host Marriott, L.P. Executive Deferred Compensation Plan (the "Executive Plan") and the Host Marriott, L.P. Non-Employee Director Deferred Compensation Plan (the "Director Plan") is a true and correct copy of the Plans and that there have been no amendments or modifications to the Plans that are not reflected in this copy.

IN WITNESS WHEREOF, I have hereunto set my hand and seal of Host Marriott Corporation as of the 1st day of January, 1999.

Christopher G. Townsend
Secretary

Exhibit 10.14

AMENDMENT NO. 5 DATED AS OF DECEMBER 18, 1998 TO
DISTRIBUTION AGREEMENT DATED AS OF SEPTEMBER 15, 1993
BETWEEN HOST MARRIOTT CORPORATION
AND MARRIOTT INTERNATIONAL, INC.

Host Marriott Corporation (f/k/a Marriott Corporation, "Host Marriott"), Marriott International, Inc. ("MII") and Host Marriott Services Corporation desire to adopt this Amendment to the Distribution Agreement between Host Marriott and MII dated as of September 15, 1993 (the "Original Agreement," and, as amended hereby and by that certain Amendment No. 1 to the Original Agreement dated as of December 29, 1995, that certain Amendment No. 2 to the Original Agreement dated as of June 21, 1997, that certain Amendment No. 3 to the Original Agreement dated as of March 3, 1998 and that certain proposed Amendment No. 4 to the Original Agreement expected to be entered into after the date hereof, the "Distribution Agreement").

WHEREAS, by letter dated December 10, 1998, Southeastern Asset Management, Inc. ("Southeastern"), an investment advisor registered under Section 203 of the Investment Advisers Act of 1940, advised Host Marriott that approximately 135 accounts over which Southeastern has either investment discretion, voting authority, or both, currently own in the aggregate 40,923,400 shares of Host Marriott Common Stock, or approximately 19.97% of the 204,954,447 shares of Host Marriott Common Stock outstanding on the record date for the Host Marriott Special Meeting held on December 15, 1998 to approve the merger (the "Merger") of Host Marriott with and into HMC Merger Corporation, a Maryland corporation to be renamed "Host Marriott Corporation" ("Host REIT") after the Merger;

WHEREAS, Host Marriott expects that, on the date hereof, its Board of Directors will declare a special dividend (the "Special Dividend") to stockholders of record on December 28, 1998 entitling such stockholders to elect to receive such Special Dividend in the form of cash or Host Marriott Common Stock; and

WHEREAS, the parties hereto desire to amend the Distribution Agreement in connection with such Special Dividend.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the parties hereto hereby agree as follows:

1. Section 6.07 of the Distribution Agreement shall be amended by adding and reserving for further Amendment subsections (j) and (k) and adding subsection (l) as follows:

(j) [Reserved for proposed Amendment No. 4]

(k) [Reserved for proposed Amendment No. 4]

(l) Notwithstanding anything contained in this Section 6.07 or any other section of this Agreement, Southeastern Asset Management, Inc. ("Southeastern"), an investment advisor registered under Section 203 of the Investment Advisers Act of 1940, shall not be deemed to have triggered the Right if such Right would otherwise have been triggered until such time (if ever) as it becomes the Beneficial Owner of a number of shares of Voting Stock in excess of the sum (the "Maximum Number") of (i) 40,923,400 shares of Voting Stock plus (ii) such number of shares of Voting Stock actually acquired by Southeastern through accounts over which it exercises investment discretion, voting authority or both as the result of any election (or deemed election) to receive Voting Stock in payment of the Special Dividend (or, prior to the date of any such election or deemed election, such number of shares of Voting Stock which it can elect to receive in payment of the Special Dividend) declared by Host Marriott on December 18, 1998 to stockholders of record on December 28, 1998 (as the number representing the sum of (i) and (ii) may be adjusted to give effect to stock splits, stock dividends, subdivisions, combinations, reclassifications or similar events, to the extent appropriate), which dividend payment obligations will be assumed by HMC Merger Corporation, a Maryland corporation ("Host REIT"), in connection with the merger of Host Marriott with and into Host REIT; provided, however, that if at any time after December 28, 1998, Southeastern shall be the Beneficial Owner of a number of shares of Voting Stock representing less than 20% of the total voting power of the then outstanding shares of Voting Stock and if Southeastern shall become at any time thereafter the Beneficial Owner of a number of shares of Voting Stock representing 20% or more of the total voting power of the then outstanding shares of Voting Stock, Southeastern shall thereupon be deemed to have triggered the Right; provided further, that if the number of shares of Voting Stock beneficially owned by Southeastern is reduced to less than 20% of the total voting power of the then outstanding Voting Stock as a result of dispositions of Voting Stock in the ordinary course of trading for its clients' accounts within a five (5) consecutive trading day period, and Southeastern reacquires the beneficial ownership of the number of shares so disposed, again in the ordinary course

of trading for its clients' accounts, within twenty (20) consecutive trading days immediately after such five (5) day trading period, then such reacquisition (subject always to the Maximum Number) shall not be deemed to have triggered the Right. Nothing herein is intended to grant, or shall be construed as granting, to Southeastern, any of its affiliates or any of Southeastern's funds or accounts a waiver from the ownership limit (or any provision thereof) under the Charter of Host REIT.

2. Except as specifically amended hereby, the Distribution Agreement continues in full force and effect without modification and is hereby ratified and confirmed in all respects.

3. This Amendment may be executed in any number of counterparts, which, when taken together, shall constitute a single binding instrument.

[signatures appear on the following page]

IN WITNESS WHEREOF, the parties have caused this Amendment No. 5 to be duly executed and delivered as of December 18, 1998.

MARRIOTT INTERNATIONAL, INC.

By:_____
Name:_____
Title:_____

HOST MARRIOTT CORPORATION

By:_____
Name:_____
Title:_____

HOST MARRIOTT SERVICES CORPORATION

By:_____
Name:_____
Title:_____

The undersigned is executing this Amendment for the purpose of acknowledging and consenting to the provisions hereof.

HMC MERGER CORPORATION

By:_____
Name:_____
Title:_____

Exhibit 10.16

Amendment to the Distribution Agreement between Host Marriott Corporation and Host Marriott Services Corporation

WHEREAS, Host Marriott Corporation ("Host Marriott") and Host Marriott Services Corporation ("Services"), made and entered into a Distribution Agreement (the "Agreement") as of December 22, 1995;

WHEREAS, Section 11.05 of the Agreement provides that the Agreement may be amended in writing executed by the parties; and

WHEREAS, Host Marriott intends to enter into certain transactions pursuant to a plan to reorganize its business operations so that effective as of January 1, 1999 it will qualify as a "real estate investment trust" under Sections 856 through 859 of the Internal Revenue Code of 1986, as amended ("Host REIT Conversion"); and

WHEREAS, the Internal Revenue Code may limit certain payments that may be received by Host Marriott after the Host REIT Conversion;

NOW, THEREFORE, BE IT

RESOLVED, that the Agreement be, and it hereby is, amended as follows:

1. Section 1.01 shall be amended by adding the following terms and their definitions:

Code: the Internal Revenue Code of 1986, as amended.

Host REIT Conversion: certain transactions entered into by Host
---------- Marriott pursuant to a plan to reorganize its business operations so that it will qualify as a real estate investment trust as of January 1, 1999.

2. Article XI shall be amended by adding the following new Section 11.15 to the end:

Section 11.15 Limits on Payments to Host Marriott. This Section
---------- 11.15 shall become effective as of the Host REIT Conversion. Notwithstanding any other provision of this Agreement to the contrary, the

payments otherwise to be made by Services to Host Marriott under this Agreement (the "Required Payments"), shall not exceed (i) the sum of (A) the maximum amount that can be paid to Host Marriott in any taxable year without causing Host Marriott to fail to meet the requirements of Code Sections 856(c)(2) and (3), determined as if the payment of such amount did not constitute income described in Code Sections 856(c)(2)(A)-(H) and 856(c)(3)(A)-(I) ("Qualifying Income"), as determined by independent accountants to Host Marriott, and (B) in the event Host Marriott receives a letter from outside counsel (the "Indemnification Payment Tax Opinion") indicating that Host Marriott has received a ruling from the IRS holding that Host Marriott's receipt of the Required Payments otherwise to be paid under this Agreement would either constitute Qualifying Income or would be excluded from gross income of Host Marriott within the meaning of Code Sections 856(c)(2) and (3) (the "REIT Requirements") or that the receipt by Host Marriott of the remaining balance of the Required Payments to be made under this Agreement following the receipt of and pursuant to such ruling would not be deemed constructively received prior thereto, the Required Payments less the amount otherwise paid or payable under clause (A) above. Services' obligation to pay any unpaid portion of any Required Payment shall terminate three years from the date such payment otherwise would have been made but for this Section 11.15. In the event that Host Marriott is not able to receive the full Required Payment that otherwise would be due under this Agreement as and when such payments otherwise would be required to be made, Services shall place the unpaid amount in escrow and shall not release any portion thereof to Host Marriott unless and until Services, receives either one of the following: (i) a letter from Host Marriott's independent accountants indicating the maximum amount that can be paid at that time to Host Marriott without causing Host Marriott to fail to meet the REIT Requirements or (ii) an Indemnification Payment Tax Opinion, in either of which events Services shall pay to Host Marriott the lesser of the unpaid Required Payments or the maximum amount stated in the letter referred to in (i) above.

IN WITNESS WHEREOF, the parties have executed this Amendment to the Agreement as of December 28, 1998.

HOST MARRIOTT CORPORATION

By:

Name:
Title:

HOST MARRIOTT SERVICES
CORPORATION

By:

Name:
Title:

EXHIBIT 10.18

LICENSE AGREEMENT

THIS LICENSE AGREEMENT ("Agreement") is made and entered into as of this ___ day of December, 1998 by and among HOST MARRIOTT CORPORATION, a Delaware corporation ("HM Corporation"), HOST MARRIOTT, L.P., a Delaware limited partnership ("HM Operating Partnership")(HM Corporation and HM Operating Partnership being collectively referred to as the "HM Parties"), MARRIOTT INTERNATIONAL, INC., a Delaware corporation ("Marriott International") and MARRIOTT WORLDWIDE CORPORATION, a Maryland corporation ("MWC")(MWC and Marriott International being collectively referred to as the "Marriott International Parties")

RECITALS

A. HM Corporation, directly and through subsidiaries, is engaged as its principal business in developing, purchasing, leasing, selling and owning, but not managing, hotel properties which hotel properties are principally managed by Marriott International and its subsidiaries and, as additional businesses, the ownership of restaurants, real estate, office buildings and other real estate (the "Development and Ownership Business"). Pursuant to its conversion to a publicly-traded real estate investment trust, HM Corporation will be merged into HMC Merger Corporation, a newly-formed Maryland corporation (the "Merger"). Upon the effectiveness of the Merger, HMC Merger Corporation will be renamed Host Marriott Corporation. In connection with the Merger, substantially all of the Development and Ownership Business will be transferred to HM Operating Partnership. HM Corporation will be the sole general partner of and have Control (as defined herein) over HM Operating Partnership.

B. Marriott International, directly and through its subsidiaries, is engaged in the business of lodging operation, management and franchising, senior living services management, timeshare resort development and operation, and food and other products procurement and distribution (the "Management Business").

C. HM Corporation (previously known as Marriott Corporation) and Marriott International are parties to that certain Assignment and License Agreement dated as of October 8, 1993 (the "Assignment and License Agreement") under which (i) Marriott Corporation assigned to Marriott International certain trademark, service mark, trade name and related rights pursuant to Section 2 of that agreement, and (ii) Marriott International licensed to Marriott Corporation certain trade name and related rights pursuant to Section 3 of that agreement.

D. Effective upon the Merger, the parties desire to revoke and replace those portions of the Assignment and License Agreement pursuant to which HM Corporation was granted a license to use certain Marriott Marks, and to enter into a new license agreement which shall provide the HM Parties certain limited rights to use certain of the Marriott Marks in accordance with and subject to the terms of this Agreement.

NOW, THEREFORE, in consideration of the foregoing, the mutual promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

NOW, THEREFORE, in consideration of the foregoing, the mutual promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Definitions. As used herein, the following terms have the
   ----
meanings set forth below:

"Change of Control" shall mean any of the following: (i) any single
 ----
Person or group of Persons acting in concert shall have elected a majority of the board of directors of HM Corporation; (ii) any single Person or group of Persons acting in

concert, shall have acquired beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934), directly or indirectly, or shall have entered into a contract or arrangement that, upon consummation, will result in its or their acquisition of, the power to exercise, directly or indirectly, Control over HM Corporation or HM Operating Partnership; (iii) HM Corporation ceases to be the sole general partner of HM Operating Partnership; or (iv) the inability or loss of right of HM Corporation to exercise Control over HM Operating Partnership.

"Control" shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of securities, by contract or otherwise. For purposes of this Agreement, acting as general partner of a partnership shall be considered "Control" of such partnership.

"Development and Ownership Business" has the meaning set forth in Recital A.

"Dispute" has the meaning set forth in Section 6.

"Expenses" has the meaning set forth in Section 6.

"HM Corporation" has the meaning set forth in the first paragraph of this Agreement. For purposes of its execution hereof, HM Corporation is signing this Agreement in both its capacity as the successor and current party to the Assignment and License Agreement and as the entity that has merged into HMC Merger Corporation and is the sole general partner of HM Operating Partnership.

"HM Name" has the meaning set forth in Section 2.

"HM Operating Partnership" has the meaning set forth in Recital A.

"HM Parties" means HM Corporation and HM Operating Partnership.

"HM Subsidiaries" means the partnerships and corporations listed on Exhibit A that have a Marriott Mark as a part of their partnership or corporate name as of the date of this Agreement.

"Indemnified Party" has the meaning set forth in Section 6.

"Indemnitor" has the meaning set forth in Section 6.

"Infringing Marks" has the meaning set forth in Section 7.

"License" has the meaning set forth in Section 2.

"LP Name" has the meaning set forth in Section 2.

"Management Business" has the meaning set forth in Recital B.

"Marriott International" has the meaning set forth in the first paragraph of this Agreement.

"Marriott International Parties" has the meaning set forth in the first paragraph of this Agreement.

"Marriott International Indemnitee" has the meaning set forth in Section 6.

"Marriott Marks" means any name or mark owned by a Marriott International Party, whether registered or unregistered, including but not limited to CAMELBACK INN, COURTYARD, DESERT SPRINGS, FAIRFIELD, FORUM, MARQUIS, MARRIOTT, or RESIDENCE INN.

"Person" means any individual, corporation, partnership, association, trust company or other entity or organization, including any government entity or authority.

"Subsidiary" means, with respect to any Person, (i) any corporation of which at least a majority in interest of the outstanding voting stock (having by the terms thereof voting power under ordinary circumstances to elect a majority of the directors of such corporation, irrespective of whether or not at the time stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly,

owned or controlled by such Person, by one or more Subsidiaries of such Person, or by such Person and one or more of its Subsidiaries, or (ii) any non-corporate entity in which such Person, one or more Subsidiaries of such Person, or such Person and one or more Subsidiaries of such Person, directly or indirectly, at the date of determination thereof, has at least a majority ownership interest.

"Sub Names" means the names of those HM Subsidiaries and affiliates as identified on Exhibit A attached hereto that have a Marriott Mark as a part of their partnership or corporate name as of the date of this Agreement.

2. Revocation of Prior License and New License to HM Parties.

a. Revocation of Prior License. Upon the effectiveness of the Merger, the terms and conditions of the Assignment and License Agreement relating to the granting of a license to HM Corporation to use the "Licensed Marks"(as defined therein), including Section 3 thereof, are revoked and of no further force or effect. In the event of any conflict between the terms of this Agreement and the terms of the Assignment and License Agreement relating to the use of the "Licensed Marks", the terms of this Agreement shall control.

b. License. Upon the effectiveness of the Merger, the Marriott International Parties hereby grant to the HM Parties a non-exclusive, royalty free, and worldwide right and license to use certain of the Marriott Marks in the following limited contexts and purposes, and subject to the conditions described in Section 2.c below (the "License").

(1) Context. The License to use certain of the Marriott Marks is limited specifically to the following uses and contexts:

(i) For HM Corporation to use the "Marriott" name as part of the corporate name "Host Marriott Corporation" (the "HM Name") and for HM Operating Partnership to use the "Marriott" name as part of the partnership name "Host Marriott, L.P." (the "LP Name").

(ii) For the HM Subsidiaries to use certain of the Marriott Marks as part of the Sub Names, as such marks are currently in use by the HM Subsidiaries as of the date of this Agreement, and further subject to the following:

(x) The License with respect to the names of corporate HM Subsidiaries shall expire six (6) months from the date of execution of this Agreement, by which time the HM Parties shall have caused (or used their reasonable best efforts to cause and continues to pursue to completion thereafter) all of the corporate HM Subsidiaries to adopt new names which do not contain any Marriott Mark;

(y) The HM Parties shall use their reasonable efforts to cause all of the partnership HM Subsidiaries (other than HM Operating Partnership) to adopt new names (not incorporating any of the Marriott Marks); and

(z) In the event the HM Parties cease to have Control over any HM Subsidiary, the License with respect to such HM Subsidiary shall cease and terminate.

(iii) For all purposes of this Agreement, the Marriott Marks shall not be used in a manner other than as part of the HM Name, the LP Name and the Sub Names.

(2) Purposes. The License to use the Marriott Marks in the contexts described in Section 2.b(1) is limited specifically to the following purposes:

(i) The Marriott Marks shall be used as part of the HM Name, the LP Name and the Sub Names only (x) to identify HM Corporation, HM Operating Partnership and the HM Subsidiaries for corporate or partnership name purposes, as further described in Section 2.d below and (y) except as specifically provided in Section 2.b(2)(ii) below, only in connection with HM

Corporation's, HM Operating Partnership's and the HM Subsidiaries' activities relating directly to the Development and Ownership Business. With respect to that portion of the Development and Ownership Business consisting of the ownership of restaurants, senior living, office buildings and other real estate, the HM Parties agree that any additional business (i.e. beyond the business conducted as of the date hereof) in such areas shall not be undertaken by entities utilizing the Marriott Mark as part of their name, the intent being that to the extent the HM Parties are engaged in such business as of the date hereof, they may maintain such business in their current corporate ownership structure, but that new business in such areas will not utilize in any manner the Marriott Marks as part of the ownership structure. The License does not include, and HM Corporation, HM Operating Partnership and the HM Subsidiaries are not permitted, any use of the Marriott Marks as trademarks or service marks for any goods or services, or any use of the Marriott Marks in connection with the operation or management of any business other than the Development and Ownership Business including, without limitation, any use of the Marriott Marks in connection with the Management Business or in soliciting agreements from hotel or other property owners to any HM Party to manage, operate or franchise hotel, senior living, lodging, office, or timeshare properties.

(ii) Notwithstanding any provision hereof to the contrary, for purposes of engaging in other businesses outside of the Development and Ownership Business, any HM Party may do so without violating the provisions of Section 2.b(2)(i) above, provided such other businesses are conducted by an entity that does not utilize in any manner whatsoever the Marriott Marks in its name or the conduct of its business (other than to identify its corporate affiliation with HM Corporation, HM Operating Partnership and/or the HM Subsidiaries (as the case may be), solely for the purposes of satisfying legal requirements (such as SEC statements and other reports and documents required to be filed with governmental agencies) or describing corporate ownership for contractual purposes, but in no event for corporate identification, marketing or solicitation purposes or any other

purpose wherein a Marriott Mark would be used in the context of the identity of such business that is promoted to the general public).

c. Conditions. The License is subject to the following conditions:

(1) HM Corporation's corporate name remains HOST MARRIOTT CORPORATION (provided that if HM Corporation changes its corporate structure, the word "corporation" could be changed as necessary, and with the consent of Marriott International, not to be unreasonably withheld, to incorporate the proper legal term for such structure, such as "Host Marriott Trust");

(2) HM Operating Partnership's partnership name remains HOST MARRIOTT, L.P.;

(3) The majority of all hotels owned by the HM Parties are managed by, or operated pursuant to franchises granted by, Marriott International or an entity controlled by Marriott International; and

(4) At least sixty percent (60%) of the gross revenues of the HM Parties (on a consolidated basis, including gross revenues of subsidiaries and affiliates as are reported on a consolidated basis), is derived from the business of developing, purchasing, leasing, selling and owning, but not managing, hotel properties.

d. Use of the Marriott Marks for Corporate and Partnership Identification Purposes Only. As described above, the only purposes for which the Marriott Marks may be used pursuant to the License (as part of the names of HM Name, the LP Name and the Sub Names) is for corporate or partnership (as appropriate) identification of HM Corporation, HM Operating Partnership and the HM Subsidiaries as entities engaged in the Development and Ownership Business. Examples of such use include filings with the Securities and Exchange Commission and other governmental entities, annual reports, invoices, shipping documents, mailing labels, business cards and stationery, materials distributed to investors,

and other similar uses where a name is used to identify a corporation or partnership. Any use of the Marriott Marks (as part of the names of HM Name, the LP Name and the Sub Names) in any promotional materials or advertising, including electronic medium such as the Internet, shall be to identify HM Corporation, HM Operating Partnership and the HM Subsidiaries as entities in the Development and Ownership Business, and shall not be used to promote any goods or services.

e. Use of Marriott Marks on the Internet and as a Domain Name. HM Corporation shall be permitted to post materials on the Internet and use the HM Name as part of a domain name (i.e. www.hostmarriott.com) without violating the restrictions of Section 2.d, subject to the following:

(1) the materials available to the public at any HM Corporation produced or sponsored web page, or similar electronic site that is connected to a domain name using the HM Name (i) are in compliance with the restrictions contained in this Agreement and (ii) include a notice stating that "MARRIOTT is a registered trademark of Marriott International, Inc., used pursuant to license."

(2) such web site shall not be used in any manner to engage in or conduct activities that constitute the Management Business, including, without limitation, the making of reservations through or over such web site, provided however, that such web site may contain a connection (or "link") to the authorized web sites of Marriott International, Inc. and its Affiliates.

f. Use of Marriott Marks in Facilities Signage. HM Corporation is permitted to use the HM Name on signage at its corporate offices such as corporate headquarters or any of its regional offices, provided such corporate offices are private offices, which are not part of the general public operation at any lodging (including restaurant), healthcare or retirement facility owned, developed, managed, operated or franchised by any HM Party. No other use of the Marriott Marks is permitted on any signage at any other building, with the

exception that the HM Name, the LP Name or the Sub Names, as appropriate, may be used on postings such as liquor licenses when a statute or regulation requires the identity of the corporate or partnership owners on the posting.

g. Use of Marriott Marks in Countries Outside the United States. The HM Parties shall not use the Marriott Marks in any country outside the United States without providing Marriott International with advance notice of such contemplated use and allowing the Marriott International Parties sufficient time to take such actions as the Marriott International Parties reasonably deem necessary to secure, or protect against impairment of, rights in the Marriott Marks. The HM Parties shall cooperate with the Marriott International Parties in connection with their efforts to secure and protect rights in the Marriott Marks. Notwithstanding the foregoing, HM Corporation may continue to use the Marriott Marks (as part of the HM Name) in countries where it currently operates, subject to its cooperation with the Marriott International Parties in connection with their efforts to secure and protect rights in the Marriott Marks.

h. Restrictions on Use of the Marriott Marks Generally. No HM Party shall operate or conduct any business in any form that uses the Marriott Marks, if such business either (1) is outside the present operating format of the Development and Ownership Business conducted by HM Corporation as of the date of this Agreement, (2) expands the manner in which the HM Name, the LP Name and the Sub Names are currently used, or (3) competes with the Management Business.

i. Prohibition Against Certain Uses of the Marriott Marks. This Agreement does not grant to the HM Parties any right or license to use the Marriott Marks (1) alone or in any' other manner except as expressly allowed herein, and (2) in any manner in which MARRIOTT is not immediately preceded by the word "HOST", subject only to the express and limited exceptions for use as part of the names of HM Name, the LP Name and the Sub Names as noted above.

3. Marriott International's Ownership of Marks.

a. The HM Parties acknowledge, without representation, warranty or inquiry, that the Marriott International Parties are the exclusive owners of the Marriott Marks. The HM Parties agree that, except for the right to use the Marriott Marks as provided in this Agreement, or as provided by Section 22 of this Agreement, the HM Parties, from and after the date hereof, have no right, title or interest in or to any of the marks licensed by Marriott International under the Assignment and License Agreement, and the HM Parties agree, on their own behalf and on behalf of their Subsidiaries that the license provisions contained in the Assignment and License Agreement are expressly revoked and superseded by this Agreement. The HM Parties agree that all uses of the Marriott Marks and the goodwill associated with such uses shall inure solely to the benefit of the Marriott International Parties, and upon termination of the HM Parties rights to use the Marriott Marks as provided in this Agreement, all right and interest of the HM Parties in and to the Marriott Marks shall revert fully to the Marriott International Parties.

b. The HM Parties agree to cooperate fully with the Marriott International Parties in recording appropriate assignment and other documents evidencing the Marriott International Parties' ownership of the Marriott Marks. The HM Parties agree to take no action inconsistent with the Marriott International Parties' ownership of and interest in the Marriott Marks. The Marriott International Parties agree to cooperate fully with the HM Parties in recording appropriate documents evidencing the License to the HM Parties.

c. The HM Parties shall not attack the validity of the Marriott Marks, the Marriott International Parties' ownership thereof, or any of the terms of this Agreement, or assist any third party in doing any of the same, and the HM Parties hereby waive any right to contest the validity of the Marriott Marks.

4. Limitations on Use of the Licensed Name. The right to use the Marriott Marks granted to the HM Parties in Section 2 of this Agreement is expressly subject to the following conditions:

a. All uses of the Marriott Marks, other than any use in effect as of the date of this Agreement, shall be subject to Marriott International's prior written approval on the basis of samples submitted by the HM Parties with a written description of the intended use or uses. If such samples and uses are approved, they shall be made in strict conformance with such reasonable specifications or requirements as Marriott International shall establish, as such specifications or requirements may be modified by Marriott International from time to time.

b. All displays of the Marriott Marks as permitted hereunder shall bear such copyright, trademark, service mark and other notices as Marriott International shall reasonably require, and the HM Parties shall adhere to any other reasonable and customary posting requirements developed by Marriott International with respect to the Marriott Marks.

c. The HM Parties shall not use the Marriott Marks (including display of the HM Name, the LP Name and the Sub Names) as part of or in conjunction with, any other names or marks except with Marriott International's prior written approval (which approval shall not be unreasonably withheld) or as expressly provided in Section 2. Such prior written approval by Marriott International shall be provided within 15 days after receipt of such requests from the HM Parties. In the absence of a written disapproval within 15 days, the use or intended use by the HM Parties shall be presumed to be consistent with this Agreement.

d. The HM Parties shall not use the Marriott Marks, or any name, term or design that is confusingly similar to the Marriott Marks, except as expressly authorized in this Agreement or consented to by Marriott International in writing, and the HM Parties shall not attempt to register or aid any third party in using or attempting to register any such name, mark, term or design. Notwithstanding this subsection or any other section of this Agreement, use by HM

Corporation of the "HM" service mark (since it does not contain the word "Marriott") shall not be subject to the terms and conditions of this Agreement.

e. The HM Parties shall not use the Marriott Marks in any manner that will indicate that they are using such Marriott Marks other than as a licensee of the Marriott International Parties.

f. The HM Parties shall not use the Marriott Marks in any manner that will: (1) negatively impact or disparage the image or reputation of the Marriott International Parties or of HM Corporation, HM Operating Partnership and the HM Subsidiaries, and/or (2) dilute the distinctiveness of the HM Name, the LP Name and the Sub Names, or the Marriott Marks.

Any breach of the foregoing provisions may be remedied by the remedies set forth in (i) Section 10 of this Agreement, and (ii) Section 13 of this Agreement as applicable.

5. Quality Control.
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a. The Marriott International Parties are familiar with the general quality of the services now provided by the HM Parties in the Development and Ownership Business and find, at the present time, the quality of such services to be acceptable. All activities conducted by HM Corporation, HM Operating Partnership and the HM Subsidiaries, for so long as their names contain any Marriott Marks, shall be provided substantially in accordance with the quality standards of the HM Parties now in place.

b. The HM Parties shall use their reasonable best efforts to ensure that the Marriott International Parties shall have the right, at reasonable times and with prior notice, to inspect any facility owned or developed by HM Corporation, HM Operating Partnership or any of the HM Subsidiaries at any time for the purpose of determining whether they have met or are meeting the quality standards required under this Agreement. The HM Parties shall promptly produce and deliver (at its own expense) to Marriott International such examples of its use

of the Marriott Marks as the Marriott International Parties shall reasonably request.

c. Any breach of the foregoing provisions of this Section 5 may be remedied by the remedies set forth in (i) Section 10 of this Agreement, and (ii) Section 13 of this Agreement as applicable.

6. Limitation of Liability; Indemnity.

a. IN NO EVENT SHALL THE MARRIOTT INTERNATIONAL PARTIES BE LIABLE FOR ANY MATTER WHATSOEVER RELATING TO THE USE BY ANY HM PARTIES OF THE HM NAME, LP NAME, AND THE SUB NAMES EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN SECTION 6 AND SECTION 7 OF THIS AGREEMENT.

b. The HM Parties shall indemnify, defend and hold harmless the Marriott International Parties and their respective subsidiaries, affiliates and their respective employees, representatives, directors, officers and agents (each, a "Marriott International Indemnitee") from and against any and all costs, judgments, liabilities and expenses, including, without limitation, interest, penalties, attorney and third party fees, and all other amounts paid in the investigation, litigation, defense and/or settlement (collectively, "Expenses") resulting from any actual or potential claim, demand, dispute, notice, lawsuit, administrative proceeding or other action (collectively, "Disputes") that relate in any way to use of the Marriott Marks by the HM Parties in violation of this Agreement.

c. The Marriott International Parties shall indemnify, defend and hold harmless the HM Parties and the HM Subsidiaries and their respective employees, representatives, directors, officers and agents from and against all Expenses resulting from any Disputes that relate in any way to (i) the provision or promotion of goods or services by any Marriott International Party under, or any other usage by such party of, the Marriott Marks, or (ii) the liabilities

and obligations described in subsection 8.c.(iii) of the Assignment and License Agreement.

d. If any Dispute is asserted against any party that would entitle such party to indemnification pursuant to Section 6.b or 6.c, any party who seeks indemnification (the "Indemnified Party") shall give written notice thereof to the party or parties from whom indemnification is sought (the "Indemnitor") promptly, but in no event later than thirty (30) days after the General Counsel of such Indemnified Party receives notice of such Dispute; provided, however, that the Indemnified Party's failure to give the Indemnitor
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prompt notice shall not bar the Indemnified Party's right to indemnification unless such failure has materially prejudiced the Indemnitor's ability to defend such Dispute. The Indemnitor shall have the right to employ counsel reasonably acceptable to the Indemnified Party to defend any such Dispute and to compromise, settle or otherwise dispose of the same, if the Indemnitor deems it advisable to do so, at the sole cost and expense of the Indemnitor; provided,
                                                                        ----
however, the Indemnitor shall not settle or consent to the entry of any judgment
- -------
in any Dispute without first obtaining (i) an unconditional release of the Indemnified Party from all liability with respect to all claims underlying such Dispute and/or (ii) the prior written consent of the Indemnified Party, such consent not to be unreasonably withheld, conditioned or delayed. Each Indemnitor and each Indemnified Party will fully cooperate with each other in any such Dispute and shall make available to each other any books or records useful for the defense of any such Proceeding.

7. Infringement Proceedings. The Marriott International Parties shall
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take those steps they deem necessary, in their reasonable judgment, to protect their rights and interest in the Marriott Marks. Promptly upon receiving notice or knowledge thereof, the HM Parties shall provide Marriott International with written notice of any unauthorized use or potentially infringing use by third parties of the Marriott Marks, or of the HM Name, the LP Name or the Sub Names, or any confusingly similar trademarks, service marks, trade names, terms or designs

(collectively "Infringing Marks") which comes to their attention. The Marriott International Parties shall have the right, in their sole discretion and at their sole cost and expense, to commence infringement, unfair competition or other actions regarding any such use by third parties of any Infringing Marks. The HM Parties shall cooperate with and assist Marriott International in its investigation and prosecution of any of the foregoing. In the event that the Marriott International Parties decline to commence such an action with respect to the Marriott Marks or the HM Name, the LP Name or the Sub Names or any confusingly similar mark, the HM Parties may commence, at the HM Parties' sole cost and expense, such an action in its capacity as a licensee of such Marriott Marks; provided, however, that the HM Parties must obtain the prior written approval of Marriott International regarding commencement of such action, such consent not to be unreasonably withheld. Notwithstanding the foregoing to the contrary, Marriott International retains the right, in its sole discretion, to control the prosecution of such action by the HM Parties. If at any time Marriott International concludes, in its reasonable judgment, that the prosecution of such action might impair or in any way diminish the Marriott International Parties' rights or interests in or to the name or mark(s) at issue in such action, Marriott International may withdraw its prior consent. In any action commenced by the HM Parties pursuant to this Section, the HM Parties shall keep Marriott International fully and timely informed of any development in such action and upon request, the HM Parties shall provide to Marriott International any copies of documents related to such action. In any such action, the HM Parties shall not consent to the entry of any judgment in such action or agree to settle such action, in whole or in part, without obtaining the prior written approval of Marriott International. Nothing in this section shall prevent the HM Parties from protecting their own rights to tradenames or marks that do not involve the Marriott Mark, such as protecting their rights to the "Host" name, or, in the event Marriott International declines to prosecute an action with respect to the infringement of the HM Name, the LP Name or the Sub Names, to take such actions as the HM Parties deem necessary to protect its rights to such names.

8. Relationship of Parties. Nothing in this agreement shall be construed to create any relationship among the parties of agency, partnership, or joint venturer or render any party liable for any debts or obligations incurred by any other party hereto. No party is authorized to enter into agreements for or on behalf of any other party hereto, to collect any obligation due or owed to any such party, or to bind any other party in any manner whatsoever.

9. Assignment and Sublicense. No HM Party may assign any rights under this Agreement or sublicense any rights to use the Marriott Marks, or the HM Name, the LP Name or the Sub Names, in whole or in part, to any party without the prior written consent of Marriott International (which consent may be withheld in the sole discretion of Marriott International). Upon any assignment or sublicense entered into in accordance with this Section 9, such assignee or sublicensee shall enter into an assignment or sublicense agreement with the HM Parties, in a form reasonably satisfactory to Marriott International, pursuant to which such assignee or sublicensee agrees to comply with, and be bound by, the terms of this Agreement and acknowledges the status of Marriott International as an intended third party beneficiary of such assignment or sublicense agreement. If requested by Marriott International, such assignee or sublicensee shall also execute an instrument or instruments pursuant to which such assignee or sublicensee shall be bound by, and become a party to, this Agreement. Any purported assignment or sublicense by either of the HM Parties not in compliance with the terms of this Agreement shall be null and void. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. No third party beneficiaries are intended by execution and delivery of this Agreement.

10. Termination of License; Change of Control. This Agreement shall at all times remain in full force unless terminated for a reason specified in and in accordance with this Section 10. Marriott International may:

a. terminate the License, upon thirty (30) days written notice to the HM Parties, upon a Change of Control; or

b. terminate the License, immediately upon notice, if either of the HM Parties becomes insolvent, files for bankruptcy, reorganization, liquidation, dissolution, or receivership, is adjudicated bankrupt or takes the benefit of any act in force or legally permissible procedure for the relief of insolvent debtors; or

c. terminate the License, immediately upon notice, if either of the HM Parties, or any HM Subsidiary, attempts to sell, assign, license, sublicense or otherwise transfer any or all rights to use Marriott Marks in violation of this Agreement; or

d. terminate the License, upon sixty (60) days written notice to the HM Parties, if either of the HM Parties breaches any term of this Agreement, provided that if the breaching HM Party cures such breach within sixty (60) days following such written notice by Marriott International, then such termination shall not be effective; or

e. terminate the License, upon thirty (30) days written notice to the HM Parties, upon the failure of either of the HM Parties to satisfy any of the conditions contained in Section 2.c hereof, provided that if the breaching HM Party satisfies such condition within thirty (30) days following such written notice by Marriott International, then such termination shall not be effective.

The HM Parties hereby agree to notify Marriott International in writing immediately upon the occurrence of an event constituting a Change of Control or failure to satisfy a condition contained in Section 2.c hereof.

11. Effect of Termination.
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a. For a period of one hundred eighty (180) days after the termination of this Agreement, HM Corporation, HM Operating Partnership and the HM Subsidiaries shall be entitled to continue to use the Marriott Marks in

accordance with the terms of this Agreement, but only for the purpose of effecting an orderly transition to the use of new names. Upon the expiration of such one hundred eighty (180) day period, the HM Parties shall:

(i) Immediately discontinue use of the Marriott Marks, refrain from using any marks, terms or designs similar or confusingly similar to the Marriott Marks, and no longer possess any right or interest in the Marriott Marks; and

(ii) If the Marriott International Parties require, cooperate with the Marriott International Parties to apply to the appropriate authorities to cancel from all governmental records the recording of this Agreement or recording the HM Parties as a registered user; and

(iii) Already have taken all steps necessary to change each of the HM Name, the LP Name and the Sub Names to a name that does not contain any of the Marriott Marks or anything similar thereto.

b. In the event of any termination of this Agreement, the License granted hereunder shall be terminated pursuant to Section 10 with respect to all uses of the Marriott Marks by all of the HM Parties and the HM Subsidiaries, regardless of the cause of the termination.

c. Notwithstanding any termination of this Agreement, (1) the provisions of Sections 3.c, 4.d, 6, and 13 of this Agreement shall remain in full force and effect in perpetuity and (2) the provisions of Section 11 of this Agreement shall remain in effect until satisfied in full.

12. Severability. The invalidity or partial invalidity or unenforceability
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of any provision of this Agreement shall not affect the validity or enforceability of any other provisions.

13. Remedies.
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a. The HM Parties, on the one hand, and the Marriott International Parties, on the other hand, acknowledge and agree that money

damages would be inadequate relief for any breach or threatened breach by the other of its obligations hereunder, and that upon such breach, the non-breaching party or parties, as the case may be, shall be entitled to injunctive or other equitable relief for any breach or threatened breach thereof.

b. The HM Parties acknowledge that a failure of HM Corporation, HM Operating Partnership and the HM Subsidiaries to cease use of the Marriott Marks and the HM Name, the LP Name and the Sub Names after termination of this Agreement, its use of the Marriott Marks or the HM Name, the LP Name or the Sub Names in any way that negatively impacts or disparages the Marriott Marks, or its attempt to assign any of its rights in violation of this Agreement will result in immediate and irreparable damage to Marriott International. The HM Parties acknowledge and admit that there is no adequate remedy at law for such breaches of this Agreement, and the HM Parties agree that in the event of such breaches (individually or collectively), Marriott International shall be entitled to equitable relief by way of a preliminary injunction and such other relief as any court with jurisdiction may deem just and proper.

14. Choice of Law. This Agreement shall be construed under and enforced in accordance with the laws of the State of Maryland.

15. Attorneys' Fees. If any party commences an action against the other with respect to this Agreement, the prevailing party in such action shall be entitled to an award of reasonable costs and expenses of litigation, including reasonable attorneys' fees, to be paid by the non-prevailing party.

16. Entire Agreement. This Agreement constitutes the entire agreement and understanding among the parties with respect to its subject matter, is intended as a complete and exclusive statement of the terms of their agreement, and supersedes any prior or contemporaneous agreement or understanding related to the subject matter hereof.

17. Amendments. This Agreement may not be amended, supplemented or modified in any respect except by written agreement among the parties, duly signed by their respective authorized representatives.

18. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all such counterparts together shall constitute but one and the same instrument.

19. Waiver. The HM Parties may waive any breach of this Agreement by Marriott International and Marriott International may waive any breach of this Agreement by the HM Parties; provided, however, that no such waiver shall be deemed effective unless in writing, signed by the waiving party, and specifically designating the breach waived. No waiver shall constitute a continuing waiver of similar or other breaches.

20. Notices. All notices and other communications hereunder shall be in writing and shall be delivered by hand, by facsimile or mailed by registered or certified mail (return receipt requested) to the parties at the following addresses (or at such other addresses for a party as shall be specified by like notice) and shall be deemed given on the date on which such notice is received:

If to the HM Parties:
Host Marriott
10400 Fernwood Road
Washington, D.C. 20058 (registered or certified mail)
Bethesda, Maryland 20817 (express mail or courier)
Attention: General Counsel
Dept. 72/923

FAX NO. (301) 380-3588

If to one or more of the Marriott International Parties:
Marriott International, Inc.
One Marriott Drive
Washington, D.C. 20058 (registered or certified mail)
Attention: General Counsel
Dept. 52/923
FAX NO. 301/380-6727
or
10400 Fernwood Road
Bethesda, Maryland 20817 (express mail or courier)
Attention: General Counsel
Dept. 52/923
FAX NO. 301/380-6727

or to such other address as one party may designate to the other by written notice given in accordance with this Section 20.

21. Further Assurances. The parties hereto hereby covenant and agree to execute and deliver all such documents, make such government filings, and to do or cause to be done all such acts or things as may be necessary to complete and effect the transactions contemplated hereby.

22. Other Agreements. The parties acknowledge that they have entered into franchise and management agreements regarding specific properties, and various agreements with specific partnership HM Subsidiaries, and that such franchise, management and other agreements may grant certain rights to use the Marriott Marks in connection with their respective properties. Nothing in this Agreement shall be construed to limit or expand the rights granted under such agreements.

23. Headings. The descriptive headings of the several sections of this Agreement are for convenience only and do not constitute a part of the Agreement or affect its meaning or interpretation.

24. No Undue Influence. This Agreement is executed voluntarily and without any duress or undue influence on the parties or their officers, employees, agents, or attorneys, and no party is relying on any inducement, promises or representations made by any other party or any of its officers, employees, agents or attorneys other than as set forth herein. The parties hereto acknowledge that they have been represented in the negotiations for and in the preparation of this Agreement by counsel, that they have had this Agreement fully explained to them by such counsel, and that they are aware of the contents of this Agreement and of its legal effect.

IN WITNESS WHEREOF, a duly authorized representatives of each party has executed this Agreement as of the date first written above.

HOST MARRIOTT CORPORATION
By:

Its:

MARRIOTT INTERNATIONAL, INC.
By:

Its:

MARRIOTT WORLDWIDE CORPORATION
By:

Its:

HOST MARRIOTT, L.P.
By: Host Marriott Corporation, general partner
By:

Its:

STATE OF MARYLAND)
COUNTY OF MONTGOMERY) ss:

Before me, a Notary Public, in and for said County and State, on this day personally appeared_____ , the_____ of Host Marriott Corporation, known to me as the person whose name is subscribed to the foregoing instrument.

Given under my hand and seal this __ day of _____, 1998.

Notary Public

My commission Expires:

STATE OF MARYLAND)
COUNTY OF MONTGOMERY) ss:

Before me, a Notary Public, in and for said County and State, on this day personally appeared_____ , the_____ of Marriott International, Inc., known to me as the person whose name is subscribed to the foregoing instrument.

Given under my hand and seal this__ day of__ , 1998.

Notary Public

My Commission Expires:

STATE OF MARYLAND)
COUNTY OF MONTGOMERY) ss:

Before me, a Notary Public, in and for said county and state, on this day personally appeared_____ , the_____ of Marriott Worldwide Corporation, known to me as the person whose name is subscribed to the foregoing instrument.

Given under my hand and seal this ___ day of _____, 1998.

Notary Public

My Commission Expires:

STATE OF MARYLAND)
COUNTY OF MONTGOMERY) ss:

Before me, a Notary Public, in and for said County and State, on this day personally appeared_____ , the_____ of Host Marriott Corporation, known to me as the person whose name is subscribed to the foregoing instrument.

Given under my hand and seal this ____ day of _____ 1998.

Notary Public

My Commission Expires:

EXHIBIT A

SUBSIDIARIES

(those marked by an asterisk are those which appear to have Marriott Marks)

1.) Beachfront Properties, Inc.
2.) Bossier RIBM Two LLC
3.) Bossier RIBM Two, Inc. (Non-consolidated)
4.) CBM Associates II, LLC
5.) CBM Funding Corporation
6.) CBM One Corporation
7.) CBM One Holdings, Inc.
8.) CBM Two Corporation
9.) CRF Lodging I, Inc.
* 10.) Courtyard II Associates Management Corporation
* 11.) Courtyard II Finance Company
13.) DS Hotel LLC
14.) Durbin LLC
15.) FGI Financing I Corporation
16.) Farrell's Ice Cream Parlour Restaurants, Inc.
*18.) Forum Alpha Investments, Inc. (being renamed Crestline Alpha Investments, Inc.)
*19.) Forum Delaware, Inc. (being renamed Crestline Delaware, Inc.)
*20.) Forum Group, Inc. (being renamed Crestline Group, Inc.)
*21.) Forum Ohio Healthcare, Inc. (being renamed Crestline Ohio Healthcare, Inc.)
*22.) Forum Pueblo Norte, Inc. (being renamed Crestline Pueblo Norte, Inc.)
*23.) Forum Retirement, Inc. (being renamed Crestline Retirement, Inc.)
*24.) Forum of Kentucky, Inc. (being renamed Crestline of Kentucky, Inc.)
25.) G.L. Insurance Corporation
26.) HMA-GP, Inc.
27.) HMC Airport, Inc.
28.) HMC Atlanta LLC
29.) HMC BN Corporation
30.) HMC Boynton Beach, Inc.
31.) HMC California Leasing Corp.
32.) HMC Capital Corporation
33.) HMC Capital LLC
34.) HMC Capital Resources Corp.
35.) HMC Chicago LLC
36.) HMC Desert LLC
37.) HMC Diversified LLC
38.) HMC East Side Financial Corporation
39.) HMC East Side, Inc.
40.) HMC Gateway, Inc.

41.) HMC Hanover LLC
42.) HMC Hartford, Inc.
43.) HMC Hotel Development Corporation
44.) HMC Leisure Park Corporation
45.) HMC Manhattan Beach, Inc.
46.) HMC Merger Corporation
47.) HMC Mexpark, Inc.
48.) HMC NGL, Inc.
49.) HMC Naples Golf, Inc.
50.) HMC Partnership Holdings, Inc.
51.) HMC Partnership Properties LLC
52.) HMC Pavilion, Inc.
53.) HMC Polanco, Inc.
54.) HMC Potomac LLC
55.) HMC Properties I LLC
56.) HMC Properties II LLC
57.) HMC Real Estate LLC
58.) HMC Retirement Properties, Inc.
59.) HMC SFO LLC
60.) HMC SFO, Inc.
61.) HMC Seattle LLC
62.) HMC Ventures, Inc.
63.) HMC Waterford, Inc.
64.) HMC Westport Corporation
65.) HMH General Partner Holdings, Inc.
*66.) HMH HPT Courtyard, INC..
*67.) HMH HPT Residence Inn, Inc.
68.) HMH Marina LLC
69.) HMH Marina, Inc.
70.) HMH Norfolk, Inc.
71.) HMH Pentagon Corporation
72.) HMH Pentagon LLC
73.) HMH Properties, Inc.
74.) HMH Realty Company, Inc.
75.) HMH Restaurants, Inc.
76.) HMH Rivers, Inc.
77.) HMH WTC LLC
78.) HMH WTC, Inc.
79.) HMP Capital Ventures, INC.
80.) HMP Financial Services Corporation
81.) HMP Sandalwood Holdings, Inc.
82.) Hanover Hotel Acquisition Corp.
83.) Host Airport Hotels, Inc.
84.) Host LaJolla, Inc.
*85.) Host Marriott Corporation

*86.) Host Marriott Financial Trust
*87.) Host Marriott Hospitality, Inc.
88.) Hot Shoppes, Inc.
89.) Hotel Properties Management, Inc.
90.) LTJ Senior Communities Corporation
91.) MDSM Finance LLC
92.) MHP Acquisition Corp.
93.) MHP II Acquisition Corp.
94.) MOHS Corporation
95.) Marina Hotel LLC
*96.) Market Street Marriott LLC
*97.) Marriott Condominium Development Corporation
*98.) Marriott DSM LLC
*99.) Marriott Desert Springs Corporation
*100.) Marriott FIBM One Corporation
*101.) Marriott Family Restaurants, Inc. of Illinois (being renamed MFR of Illinois LLC)
*102.) Marriott Family Restaurants, Inc. of Vermont (being renamed MFR of Vermont LLC)
*103.) Marriott Family Restaurants, Inc. of Wisconsin (being renamed MFR of Wisconsin, LLC)
*104.) Marriott Financial Services, Inc.
*105.) Marriott Hanover Hotel Corporation
*106.) Marriott MDAH One Corporation
*107.) Marriott MHP Two Corporation
*108.) Marriott Marquis Corporation
*109.) Marriott PLP Corporation
*110.) Marriott Park Ridge Corporation
*111.) Marriott Properties, Inc.
*112.) Marriott RIBM Three Corporation
*113.) Marriott RIBM Two Corporation
*114.) Marriott Realty Sales, Inc.
*115.) Marriott SBM One Corporation
*116.) Marriott SBM Two Corporation
*117.) Marriott SBM Two LLC
*118.) Marriott's Bickford's Family Fare, Inc.
*119.) Marriott/Portman Finance Corporation (non-consolidated)
120.) PM Financial Corporation
121.) PRM Corporation
122.) Panther GenPar, Inc.
123.) Park Ridge L.L.C.
124.) Philadelphia Airport Hotel Corporation
125.) Philadelphia Market Street Hotel Corporation
126.) RIBM One Corporation
127.) S.D. Hotels, Inc.

128.) SFM Finance Corporation
*129.) Saga Property Leasing Corporation
*130.) Saga Restaurants, Inc.
*131.) San Diego Marriott Marina LLC
132.) Sparky's Virgin Islands, Inc.
133.) Tecon Hotel Corporation
134.) Willmar Distributors LLC
135.) Willmar Distributors, Inc.
136.) YBG Associates LLC

PARTNERSHIPS

Atlanta Marriott Marquis Limited Partnership
Camelback Inn Associates Limited Partnership
Courtyard by Marriott Limited Partnership
Courtyard by Marriott II Limited Partnership
Desert Springs Marriott Limited Partnership
Fairfield Inn by Marriott Limited Partnership
Forum Retirement Communities I, L.P.
Forum Retirement Communities II, L.P.
Forum Retirement Partners, L.P.
Hanover Marriott Limited Partnership
Marriott Diversified American Hotels, L.P.
Marriott Hotel Properties Limited Partnership
Marriott Hotel Properties II Limited Partnership
Marriott Residence Inn Limited Partnership
Marriott Residence Inn II Limited Partnership
Marriott Residence Inn USA Limited Partnership
Marriott Suites Limited Partnership
Mutual Benefit/Marriott Hotel Associates I Limited Partnership
Mutual Benefit Chicago Marriott Suite Hotel Partners, L.P.
Times Square Marquis Hotel, L.P.
Wellsford-Marriott Park Ridge Hotel Limited Partnership

Exhibit 10.19

NONCOMPETITION AGREEMENT

THIS NONCOMPETITION AGREEMENT ("Agreement") is made and entered into as of December 28, 1998, between and among HOST MARRIOTT CORPORATION, a Delaware corporation ("HMC"), HOST MARRIOTT, L.P., a Delaware limited partnership (the "Operating Partnership," together with HMC "Host"), CRESTLINE CAPITAL CORPORATION, a Maryland corporation ("CCC"), FERNWOOD HOTEL ASSETS, INC., a Delaware corporation ("Fernwood") and ROCKLEDGE HOTEL PROPERTIES, INC., a Delaware corporation ("Rockledge"). As used in this Agreement, the terms "Host," "CCC," "Fernwood" and "Rockledge" shall mean Host, CCC, Fernwood and Rockledge, respectively, and their respective Subsidiaries and Affiliates (as such terms are defined in Section 1).

WHEREAS, in connection with (i) the lease of substantially all of the full-service hotels owned by Host, and the sublease of certain limited-service hotels leased by Host from third parties, to CCC (each, a "Hotel Lease" and, together, the "Hotel Leases") and (ii) the lease by Fernwood or Rockledge to CCC of certain furniture, furnishing, fixtures, soft goods, case goods, equipment and other similar items for use in the hotels ("FF&E") under certain leases entered into in connection with the Hotel Leases (the "FF&E Leases"), in each case as part of the REIT Conversion (as defined in Section 1), Host, CCC, Fernwood and Rockledge have agreed to enter into this Agreement; and

WHEREAS, as of the date hereof, CCC's principal business consists of owning the Senior Living Community Business, the Hotel Leasing Business, the Asset Management Services Business and the Swissotel Management Company Interest (as such terms are defined in Section 1); and

WHEREAS, as of the date hereof, Host's principal business consists of owning the Host Business and the Non-Controlled Subsidiary Interests (as such terms are defined in Section 1).

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, in the Hotel Leases and the FF&E Leases, and in the related agreements entered into pursuant to or related to the Hotel Leases or the FF&E Leases, and for other valuable consideration, the receipt and sufficiency of which are hereby mutually acknowledged, Host, CCC, Fernwood and Rockledge agree as follows:

ARTICLE ONE

DEFINITIONS

1. Definitions.

The following terms when used herein shall have the meanings set forth below:

"Affiliates" shall mean any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, Host, Fernwood, Rockledge or CCC, as the case may be. For purposes of this definition, "control," when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, through the ownership of voting securities, by contract, or otherwise. Notwithstanding the foregoing, (i) Host's Affiliates shall not include CCC, Marriott International, Inc., Fernwood, Rockledge or any other Non-Controlled Subsidiary, or their respective Subsidiaries or Affiliates, (ii) CCC's Affiliates shall not include Host, Marriott International, Inc., Fernwood, Rockledge or any other Non-Controlled Subsidiary or their respective Subsidiaries or Affiliates, (iii) Fernwood's Affiliates shall not include Host, CCC, Marriott International, Inc., Rockledge or any other Non-Controlled Subsidiary, or their respective Subsidiaries or Affiliates and (iv) Rockledge's Affiliates shall not include Host, CCC, Marriott International, Inc., Fernwood or any other Non-Controlled Subsidiary, or their respective Subsidiaries or Affiliates.

"Asset Management Services Business" means the provision of asset management services to owners of hotels, including without limitation, (i) administration of contracts, (ii) review of operating and financial results, financial statements, budgets, revenue projections and capital spending plans with hotel managers and owners, (iii) administration of facility loans, (iv) negotiation of third party management arrangements, (v) assessment of market conditions, (vi) negotiation of regulatory issues and (vii) provision of advice and information in connection with acquisitions or dispositions of hotels.

"Carried Interest" shall mean with respect to any Person (the "Paying Person"), any right of another Person (by reason of its status as a general partner, sponsor or otherwise) (the "Recipient Person") either (i) to receive a specific portion of the earnings or assets of the Paying Person once other investors in the Paying Person have received an agreed upon return on their investment in the Paying Person or (ii) to receive payments or other distributions which are disproportionate to the Recipient Person's investment in the Paying Person.

"CCC" shall have the meaning set forth in the first paragraph of this Agreement.

"CCC Managed Hotel" shall have the meaning given to it in the definition of
"Permitted Operating Lease."

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Compete" shall mean (i) to conduct or participate or engage in, or bid for, or otherwise pursue, a business, whether as a principal, sole proprietor, partner, stockholder, or agent of, or consultant or lender to, or manager for, any Person or in any other capacity, or (ii) to have any ownership or financial interest in any Person or business which conducts, participates or engages in, or bids for, or otherwise pursues, a business, whether as a principal, sole proprietor, partner, stockholder, or agent of, investor in, or consultant or lender to or manager for, any Person or in any other capacity.

"FF&E" shall have the meaning set forth in the second paragraph of this Agreement.

"FF&E Leases" shall have the meaning set forth in the second paragraph of this Agreement.

"Fernwood" shall have the meaning set forth in the first paragraph of this Agreement.

"Franchise Business" shall mean the ownership or operation of any single or multiple full-service hotel management or franchise system operating under one or more common brand names. Without otherwise expanding the definition of "Franchise Business," the term "Franchise Business" shall not include (i) the operation of hotels, whether owned by CCC or otherwise, pursuant to a franchise or similar license agreement with the owner or operator of the brand name as long as such owner or operator is not CCC, including the operation of full-service hotels owned by owners other than CCC pursuant to leases or management agreements, (ii) any business or activity with respect to limited-service hotels or (iii) any asset management activities undertaken with respect to hotels for the owners of such hotels.

"Host" shall have the meaning set forth in the first paragraph of this Agreement.

"Host Business" shall mean the business of owning, investing in, lending money to, or otherwise financing, full-service hotels, including without limitation the Initial Hotels, acquiring additional existing and newly developed full-service hotels, developing and constructing for ownership by Host full-service hotels, and improving and expanding the Initial Hotels and any additional full-service hotels in which Host acquires an interest. The term "Host Business" shall not include, without limitation, (i) any business or other activity with respect to limited-service hotels or (ii) any business or other activity with respect to full-service hotels other

than the acquisition, development or ownership of full-service hotels or equity interests therein.

"Host REIT" shall mean HMC Merger Corporation, a Maryland corporation into and with which HMC will merge as part of the REIT Conversion.

"Hotel Lease" shall have the meaning set forth in the second paragraph of this Agreement.

"Hotel Leasing Business" means the business of any Person of leasing, as the tenant or subtenant, limited-service or full-service hotel properties from a REIT pursuant to a lease under which the rental payments made by such Person to the lessor qualify as "rents from real property" within the meaning of Section 856(d) of the Code where such Person will not be the operator or manager of such hotel (other than through a contractual arrangement with a third-party manager that is not an Affiliate of such Person). Without otherwise expanding the foregoing, the term "Hotel Leasing Business" shall not include any lease of a limited-service or full-service hotel property (i) from a lessor that is not a REIT, (ii) from a lessor that is a REIT but pursuant to a lease under which the rental payments made to the lessor do not qualify as "rents from real property" within the meaning of Section 856(d) of the Code, or (iii) where the lessee (or any Affiliate of the lessee) will be the operator or manager of such hotel (other than through a contractual arrangement with a third-party manager that is not an Affiliate of the lessee).

"Hotel Management Business" means the business of managing, operating or franchising limited-service or full-service hotel properties on behalf of third parties with respect to matters incident to the operation of such properties including, without limitation, management services with respect to food, beverages, housekeeping, laundry, vending, plant and equipment operation and maintenance, grounds care, gift or merchandise shops within such properties, reservations, sales and marketing services, conference and meeting facilities, health rooms, swimming and other sports facilities and all other services related to the operation of such hotel properties.

"Initial Hotels" shall mean the full-service hotels operated primarily under the Marriott, Ritz-Carlton, Four Seasons, Swissotel and Hyatt brand names in which Host will initially have controlling interests or own outright following the REIT Conversion, as set forth on Schedule A hereto.

"Lease Term" shall mean the period commencing on the lease commencement date and ending on the initial expiration date of the lease, or, in the case of any extension or renewal of any lease which may be exercised solely at the lessee's option (other than renewals or extensions which provide for rent at then prevailing fair market rental rates), the expiration of the extension or renewal period.

"Leased Hotel Equity Value" shall mean for a hotel the Leased Hotel Present Value of such hotel less the outstanding third party debt (provided by lenders unrelated to the owner of the hotel) with respect to such hotel at the commencement of the Lease Term or reasonably anticipated at such time to become outstanding. For purposes of the foregoing, any debt that is secured directly by the hotel, incurred by the owner of the hotel, or directly or indirectly secured by an equity interest in the entity owning the hotel shall be taken into account.

"Leased Hotel Present Value" shall mean the estimated total economic benefit to be derived from the leased property during the Lease Term, which shall equal the sum of (1) the present value (calculated by applying a discount factor which is appropriate in light of the leased property's condition and overall market conditions at the time of determination of such economic value) of the projected total net operating income from the leased property for the Lease Term (before any deductions for rental payments to be made under the lease and before any deductions for debt service on the hotel or of the tenant or subtenant, but after any deductions for base management fees (but without deduction for "incentive management fees" that are based upon operating profit of the hotel or proceeds from the sale or refinancing of the hotel)) and (2) the present value (calculated by applying a discount factor which is appropriate in light of the leased property's condition and overall market conditions at the time of determination of such economic value) of the projected residual value of the leased property at the expiration of the Lease Term, computed by applying a capitalization rate which is appropriate in light of the leased property's expected condition and overall market conditions as of such date to the projected annual net operating income (before any deductions for rental payments to be made under the lease, and before any deductions for debt service on the hotel or of the tenant or subtenant, but after deduction for any base management fees that a buyer of the hotel would be required to assume (or if greater, an imputed reasonable market-level base management fee) (but without any deduction for "incentive management fees" that are based upon the operating profit of the hotel or proceeds from a sale or refinancing of the hotel)) as of the last day of the Lease Term.

"Managed Hotel Equity Value" shall mean, with respect to any CCC Managed Hotel, the Managed Hotel Present Value of such hotel less the third party debt (provided by lenders unrelated to the owner of the hotel) outstanding (or reasonably contemplated to become outstanding) with respect to such hotel at the commencement of the Management Agreement Term (computed as of the time specified in the specific provision of this Agreement where the term is being used). For purposes of the foregoing, any debt that is secured directly by the hotel, incurred by the owner of the hotel, or directly or indirectly secured by an equity interest in the entity owning the hotel shall be taken into account.

"Managed Hotel Present Value" shall have the meaning given to it in subsection (ii) of the definition of "Permitted Full-Service Management Agreement"

(computed as of the time specified in the specific provision of this Agreement where the term is being used).

"Management Agreement Term" shall have the meaning given to it in the definition of "Permitted Full-Service Management Agreement."

"Merger" shall mean the merger of HMC with and into Host REIT as part of the REIT Conversion.

"1998 Noncompetition Agreement" shall have the meaning set forth in Section 4.1.B. hereof.

"Non-Controlled Subsidiary" shall mean any taxable corporation, including without limitation Fernwood and Rockledge, in which the Operating Partnership owns, directly or through a Subsidiary, more than fifty percent (50%) of the economic interest but which the Operating Partnership, either directly or through a Subsidiary, does not control. For purposes of this definition, "control," when used with respect to any Non-Controlled Subsidiary, means the power to direct the management and policies of such Non-Controlled Subsidiary, directly or indirectly, through the ownership of voting securities, by contract, or otherwise.

"Non-Controlled Subsidiary Interests" shall mean the economic interests held by the Operating Partnership, either directly or through a Subsidiary, in the Non-Controlled Subsidiaries.

"Operating Partnership" shall have the meaning set forth in the first paragraph of this Agreement.

"Permitted Full-Service Lease" shall mean either a Permitted REIT Lease or a Permitted Operating Lease.

"Permitted Full-Service Management Agreement" shall mean a management agreement entered into by CCC (or to be entered into by CCC) with respect to a full-service hotel where CCC will be the manager but CCC will not also be the lessee with respect to such full-service hotel and with respect to which the estimated economic benefit to be derived by CCC from such management contract (including any base, incentive and other similar management fees) during the period commencing on the management agreement commencement date and ending on the initial termination date for such management agreement, or, in the case of any extension or renewal of any management agreement which may be exercised solely at the manager's option (other than renewals or extensions which provide for management fees at then prevailing fair market rates), the termination of the extension or renewal period (the "Management Agreement Term"), computed as described in clause (i) below, shall not exceed twenty percent (20%) of the estimated Managed Hotel Present Value (as defined below) (and if CCC is making a direct or

indirect investment with respect to the hotel, the condition in Section 3.B(v)(D) shall have been satisfied). For purposes of the foregoing:

(i) The estimated economic benefit to be derived by CCC during the Management Agreement Term shall equal the present value of the projected management fees (including base management fees, incentive management fees, and other similar fees payable to CCC pursuant to the management agreement, but not including expense reimbursements), calculated by applying a discount factor which is appropriate in light of overall market conditions at the time of determination of such economic value and the risk to the manager associated with the proposed management agreement fee structure; and

(ii) The term "Managed Hotel Present Value" means the estimated total economic benefit to be derived from the managed property during the Management Agreement Term, which shall equal the sum of (1) the present value (calculated by applying a discount factor which is appropriate in light of the managed property's condition and overall market conditions at the time of determination of such economic value) of the projected total net operating income from the managed property for the Management Agreement Term (before any deductions for rental payments to be made under any lease and before any deductions for debt service on the hotel or of the tenant or subtenant, but after any deductions for base management fees (but without deduction for "incentive management fees" that are based upon operating profit of the hotel or proceeds from the sale or refinancing of the hotel)) and (2) the present value (calculated by applying a discount factor which is appropriate in light of the managed property's condition and overall market conditions at the time of determination of such economic value) of the projected residual value of the managed property at the expiration of the Management Agreement Term, computed by applying a capitalization rate which is appropriate in light of the managed property's expected condition and overall market conditions as of such date to the projected annual net operating income (before any deductions for debt service on the hotel or of the tenant or subtenant and before any deductions for rent but after deduction for any base management fee that a buyer of the hotel would be required to assume (or if greater, an imputed reasonable market-level base management fee) (but without any deduction for "incentive management fees" that are based upon operating profit of the hotel or proceeds from a sale or refinancing of the hotel) as of the last day of the Management Agreement Term (the "Managed Hotel Present Value").

All of the various determinations of net operating income from the managed property provided for above, together with the various adjustments thereto, and the discount rates and capitalization rates to be applied in making the computations provided for above shall be as reasonably determined by CCC (subject to the review and approval of Host in its reasonable judgment and to Section 5.1 of this Agreement in the event that there is a disagreement between Host and CCC with respect thereto).

"Permitted Operating Lease" shall mean a lease by CCC with respect to a full-service hotel where CCC will be the operator or manager of the hotel (other than through a contractual arrangement with a third-party manager) (a "CCC Managed Hotel"), and which meets the following conditions:

(i) If the lessor is a Publicly-Traded REIT or a Permitted Private REIT and the lease is such that the rental payments made thereunder by CCC to the lessor qualify as "rents from real property" within the meaning of Section 856(d) of the Code, the estimated economic benefit to be derived by CCC from the lease and any related management contract (including both management fees, including any base, incentive and other similar management fees, and any operating profit to be retained by the tenant or subtenant in such capacity) during the Lease Term, computed as described in clause (iii) below, shall not exceed either twenty-five percent (25%) of the Leased Hotel Present Value, or fifty percent (50%) of the Leased Hotel Equity Value of such hotel.

(ii) If the lessor is not either a Publicly-Traded REIT or a Permitted Private REIT or if the lease is such that the rental payments made thereunder by CCC to the lessor will not qualify as "rents from real property" within the meaning of Section 856(d) of the Code, the estimated economic benefit to be derived by CCC from the lease and any related management contract (including both management fees, including any base, incentive and other similar management fees, and any operating profit to be retained by the tenant or subtenant in such capacity) during the Lease Term, computed as described in clause (iii) below, shall not exceed either twenty percent (20%) of the Leased Hotel Present Value, or forty percent (40%) of the Leased Hotel Equity Value of such hotel.

(iii) For purposes of subparagraphs (i) and (ii) above, the estimated economic benefit to be derived by CCC during the Lease Term shall equal the present value of the sum of (1) the projected net operating income to be received by the tenant or subtenant, respectively, from the leased property for the Lease Term (after deduction for rental payments but before deduction for debt service on

the hotel or of the tenant or subtenant and including any residual payments to be received by the tenant or subtenant at any time during the Lease Term (including on the last day thereof)) and (2) the projected management fees to be received by CCC, the tenant or the subtenant during the Lease Term (including base management fees, incentive management fees, and other similar fees payable to CCC pursuant to the management agreement, but not including expense reimbursements), calculated by applying a discount factor which is appropriate in light of the leased property's condition and overall market conditions at the time of determination of such economic value and the risk to the tenant or subtenant associated with the proposed lease structure.

All of the various determinations of net operating income from the leased property provided for above, together with the various adjustments thereto, and the discount rates and capitalization rates to be applied in making the computations provided for above shall be as reasonably determined by CCC (subject to the review and approval of Host in its reasonable judgment and to Section 5.1 of this Agreement in the event that there is a disagreement between Host and CCC with respect thereto).

"Permitted Private REIT" shall mean an entity that would be a Publicly-Traded REIT but for the fact that shares of capital stock or other units of equity interests of the REIT that are generally entitled to vote for the election of directors or similar managers are not listed or admitted to trading on the New York Stock Exchange or the American Stock Exchange or designated for quotation on the Nasdaq National Market, or any successor to any of the foregoing, so long as CCC's lease or sublease of a full-service hotel from such entity and any other investment in or with respect to such full-service hotel would not cause CCC to violate Section 3.D.

"Permitted REIT Lease" shall mean a lease by CCC that is with respect to a full-service hotel where CCC will not be the operator or manager of such hotel (other than through a contractual arrangement with a third-party manager) and which meets the following conditions:

(i) the lessor must be a Publicly-Traded REIT or a Permitted Private REIT and the rental payments made by CCC to the lessor must qualify as "rents from real property" within the meaning of Section 856(d) of the Code; and

(ii) the estimated economic benefit to be derived by the tenant or subtenant, as applicable, during the Lease Term shall not exceed fifteen percent (15%) of the Leased Hotel Present Value.

(iii) For purposes of clause (ii) above, the estimated economic benefit to be derived by the tenant or subtenant during the Lease Term shall equal the present value of the projected net operating income to be received by the tenant or subtenant, respectively, from the leased property for the Lease Term (after deduction for rental payments but before deduction for debt service on the hotel or of the tenant or subtenant and including any residual payments to be received by the tenant or subtenant at any time during the Lease Term (including on the last day thereof)), calculated by applying a discount factor which is appropriate in light of the leased property's condition and overall market conditions at the time of determination of such economic value and the risk to the tenant or subtenant associated with the proposed lease structure.

All of the various determinations of net operating income from the leased property provided for above, together with the various adjustments thereto, and the discount rates and capitalization rates to be applied in making the computations provided for above shall be as reasonably determined by CCC (subject to the review and approval of Host in its reasonable judgment and to Section 5.1 of this Agreement in the event that there is a disagreement between Host and CCC with respect thereto).

"Person" shall mean any person, firm, corporation, general or limited partnership, association, or other entity.

"Primary Host Lessee" shall mean the lessee of more than 25% by number of the Initial Hotels.

"Publicly-Traded REIT" shall mean a REIT whose shares of capital stock or other units of equity interests that are generally entitled to vote for the election of directors or similar managers are listed or admitted to trading on the New York Stock Exchange or the American Stock Exchange or designated for quotation on the Nasdaq National Market, or any successor to any of the foregoing. The term "Publicly-Traded REIT" shall include any Person whose operations are consolidated with those of a Publicly-Traded REIT under generally accepted accounting principles or in which the Publicly-Traded REIT otherwise owns, directly or indirectly, a twenty-five percent (25%) or greater equity interest so long as, in either case, the Publicly-Traded REIT must take the assets and operations of such Person into account in determining whether it satisfies the income and asset requirements of Section 856(c) of the Code.

"REIT" shall mean a "real estate investment trust" within the meaning of Sections 856 through 859 of the Code.

"REIT Conversion" shall mean the reorganization of Host's business operations to permit Host REIT to qualify as a REIT, including the Merger and the

other transactions described in the Prospectus/Consent Solicitation that is part of the Registration Statement filed with the Securities and Exchange Commission by Host REIT and the Operating Partnership on Form S-4 (File No. 333-55807).

"Rockledge" shall have the meaning set forth in the first paragraph of this Agreement.

"Senior Living Community Business" shall mean, as to any Person, the business of developing, acquiring, owning or investing in, existing and newly developed retirement community properties (including, without limitation, assisted living facilities, independent care facilities and nursing homes), improving and expanding the retirement community properties (including, without limitation, assisted living facilities, independent care facilities and nursing homes) owned and acquired by such Person and/or operating retirement community properties (including, without limitation, assisted living facilities, independent care facilities and nursing homes) for other owners thereof (whether pursuant to a management agreement, operating agreement, lease, license or otherwise).

"Subsidiaries" shall mean corporations or other entities which are more than ten percent (10%) owned, directly or indirectly, by Host, CCC, Fernwood or Rockledge, as the case may be, and partnerships in which Host, CCC, Fernwood or Rockledge, as the case may be, or a Subsidiary thereof, is a general partner. Notwithstanding the foregoing, Host's Subsidiaries shall not include Fernwood, Rockledge or any other Non-Controlled Subsidiary which becomes a party to this Agreement or otherwise agrees to be bound by terms which are substantially the same as those set forth in Section 2.

"Swissotel Management Company Interest" means CCC's 25% interest in Swissotel Management (U.S.A.) L.L.C.

"Transfer" shall mean the sale, conveyance, disposal of or other transfer of ownership, title or other interest.

ARTICLE TWO

NONCOMPETITION WITH RESPECT TO THE SENIOR LIVING COMMUNITY BUSINESS

2. Certain Restrictions on Host, Fernwood and Rockledge.

A. Except as provided in Section 2.C., from the date hereof until December 31, 2003, neither Host, Fernwood nor Rockledge shall Compete in the Senior Living Community Business.

B. Except as provided in Section 2.C., from the date hereof until the earlier of (i) December 31, 2008 and (ii) the date on which CCC is no longer the Primary Host Lessee, neither Host, Fernwood nor Rockledge shall Compete in the Hotel Leasing Business.

C. Neither Section 2.A. nor Section 2.B. shall prohibit Host, Fernwood or Rockledge from engaging in the following activities:

(i) the ownership of any equity interest in any Person which Competes in the Senior Living Community Business or the Hotel Leasing Business if Host, Fernwood or Rockledge, as the case may be, directly or indirectly, is the beneficial owner of not more than five percent (5%) of such Person's outstanding equity interests, including for such purpose any Carried Interest in such Person, whether or not earned (based upon the maximum percentage applicable for such Carried Interest) and cannot, by reason of the ownership of such equity interest or otherwise, have any right to control such Person (including, but not limited to, control resulting from a general partner interest, special rights as a manager of a limited liability company or similar entity, contractual or other rights to representation on the board of such Person that are disproportionate to Host's, Fernwood's or Rockledge's, as the case may be, equity ownership in such Person, disproportionate voting rights with respect to Host's, Fernwood's or Rockledge's, as the case may be, equity position, or veto or approval rights as to major decisions);

(ii) the acquisition (by merger, stock purchase or otherwise) of, or the purchase of assets from, any Person who Competes in the Senior Living Community Business or the Hotel Leasing Business if the fair market value, on the acquisition date, of the acquired assets which relate to activities which Compete with the Senior Living Community Business or the Hotel Leasing Business, as the case may be, do not constitute more than ten percent (10%) of the total purchase price for the transaction; or

(iii) (A) the leasing, directly or indirectly, by Host from Fernwood or Rockledge or by Fernwood or Rockledge from Host of limited-service or full-service hotel properties, (B) the leasing, directly or indirectly, by Host of properties pursuant to the leases listed on Schedule B attached hereto, including any renewals or extensions thereof, (C) the leasing, directly or indirectly, by Host, Fernwood or Rockledge from any other Person of limited-service or full-service hotel properties where Host, Fernwood or Rockledge, as the case may be, has a direct or indirect equity interest in such Person sufficient for such Person to be consolidated with Host for financial accounting purposes, or (D) any leasing, directly or indirectly, by Host, Fernwood, Rockledge or any other Non-Controlled Subsidiary, as lessee, of full-service hotels or limited-service hotels pursuant to leases that would not fall within the scope of the term "Hotel Leasing Business."

D. Each of Host, Fernwood and Rockledge agrees that, from the date hereof until December 31, 2000, it will not solicit, hire or induce the termination of employment of, a person who is employed by CCC at the time of, or was employed by CCC at any time within three months prior to, such solicitation, hiring or inducement and whose grade is, or, if applicable, was at the time of the termination of his employment with CCC, the equivalent of Host's current grade 56 or above.

ARTICLE THREE

NONCOMPETITION WITH RESPECT TO THE HOST BUSINESS

3. Certain Restrictions on CCC.

A. Except as provided in Section 3.B., from the date hereof until the earlier of (i) December 31, 2008 and (ii) the date on which CCC is no longer the Primary Host Lessee, (a) CCC shall not Compete in the Host Business, and (b) CCC shall not, without the consent of Host, in its sole and absolute discretion, either enter into any leases with respect to full-service hotels other than Permitted Full-Service Leases or enter into any management agreements with respect to full-service hotels other than Permitted Full-Service Management Agreements and management agreements in connection with Permitted Operating Leases.

B. Section 3.A. shall not prohibit CCC from engaging in the following activities:

(i) any activity (including any investments) undertaken by CCC that is necessary to and reasonably connected with its business of acting as a lessee of full-service hotels, including acquisitions of property and assets used in such hotels that are incidental to CCC's role as lessee (such as "hotel working capital" and "furniture, fixtures and equipment" in a manner similar to that contemplated under the Hotel Leases) but excluding loans to or equity investments in the lessor or any of its Affiliates except to the extent permitted under clause (v) below;

(ii) any activity undertaken by CCC with respect to the Asset Management Services Business;

(iii) the ownership of any equity interest in any Person which Competes in the Host Business if CCC, directly or indirectly, is the beneficial owner of not more than five percent (5%) or more of such Person's outstanding equity interests, including for such purpose any Carried Interest in such Person, whether or not earned (based upon the maximum percentage applicable for such Carried Interest) and cannot, by reason of the ownership of such equity interest or otherwise, have any right to control such Person

(including, but not limited to, control resulting from a general partner interest, special rights as a manager of a limited liability company or similar entity, contractual or other rights to representation on the board of such Person that are disproportionate to CCC's equity ownership in such Person, disproportionate voting rights with respect to CCC's equity position, or veto or approval rights as to major decisions);

(iv) the acquisition (by merger, stock purchase or otherwise) of, or the purchase of assets from, any Person who Competes in the Host Business if the fair market value, on the acquisition date, of the acquired assets which relate to activities which Compete with the Host Business do not constitute more than ten percent (10%) of the total purchase price for the transaction; or

(v) the provision of financing for any full-service hotel (whether directly or by participation in a lender syndicate) so long as the following conditions are met:

(A) on the date on which CCC becomes contractually committed to provide such financing (1) CCC is (or in connection with such financing will become) the lessee (or lessee and manager) of such hotel pursuant to a lease which is a Permitted Full-Service Lease, (2) CCC is (or in connection with such financing will become) the manager of such hotel pursuant to a management agreement which is a Permitted Full-Service Management Agreement, or (3) CCC has a bona fide contract to become either the lessee (or lessee and manager) of such hotel pursuant to a lease which would be a Permitted Full-Service Lease or the manager of such hotel pursuant to a management agreement which would be a Permitted Full-Service Management Agreement upon completion of the construction and development or stabilization of such hotel and upon satisfaction of reasonable conditions;

(B) if such financing is in the form of a loan, (x) the present value of CCC's interest in the hotel represented by such financing (determined applying the principles set forth in clause (E) below) does not exceed fifteen percent (15%) of the Leased Hotel Present Value or Managed Hotel Present Value, as applicable, of the hotel which is subject to such financing, each determined as of the date on which CCC becomes contractually committed to provide such financing, and (y) such loan does not include any equity participation feature (whether in the form of warrants, options, a conversion right, interest payments based upon profits, revenues, and/or appreciation, or otherwise) that would cause CCC to violate clause (C) below at any time, assuming for purposes of such determination that CCC would exercise any and all options and other rights that it might have in connection with such loan (provided that the foregoing shall not

prevent the exercise by CCC of its rights upon foreclosure of such indebtedness unless the default with respect to such indebtedness giving the right to such foreclosure had occurred or was imminent at the time CCC acquired such indebtedness),

(C) if such financing is in the form of an equity investment, directly or indirectly, in the full-service hotel or the Person owning, directly or indirectly, such hotel, CCC will not beneficially own (and will not have any right to acquire beneficial ownership of) more than fifteen percent (15%) of the outstanding Leased Hotel Equity Value or Managed Hotel Equity Value, as applicable, computed on the date on which CCC becomes contractually committed to make such equity investment (including for such purpose any Carried Interest in the Person which owns such hotel, whether or not earned (based upon the maximum percentage applicable for such Carried Interest)), and CCC cannot, by reason of the ownership of such equity interest or otherwise, have any right to control the hotel or the Person owning such hotel (including, but not limited to, control resulting from a general partner interest, special rights as a manager of a limited liability company or similar entity, contractual or other rights to representation on the board of such Person that are disproportionate to CCC's equity ownership in such Person, disproportionate voting rights with respect to CCC's equity position, or veto or approval rights as to major decisions), and

(D) the following condition, as applicable, is satisfied:

(1) if the Permitted Full-Service Lease will not be a Permitted Operating Lease where the lessor is a Publicly-Traded REIT or a Permitted Private REIT and with respect to which the rental payments made thereunder by CCC to the lessor qualify as "rents from real property" within the meaning of Section 856(d) of the Code, the combined economic interest of CCC in the full-service hotel under such Permitted Full-Service Lease (calculated as set forth in the definition of "Permitted REIT Lease" or "Permitted Operating Lease," as applicable) and the present value of CCC's interest in the hotel represented by any financing or equity interests described in clauses (B) and (C) above (determined applying the principles set forth in clause (E) below), all determined as of the date CCC becomes contractually committed to make such investment, cannot exceed either (x) twenty percent (20%) of the Leased Hotel Present Value, on the date CCC becomes contractually committed to provide such financing, of the hotel which is subject to such financing, or (y)

forty percent (40%) of the Leased Hotel Equity Value of such hotel on such date; or

(2) if the Permitted Full-Service Lease will be a Permitted Operating Lease where the lessor is a Publicly-Traded REIT or a Permitted Private REIT and with respect to which the rental payments made thereunder by CCC to the lessor qualify as "rents from real property" within the meaning of Section 856(d) of the Code, the combined economic interest of CCC in the full-service hotel under such Permitted Full-Service Lease (calculated as set forth in the definition of "Permitted REIT Lease" or "Permitted Operating Lease," as applicable) and the present value of CCC's interest in the hotel represented by any financing or equity interests described in clauses (B) and (C) above (determined applying the principles set forth in clause (E) below), all determined as of the date CCC becomes contractually committed to make such investment, cannot exceed either (x) twenty-five percent (25%) of the Leased Hotel Present Value, on the date CCC becomes contractually committed to provide such financing, of the hotel which is subject to such financing, or (y) fifty percent (50%) of the Leased Hotel Equity Value of such hotel on such date; or

(3) if CCC is a party to, or has a bona fide contract to become a party to, a Permitted Full-Service Management Agreement, the combined economic interest of CCC in the full-service hotel under such Permitted Full-Service Management Agreement (calculated as set forth in the definition of "Permitted Full-Service Management Agreement") and the present value of CCC's interest in the hotel represented by any financing or equity interests described in clauses (B) and (C) above (determined applying the principles set forth in clause (E) below), all determined as of the date CCC becomes contractually committed to make such investment, cannot exceed either (x) twenty percent (20%) of the Managed Hotel Present Value, on the date CCC becomes contractually committed to provide such financing, of the hotel which is subject to such financing, or (y) forty percent (40%) of the Managed Hotel Equity Value of such hotel on such date. (Payments to a third party unrelated to the owner of the hotel to purchase an existing management agreement do not constitute an investment subject to the foregoing provisions.)

(E) For purposes of this Section 3.B.(v), the present value of CCC's interest in any financing or equity interests shall be determined

by computing the present value of the cash flow projected to be received by CCC with respect to such financing or equity interest during the Lease Term or the Management Agreement Term, as applicable, assuming that the hotel is sold for its projected fair market value at the expiration of the Lease Term or Management Agreement Term, as applicable, and the proceeds of such sale are applied to repay debt and make distributions to equity owners in accordance with their respective interests, calculated by applying a discount factor which is appropriate in light of overall market conditions at the time of determination of such economic value and the risk to CCC associated with the proposed financing or equity interest. All of the various determinations of cash flow projected to be received from the proposed financing or equity interest and the discount rates to be applied in making the computations provided for above (and any capitalization rates to be applied for determining projected fair market values at the expiration of the Lease Term or Management Agreement Term, as applicable) shall be as reasonably determined by CCC (subject to the review and approval of Host in its reasonable judgment and to Section 5.1 of this Agreement in the event that there is a disagreement between Host and CCC with respect thereto).

C. CCC agrees that, from the date hereof until December 31, 2000, it will not solicit, hire, or induce the termination of employment of, a person who is employed by Host, Fernwood or Rockledge at the time of, or was employed by Host, Fernwood or Rockledge at any time within three months prior to, such solicitation, hiring or inducement and whose grade, is or, if applicable, was at the time of the termination of his employment with Host or Fernwood or Rockledge, the equivalent of Host's current grade 56 or above.

D. Notwithstanding any other provision of this Agreement, until the expiration of the period set forth in Section 3.A., CCC shall not lease or sublease any full-service hotel from a REIT that is not a Publicly-Traded REIT unless the combined investments, if any, of CCC in such lease and any other leases of full-service hotels from REITs that are not Publicly-Traded REITs (including any security or other deposits provided by CCC to the landlord) and any financing or equity interests in hotels leased from such REITs (or in the Persons owning such hotels) (with the value thereof determined using the methodology described in Section 3.B(v)(E) above as of the date on which the determination is being made under this Paragraph D) does not exceed the greater of $125,000,000 or fifteen percent (15%) of the book value of CCC's assets as of such date.

ARTICLE FOUR

LIMITATION ON ENGAGEMENT IN THE HOTEL MANAGEMENT BUSINESS

4. Certain Restrictions on CCC.

A. Except as provided in Sections 4.1.B. and 4.1.C., CCC shall be entitled to Compete in the Hotel Management Business.

B. CCC acknowledges that the provisions of that certain Restated Noncompetition Agreement between and among Host and Marriott International, Inc., dated March 3, 1998 (the "1998 Noncompetition Agreement"), applies to it and that such 1998 Noncompetition Agreement has been amended effective the date hereof to include CCC as a party thereto.

C. Notwithstanding the foregoing Section 4.1.A., from the date hereof until the earlier of (i) December 31, 2008 and (ii) the date on which CCC is no longer the Primary Host Lessee, CCC shall comply with the following restrictions:

(i) CCC shall not, without the consent of Host in its sole discretion, engage in the Hotel Management Business with regard to any hotels owned by Host, provided that, the foregoing shall not be deemed to prohibit CCC from acting in its capacity as a lessee of hotels owned by Host where CCC has engaged another Person who is not a Affiliate of CCC to manage or operate, within the meaning of the term "Hotel Management Business," the leased hotels.

(ii) CCC shall not engage in the Hotel Management Business with regard to any full-service hotels not owned by Host unless either (a) if CCC is not the lessee (or sublessee) with respect to such hotel, the management agreement with respect to such hotel is a Permitted Full-Service Management Agreement, or (b) if CCC is either the lessee or sublessee with respect to such hotel, the lease with respect to such hotel is a Permitted Full-Service Lease and CCC is compliance with the conditions set forth in Section 3.B(v) with respect to such hotel.

(iii) CCC shall not Compete in the Franchise Business.

D. Notwithstanding anything herein to the contrary, nothing in this Agreement shall prohibit CCC from owning the Swissotel Management Company Interest or any activities undertaken by Swissotel Management (U.S.A.) L.L.C.

ARTICLE FIVE

MISCELLANEOUS

5.1 Arbitration of Certain Matters.

Host, CCC, Fernwood and Rockledge agree that any controversy or dispute concerning any calculation or determination of value, present values, net operating income, anticipated cash flow, capitalization rate or sales arising under the definition of "Host Leasing Business," "Leased Hotel Equity Value," "Leased Hotel Present Value," "Permitted Full-Service Management Agreement," "Managed Hotel Present Value," or "Managed Hotel Equity Value" in Section 1, or under Section 2.C.(ii), Section 3.B.(iv), Section 3.B.(v), or Section 3.E hereof, including without limitation any dispute as to whether as determination of any of the foregoing by CCC is reasonable, shall be settled in arbitration in accordance with the Rules of the American Arbitration Association then in effect. Such arbitration shall take place in Washington, D.C. Any judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. The arbitrators shall not, under any circumstances, have any authority to award punitive, consequential, exemplary or similar damages, and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of this Agreement. Nothing contained in this Section 5.1 shall limit or restrict in any way the right or power of a party at any time to seek injunctive relief in any court and to litigate the issues relevant to such request for injunctive relief before such court (i) to restrain the other party from breaching this Agreement, or (ii) for specific enforcement of this Section 5.1. The parties agree that any legal remedy available to a party with respect to a breach of this Section 5.1 will not be adequate and that, in addition to all other legal remedies, each party is entitled to an order specifically enforcing this Section 5.1. Neither party nor the arbitrators may disclose the existence or results of any arbitration under this Agreement or any evidence presented during the course of the arbitration without the prior written consent of both parties, except as required to fulfill applicable disclosure and reporting obligations, or as otherwise required by agreements with third parties, or by law.

5.2 Entire Agreement.

This Agreement, the Hotel Leases, the FF&E Leases and the 1998 Noncompetition Agreement constitute the entire agreement of the parties concerning the subject matter hereof.

5.3 Modification.

This Agreement may only be amended, modified or supplemented in a written agreement signed by both parties hereto.

5.4 Waiver.

No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision hereof, except by written instrument of the party charged with such waiver or estoppel.

5.5 Severability.

Host, CCC, Fernwood and Rockledge agree that the period of restriction and the lack of geographical area of restriction imposed upon the parties are fair and reasonable, are reasonably required for the protection of each of the parties hereto and have been specifically negotiated and carefully tailored with a view to preventing the serious and irreparable injury the other party will suffer in the event of competition by such party with the other party during the time periods set forth herein. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect as though the invalid portions were not a part hereof. If the provisions of this Agreement relating to the geographical area of restriction or the period of restriction shall be deemed to exceed the maximum geographical area or period which a court having jurisdiction over the matter would deem enforceable, such area or period shall, for purposes of this Agreement, be deemed to be the maximum geographical area or period which such court would deem valid and enforceable.

5.6 Remedies.

CCC, Host, Fernwood and Rockledge agree that irreparable damage would occur in the event any of the provisions of this Agreement were not to be performed in accordance with the terms hereof, and that their remedy at law for any breach of the other party's obligations hereunder would be inadequate. CCC, Host, Fernwood and Rockledge agree and consent that temporary and permanent injunctive relief may be granted in any proceeding which may be brought to enforce any provision hereof without the necessity of proof of actual damage.

The parties hereby agree that the obligations of each of Host, Fernwood and Rockledge hereunder are independent and that none of them shall have any liability for the breach by any of the others of such other's obligations hereunder. CCC and Host agree that, in the event that any Non-Controlled Subsidiary which is not a party to this Agreement engages in any activity in which Host is prohibited from engaging under this Agreement, CCC shall not be entitled to terminate this Agreement but Host shall indemnify and hold CCC harmless from any liabilities, damages, losses and reasonable expenses incurred by CCC as a result thereof.

5.7 Enforceability.

The terms, conditions and promises contained in this Agreement shall be binding upon and shall inure to the benefit of each of the parties hereto, their heirs, personal representatives, or successors and assigns. Without limiting the generality of the foregoing, the parties agree that, following the Merger, Host REIT shall be deemed to be a successor of Host under this Agreement. Each of the parties hereto shall cause its Subsidiaries which are not Non-Controlled Subsidiaries to comply with such party's obligations hereunder. Nothing herein, expressed or implied, shall be construed to give any other Person any legal or equitable rights hereunder.

5.8 Assignment and Successors and Assigns.

Neither party shall, without the prior written consent of the other, assign any rights or delegate any obligations under this Agreement. Notwithstanding anything herein to the contrary, the restrictions, rights and obligations set forth herein shall be treated as follows: in the event Host Transfers all or substantially all of the Host Business, the transferee thereof shall automatically be bound by the terms of this Agreement; in the event CCC Transfers all or substantially all of the Senior Living Community Business or all or substantially all of the Hotel Leasing Business or all or substantially all of the Asset Management Services Business, the transferee thereof shall automatically be bound by the terms of this Agreement; and, in the event either Fernwood or Rockledge Transfers all or substantially all of its business of leasing FF&E to lessees of full and limited-service hotels, the transferee thereof shall automatically be bound by the terms of this Agreement. The parties acknowledge that, upon the effectiveness of the Merger, Host REIT shall succeed to all of the rights and obligations of HMC under this Agreement.

5.9 Consent to Jurisdiction.

Subject to Section 5.1 hereof, the parties irrevocably submit to the exclusive jurisdiction of (i) the Courts of the State of Maryland in Montgomery County, and (ii) if federal jurisdiction exists, the United States District Court for the State of Maryland for the purposes of any suit, action or other proceeding arising out of this Agreement.

5.10 Interpretation.

When a reference is made to this Agreement to a Section, Article, or Schedule, such reference shall be to a Section, Article, or Schedule of this Agreement unless otherwise indicated. The headings contained in this Agreement are for reference purposes only and shall neither affect the meaning or interpretation of this Agreement, nor define or limit the scope or intent of any

provision or part hereof. Whenever the words "include," or "includes," or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation."

5.11 Notices.

All notices and other communications hereunder shall be in writing and shall be delivered by hand, by telecopier with computer generated acknowledgment of receipt, by mail or by Federal Express or similar expedited commercial carrier, to the parties at the following addresses (or at such other addresses for a party as shall be specified by like notice), postpaid and certified with return receipt requested (if by mail), or with all freight charges prepaid (if by Federal Express or similar carrier), and shall be deemed given on the date of acknowledged receipt, in the case of a notice by telecopier, and, in all other cases, on the date of receipt or refusal:

To Host:

Host Marriott Corporation
10400 Fernwood Road
Bethesda, Maryland 20817
Attention: Christopher G. Townsend, Senior Vice
President, General Counsel and
Corporate Secretary
Fax No.: 301/380-3588

To CCC:

Crestline Capital Corporation
10400 Fernwood Road
Bethesda, Maryland 20817
Attention: General Counsel
Fax No.: 240/694-2040

with a copy to:

Crestline Capital Corporation
10400 Fernwood Road
Bethesda, Maryland 20817
Attention: Executive Vice President - Asset Management
Fax No.: 240/694-2082

To Fernwood:

Fernwood Hotel Assets, Inc.
10400 Fernwood Road
Bethesda, Maryland 20817
Attention: President
Fax: 301/380-6338

With a copy to:

Host Marriott Corporation Law Department,
as agent for Fernwood Hotel Assets, Inc.
10400 Fernwood Road
Bethesda, Maryland 20817
Attention: Christopher G. Townsend, Senior Vice
President, General Counsel and
Corporate Secretary
Fax No.: 301/380-3588

To Rockledge:

Rockledge Hotel Properties, Inc.
10400 Fernwood Road
Bethesda, Maryland 20817
Attention: President
Fax: 301/380-5188

With a copy to:

Host Marriott Corporation Law Department,
as agent for Rockledge Hotel Properties, Inc.
10400 Fernwood Road
Bethesda, Maryland 20817
Attention: Christopher G. Townsend, Senior Vice President, General Counsel and Corporate Secretary
Fax No.: 301/380-3588

5.12 Governing Law.

This Agreement shall be governed by, and construed in accordance with, the laws of the State of Maryland, regardless of the laws that might be applied under applicable principles of conflicts of laws.

5.13 Relationship of Parties.

It is understood and agreed that nothing in this Agreement shall be deemed or construed by the parties or any third party as creating an employer-employee, principal/agent, partnership or joint venture relationship between or among the parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered, all as of the day and year first above written.

CRESTLINE CAPITAL CORPORATION

By: ----------
Name: Bruce D. Wardinski
Title: President and Chief Executive Officer

HOST MARRIOTT CORPORATION

By: ----------
Name:
Title:

HOST MARRIOTT, L.P.

By: HMC REAL ESTATE LLC,
General Partner

By: ----------
Name:
Title:

FERNWOOD HOTEL ASSETS, INC.

By: ----------
Name:
Title:

ROCKLEDGE HOTEL PROPERTIES, INC.

By:

Name:
Title:

The undersigned is executing this Agreement solely for the purpose of acknowledging and consenting to the provisions of the last sentence of Section 5.8 hereof.

HMC MERGER CORPORATION

By:

Name:
Title:

Schedule A

Initial Hotels

Schedule B

Certain Permitted Leases

Exhibit 10.26

HOST MARRIOTT, L.P.

RETIREMENT AND SAVINGS PLAN

Effective December 28, 1998

TABLE OF CONTENTS

HOST MARRIOTT, L.P.

RETIREMENT AND SAVINGS PLAN

PREAMBLE

WHEREAS, Host Marriott, L.P. has entered into the Employee Benefits and Other Employment Matters Allocation Agreement between Host Marriott Corporation, Host Marriott, L.P. and Crestline Capital Corporation (the "Agreement") entered into in connection with the distribution of outstanding common shares of the Company (the "Distribution");

WHEREAS, pursuant to the Agreement, Host Marriott, L.P. assumed sponsorship of the Host Marriott Corporation (HMC) Retirement and Savings Plan;

NOW, THEREFORE, Host Marriott, L.P. hereby amends and restates the Host Marriott Corporation (HMC) Retirement and Savings Plan effective as of December 28, 1998, such plan to be hereafter named the Host Marriott, L.P. Retirement and Savings Plan.

ARTICLE I

DEFINITIONS

When used in this instrument, the following words and phrases have the indicated meanings except where the contrary is expressly stated:

1.1 "Account" shall have the meaning set forth in Section 6.1.

1.2 "Actual Contribution Percentage" means, for a given Plan Year, the average of the ratios, calculated separately for each Participant in a group, of (a) the sum of After-tax Savings credited to the Participant's After-tax Savings Account and Company contributions and forfeitures allocable to the Participant's Company Contribution Account for the Plan Year to (b) the Participant's Compensation for such Plan Year.

1.3 "Actual Deferral Percentage" means, for a given Plan Year, the average of the ratios, calculated separately for each Participant in a group, of (a) the Section 401(k) Contributions made on behalf of such Participant by the Company for the Plan Year to (b) the Participant's Compensation for such Plan Year.

1.4 "Additional After-tax Savings" means After-tax Savings not included in Combined Basic Savings for a payroll period.

1.5 "Additions" means, with respect to each Participant for any Fiscal Year, the total of (a) the Company contributions and forfeitures allocated for the Fiscal Year to the Participant's Company Contribution Account, plus (b) Section 401(k) Contributions allocated for the Fiscal Year to the Participant's Section 401(k) Contributions Account, plus (c) the After-tax Savings allocated for the Fiscal Year to the Participant's After-tax Savings Account.

1.6 "Administrative Expenses" means the administrative expenses described in Section 15.6(a).

1.7 "Affiliated Company" means a "Subsidiary", as defined in Section 1.68.

1.8 "After-tax Savings" means the after-tax savings deposited into the Trust Fund by a Participant in accordance with Article IV.

1.9 "After-tax Savings Account" shall have the meaning set forth in Section 6.1(a).

1.10 "Allocable Portion" means, for purposes of Section 11.2, the lesser of: (a) fifty percent (50%) of the Participant's vested Account balance; or (b) $50,000, reduced by the excess of (1) the highest outstanding balance of any previous loan from the Plan and any other plans of the Company or a Subsidiary during the one-year period ending on the day before the date on which the current loan is made over (2) the outstanding balance of any previous loan from the Plan and any other plans of the Company or a Subsidiary on the date on which the current loan is made.

1.11 "Allocation Agreement" means the Employee Benefits & Other Employment Matters Allocation Agreement entered into by and between Host Marriott Corporation, Host Marriott, L.P. and Crestline Capital Corporation.

1.12 "Alternate Payee" means any Spouse, former Spouse, child or other dependent of a Participant who is entitled under a Qualified Domestic Relations Order to receive all, or part of, the benefits payable to that Participant under the Plan.

1.13 "Annuity Starting Date" means the first day of the first period for which an amount is received as an annuity by reason of retirement or disability.

1.14 "Authorized Leave of Absence" means any absence authorized by the Company under the Company's standard personnel practices provided that the Employee or Participant returns within the period of authorized absence. An absence due to service in the Armed Forces of the United States shall be considered an Authorized Leave of Absence provided that the absence is caused by war or other emergency, or provided that the Employee or Participant is required to serve under the laws of conscription in time of peace, and further provided that the Employee or Participant returns to employment with the Company within the period provided by law. Except for service in the Armed Forces of the United States in accordance with the preceding sentence, an Authorized Leave of Absence may not extend beyond two (2) years.

1.15 "Basic After-tax Savings" means After-tax Savings included in Combined Basic Savings for a payroll period.

1.16 "Beneficiary" means the person or persons designated as a beneficiary pursuant to Article XII.

1.17 "Board of Directors" means the Board of Directors of Host Marriott Corporation, a Delaware corporation and the General Partner of Host Marriott, L.P.

1.18 "Code" means the Internal Revenue Code of 1986, as amended, or any successor statute, including the regulations issued thereunder.

1.19 "Combined Basic Savings" means the sum of a Participant's After-tax Savings and Section 401(k) Contributions for each payroll period, provided that such sum shall include only an amount up to six percent (6%) of Compensation for each payroll period. If the sum of a Participant's After-tax Savings and Section 401(k) contributions for a payroll period exceed six percent (6%), the Participant's 401(k) contributions shall be included in Combined Basic Savings before After-tax Savings.

1.20 "Committee" means the Profit Sharing Committee appointed by the Board of Directors pursuant to Section 15.1(b).

1.21 "Company" means Host Marriott, L.P. and any affiliate or Subsidiary that elects to join the Plan with the consent of the Board of Directors.

1.22 "Company Contribution Account" shall have the meaning set forth in Section 6.1(c).

1.23 "Compensation" means:

(a) Except as hereinafter specified, (1) earned income, wages, salary, overtime, cash bonus, commissions, annual leave, sick leave and holiday pay, paid by the Company to an Employee, and (2) gratuities reported by the Employee to the Company and the Internal Revenue Service, all without regard for any election under Article V or any elections made by the Participant under any plan maintained by the Company pursuant to Section 125 of the Code, but excluding any and all other forms of compensation. Notwithstanding the foregoing, Compensation taken into account for each Employee for a Plan Year shall not exceed One Hundred Sixty Thousand Dollars ($160,000) or such other amount as the United States Secretary of Treasury may designate under Section 401(a)(17) of the Code.

(b) For purposes of the limitation on contributions and benefits under Section 415 of the Code as set forth in Section 6.11, a Participant's wages, salaries, and fees for professional services, and other amounts received for personal services actually rendered in the course of employment with the Company to the extent that the amounts are includable in gross income (including, but not limited to, commissions, gratuities reported by the Employee to the Company and the Internal Revenue Service, bonuses, fringe benefits, reimbursements or other expenses allowable under a nonaccountable plan (as described in Section 1.62-2(c) of the Treasury Regulations) annual leave, sick leave and holiday pay) and including amounts contributed by the Company pursuant to a salary reduction agreement and which are not includible in the gross income of the Participant under Sections 125, 402(g)(3) or 402(h)(1)(B) of the Code, and excluding the following:

(1) Company contributions to a plan of deferred compensation which (except as provided above with respect to Sections 125, 402(g)(3) and 402(h)(1)(B) of the Code) are not included in the Employee's gross income for the taxable year in which contributed, or any distribution from a plan of deferred compensation;

(2) Amounts realized from the exercise of a nonqualified stock option, or when restricted stock (or property) held by the Employee either becomes freely transferable or is no longer subject to a substantial risk of forfeiture; and

(3) Amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option.

1.24 "Distributee" means a Participant, Former Participant, Retired Participant, Disabled Participant, the Surviving Spouse of a Deceased Participant, and an Alternate Payee.

1.25 "Effective Date" means December 28, 1998.

1.26 "Eligible Rollover Distribution" means any distribution of all or a portion of the Distributee's Account balance, except that an Eligible Rollover Distribution does not include (a) any

distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated Beneficiary, or for a specified period of ten (10) years or more, (b) any distribution to the extent such distribution is required under Section 401(a)(9) of the Code, and (c) the portion of any distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to Company securities).

1.27 "Eligible Retirement Plan" means an individual retirement account (described in Section 408(a) of the Code), an individual retirement annuity (described in Section 408(b) of the Code), an annuity plan (described in Section 403(a) of the Code), or a qualified trust (described in Section 401(a) of the Code), that accepts the Distributee's Eligible Rollover Distribution. However, in the case of an Eligible Rollover Distribution to the Spouse, an "Eligible Retirement Plan" means an individual retirement account or individual retirement annuity only.

1.28 "Employee" means any person classified as an "employee" and employed by a Participating Company other than: (a) a person who is covered by a collective bargaining agreement, if there is evidence to show that retirement benefits were the subject of good faith bargaining between a Participating Company and the employee representatives with whom such agreement was entered; (b) a nonresident alien who receives no earned income (within the meaning of Section 911(d)(2) of the Code) from a Participating Company which constitutes income from sources within the United States (within the meaning of Section 861(a)(3) of the Code); (c) a participant in a profit sharing plan, pension plan or other retirement plan (other than the Plan, the Host Marriott, L.P. Executive Deferred Compensation Plan or the Host Marriott Corporation and Host Marriott, L.P. Comprehensive Stock and Cash Incentive Plan or the Host Marriott Corporation Non-Employee Directors' Deferred Stock Compensation Plan) maintained by Host Marriott Corporation or Host Marriott, L.P. or an affiliate, whether or not the plan or the trust of such plan is intended to qualify under Section 401 of the Code; and (d) a leased employee (within the meaning of Section 414(n) of the Code).

Employees are classified as follows:

Class A consists of all Employees not included in Class B whose base compensation is stated in terms of hourly rates of pay including those who receive gratuities collected and distributed by the employer.

Class B consists of all management and professional Employees whose base compensation at the time the determination is to be made is stated in terms of a weekly or annual salary, or whose base compensation is stated in terms of hourly rates but who receive management benefits, regardless of whether such Employees are exempt from the overtime pay requirements of the FLSA.

Unless specifically referring to a particular class, any and all provisions of this Plan shall apply to all Employees regardless of classification.

1.29 "Entry Date" means the first day of the four week accounting period of the Company immediately following receipt by the Plan Administrator of an application for admission to the Plan in writing, or in such other form authorized by the Plan Administrator; provided, however, that Employees who were employed by Host Marriott Corporation on the day immediately prior to the Effective Date shall be eligible to participate in the Plan on the Effective Date. The Board of Directors may, with respect to persons who become Employees by virtue of having been employed by any business entity the stock or substantially all of the assets of which are acquired by Host Marriott, L.P. or any affiliate or Subsidiary or the management of which is assumed by the Company, establish by written resolution as a special Entry Date, solely for such Employees, the date of such acquisition or assumption of management.

1.30 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

1.31 "Fiduciary" means any person who (a) exercises any discretionary authority or discretionary control respecting management of the Plan or exercises any authority or control respecting management or disposition of the Plan's assets; (b) renders investment advice for a fee or other compensation, direct or indirect, with respect to any monies or other property of the Plan, or has any authority or responsibility to do so; or (c) has any discretionary authority or discretionary responsibility in the administration of the Plan. The term "Fiduciary" includes the Named Fiduciary, the Trustees and any person to whom fiduciary responsibilities have been delegated pursuant to Section 15.3.

1.32 "Fiscal Year" means each year beginning on the first day of each fiscal year of Host Marriott, L.P. and ending on the last day of each fiscal year of Host Marriott, L.P. Effective December 28, 1998, the fiscal year is the calendar year. The Fiscal Year shall be the "limitation year" of the Plan for purposes of the limitation on contributions and benefits under Section 415 of the Code, or any successor provision thereto.

1.33 "Flexible Compensation" shall have the meaning set forth in Section 5.l.

1.34 "FLSA" means the Fair Labor Standards Act, as amended from time to time.

1.35 "Fund" means any of the separate funds in which Participants' Accounts may be placed and which are allocated and invested in accordance with Article XIV.

1.36 "Hardship" means the existence of an immediate and heavy financial need of the Participant. A need exists if it is necessary for the following:

(a) expenses for medical care previously incurred by the Participant, his spouse or any of his dependents or necessary for these persons to obtain medical care within the limits of Section 213(d) of the Code;

(b) purchase (excluding mortgage payments) of a principal residence for the Participant;

(c) payment of tuition, related education fees and room and board for the next 12 months of post-secondary education for the Participant, his spouse, children or dependents;

(d) payment to prevent the eviction of the Participant from his principal residence or foreclosure on the mortgage of the Participant's principal residence; and

(e) any other event determined by the Commissioner of Internal Revenue.

1.37 "Highly Compensated Employee" means any Employee or former Employee who performs service for a Participating Company during the Plan Year and who (I) for the prior Plan Year received Compensation from the Participating Company as determined for purposes of Section 415 of the Code in excess of $80,000 (as adjusted pursuant to Code Section 415(d)); or (ii) during the Plan Year or the prior Plan Year was a 5% owner (as defined in Code Section 416(I)(1)).

1.38 "Hire Date" means, for any Employee, the date on which he first becomes entitled to credit for an hour for which he is directly or indirectly paid or entitled to be paid by the Company or a Subsidiary for the performance of employment services.

1.39 "Host Marriott, L.P." means Host Marriott, L.P., a Delaware limited partnership, or any successor thereto by merger, consolidation or the acquisition of substantially all of the assets and business thereof.

1.40 "Investment Expenses" means all expenses which under generally accepted accounting principles would be classified as investment expenses, including, without limitation, investment manager's or advisor's fees and expenses, custodial fees, fees of broker-dealers for effecting investment transactions or rendering investment advice, expenses relating to the making of investments and expenses relating to the recovery of any investment in a bankrupt or insolvent entity.

1.41 "Maximum Permissible Amounts" means the lesser of:

(a) $30,000, or such higher amount to which such amount may be adjusted or, pursuant to Section 415(f) of the Code, to implement special rules applicable to combining more than one defined contribution plan as a single plan; or

(b) Twenty-five percent (25%) of the Participant's Compensation as provided in Section 1.23(b).

1.42 "Month" means any calendar month.

1.43 "Month of Credit" means any Month during the entire period of which an Employee is employed by the Company. For purposes of the foregoing, a Month of Credit shall be deemed to commence on the day of hire and end on the close of business on the day preceding the next month's anniversary thereof. Months of Credit are cumulative and need not be successive. Notwithstanding any other provision to the contrary, a Participant's Months of Credit under the Plan shall include

Months of Credit, if any, credited to such Participant under the Prior Plan immediately before the Effective Date.

1.44 "Named Fiduciary" means the Committee in its role as named fiduciary of the Plan as set forth in Section 15.1(a).

1.45 "Participant" means an Employee of the Company who has been admitted to participation in this Plan in accordance with Article II. As appropriate to the context a "Participant" may include one or more of the following sub-definitions.

(a) "Former Participant" means any present Employee of the Company who, after having been a Participant, ceases to participate in the Plan.

(b) "Terminated Participant" means any prior Employee of the Company who, after having been a Participant, terminated his employment other than by retirement, death or Permanent Disability, and has any vested balance in the Plan.

(c) "Retired Participant" means any Participant who retires from employment in accordance with Section 8.1 and who has any vested balance in the Plan.

(d) "Disabled Participant" means any Participant who terminates from employment as a result of a Permanent Disability and who has any vested balance in the Plan.

(e) "Deceased Participant" means any Participant who terminates employment by reason of death and who leaves any vested balance in the Plan.

1.46 "Participating Company" means Host Marriott, L.P. or any affiliate or Subsidiary that has elected to join the Plan with the consent of the Host Marriott Corporation's Board of Directors. All of the Participating Companies constitute the "Company", as defined in Section 1.21.

1.47 "Permanent Disability" means that the Participant, as a result of a disability, will be prevented on a permanent basis from engaging in any occupation for which he is reasonably qualified by education, training or experience as certified by a competent medical authority designated by the Named Fiduciary to make such determination. The foregoing shall include disability attributable to the permanent loss or loss of use of a member or function of the body, or to the permanent disfigurement of the Participant.

The determination of the existence of a Permanent Disability shall be made by the Plan Administrator and shall be final and binding upon the Participant and all other parties.

1.48 "Period of Severance" means the period of time commencing on the Separation Date and ending on the Participant's Reemployment Date.

1.49 "Plan" means the Host Marriott, L.P. Retirement and Savings Plan, including any amendments thereto.

1.50 "Plan Administrator" means the person to whom the duties of Plan Administrator are delegated pursuant to Section 15.3(b).

1.51 "Plan Year" shall mean, for Plan Years beginning after the Effective Date, the same meaning as "Fiscal Year" in Section 1.33; for the Plan Year in which the Effective Date occurs, the Plan Year shall mean January 4, 1998 through December 31, 1998; for other Plan Years beginning before the Effective Date, Plan Year shall mean the Fiscal Year of Host Marriott Corporation.

1.52 "Predecessor Company" means Host Marriott Corporation.

1.53 "Prior Plan" means the Host Marriott Corporation (HMC) Retirement and Savings Plan and Trust, as in effect prior to the Effective Date.

1.54 "Pro Rata Share of Administrative Expenses" means the amount determined by multiplying the Administrative Expenses of the Plan by a fraction, the numerator of which is the total value of each Fund and the denominator of which is the total aggregate value of all such Funds.

1.55 "Qualified Domestic Relations Order" or "QDRO" shall have the same meaning as "qualified domestic relations order" under Section 414(p) of the Code and the Treasury Regulations thereunder.

1.56 "Qualified Joint and Survivor Annuity" or "QJSA" means an annuity purchased from a commercial insurance company with the Participant's Account that pays a benefit for the life of the Participant with a survivor annuity for the life of the Participant's Surviving Spouse in an amount elected by the Participant of either fifty percent (50%) or one hundred percent (100%) of the amount being paid to the Participant during his lifetime.

1.57 "Qualifying Employer Real Property" means parcels of real property (and related personal property) which are leased to the Company or an Affiliated Company (a) if a substantial number of the parcels are dispersed geographically; and (b) if each parcel and the improvements thereon are suitable (or adaptable without excessive cost) for more than one use.

1.58 "Qualifying Employer Securities" means (a) any stocks or other equity securities issued by the Company or an Affiliated Company; or (b) any bonds, debentures, notes or certificates or other evidences of indebtedness of the Company or an Affiliated Company which are described in Section 503(e) of the Code and Section 407(e) of ERISA.

1.59 "Reemployment Date" means, for any Employee, the first date following the Employee's Separation Date on which he first becomes entitled to credit for an hour for which he is directly or indirectly paid or entitled to be paid by the Company or a Subsidiary for the performance of employment duties.

1.60 "Required Beginning Date" means April 1 of the calendar year following the calendar year in which the Participant attains age 70-1/2 or, if later, the calendar year in which the Participant retires from the Company; provided, however, that in the case of a Participant who is a 5% owner (as defined in Code section 416), Required Beginning Date means April 1 of the calendar year

following the calendar year in which the Participant attains age 70-1/2; and provided, further, that in the case of a Participant who attained age 70-1/2 before January 1, 1988, Required Beginning Date means the April 1 following the later of the calendar year in which he (a) attained age 70-1/2; or (b) the sixtieth (60th) day following the close of the Plan Year in which the Participant terminates employment with the Company, provided such date is not later than April 1 of the calendar year following the calendar year during which such termination occurs, unless he was a five percent (5%) owner (as defined in Section 416 of the Code) of the Company with respect to the Plan Year ending in the calendar year in which the he attains age 70-1/2, in which case, clause (b) shall not apply.

1.61 "Section 401(k) Contribution" shall have the meaning set forth in Section 5.2.

1.62 "Section 401(k) Contribution Account" shall have the meaning set forth in Section 6.1(b).

1.63 "Separation Date" means the earlier of:

(a) Any date on which an Employee's employment with the Company terminates by reason of voluntary termination, discharge, retirement or death; or

(b) The first anniversary of the first date of a period in which the Employee remains absent from active employment with the Company for some reason other than voluntary termination, discharge, retirement, death, approved leave of absence, or military service.

Provided, however, that, solely for the purpose of determining whether a Period of Severance has occurred, if an Employee is absent from service beyond the first anniversary of the first date of absence by reason of a "maternity or paternity leave", then the Separation Date of such Employee shall be the second anniversary of the first date of such absence. For purposes of this Section, "maternity or paternity leave" means termination of employment or absence from work due to: (I) the pregnancy of the Participant, (ii) the birth of a child of the Participant, (iii) the placement of a child in connection with the adoption of the child by a Participant, or (iv) the caring for a Participant's child during the period immediately following the child's birth or placement for adoption. The Plan Administrator shall determine, under rules of uniform application and based on information provided to the Plan Administrator by the Participant, whether or not the Participant's termination of employment or absence from work is due to "maternity or paternity leave".

1.64 "Service" means an Employee's or a Participant's period of employment with the Company; the Predecessor Company prior to the Effective Date; and as a leased employee (within the meaning of Section 414(n) of the Code) unless the leased employee is covered by a safe harbor plan described in Section 414(n)(5) of the Code; and any other employer that is required to be aggregated with the Company under section 414 of the Code, as determined in accordance with Article VII. Employment of an Employee or a Participant by any of the following employers shall be treated as Service:

(a) A Subsidiary, both prior to and after becoming a Subsidiary, if such Subsidiary has elected to join the Plan.

(b) A Subsidiary, after becoming a Subsidiary, if such Subsidiary has not elected to join the Plan.

In addition, the Board of Directors shall have the authority by adopting written resolutions to recognize employment of an Employee or a Participant by any of the following employers as Service:

(a) A Subsidiary, prior to becoming a Subsidiary, if such Subsidiary has not elected to join the Plan.

(b) Any business entity substantially all of the assets of which are acquired by Host Marriott, L.P. or any affiliate or Subsidiary or whose management is assumed by the Company; provided that such recognition shall apply uniformly to all employees of any such employer.

1.65 "Spousal Consent" means a Spouse's written consent which acknowledges the effect of the Participant's election and is witnessed by a Plan representative or notary public. Spousal Consent may be in the form of a specific consent, general consent or limited general consent, as provided in Section 8.6(e).

1.66 "Spouse" or "Surviving Spouse" means the spouse or surviving spouse of the Participant, provided that a former spouse will be treated as the spouse or surviving spouse and a current spouse will not be treated as the spouse or surviving spouse to the extent provided in a Qualified Domestic Relations Order.

1.67 "Subaccount" means the portion of a Participant's Account placed in each Fund pursuant to Article XIV.

1.68 "Subsidiary" or "Affiliated Company" means (a) a member of a controlled group of corporations of which Host Marriott, L.P. is a member as determined in accordance with Section 414(b) of the Code; or (b) an unincorporated trade or business which is under common control by or with Host Marriott, L.P., as determined in accordance with Section 414(c) of the Code. For purposes hereof, a "controlled group of corporations" shall mean a controlled group of corporations as defined in Section 1563(a) of the Code, determined without regard to Sections 1563(a)(4) and 1563(e)(3)(C) of the Code, except that, with respect to the limitation on Annual Additions set forth in Section 6.11, instead of eighty percent (80%), the applicable percentage shall be fifty percent (50%) wherever such percentage appears in Section 1563(a)(1) of the Code.

1.69 "Trustees" means the corporate trustee or persons appointed as Trustee of the Trust Fund and any successors.

1.70 "Trust Agreement" means the Agreement providing for the terms and conditions under which the Trustee will hold and invest the Trust Fund.

1.71 "Trust Fund" means the assets of the Plan and Trust as the same shall exist from time to time.

1.72 "Valuation Date" means the last day of the Plan Year and such other dates as of which the Plan Administrator values the interest of Participants in the assets of the Trust Fund, such valuations being made in accordance with the provisions of Section 6.8.

ARTICLE II

ELIGIBILITY AND PARTICIPATION

2.1 Eligibility and Participation.

(a) Eligibility. Any Employee shall be eligible to participate in the Plan immediately on the Employee's Hire Date.

(b) Commencement of Participation. Any Employee may commence participation in the Plan on any Entry Date after the Employee's Hire Date and shall be admitted to the Plan on any such Entry Date if the Plan Administrator receives the Employee's written application for admission to the Plan.

(c) Continued Participation. Notwithstanding subsection (a), any person who was a Participant or Former Participant in the Prior Plan on the day before the Effective Date shall automatically become a Participant under this Plan on the Effective Date, provided that such person is an Employee on the Effective Date.

(d) Participation Voluntary. Participation in the Plan shall be entirely voluntary.

2.2 Reemployment of Employee.

(a) Eligibility Upon Reemployment. An Employee who terminates employment with the Company and subsequently resumes employment with the Company shall become eligible to participate in the Plan immediately upon again becoming an Employee and may be admitted to the Plan on any Entry Date thereafter upon written application in accordance with Section 2.1(b).

2.3 Termination of Plan Participation. A Participant may cease to participate in the Plan during the Participant's continued employment at any time by giving written notice thereof to the Plan Administrator. Such notice shall be effective to terminate participation upon its receipt by the Plan Administrator and such Employee shall thereupon become a Former Participant.

2.4 Readmission of Former Participant. Any Former Participant may be readmitted to the Plan as a Participant on any Entry Date upon written application in accordance with Section 2.1(b); provided, however, that if any Former Participant withdraws any portion of his Basic After-tax Savings pursuant to Section 10.1, he shall not be eligible for readmission to the Plan until six (6) months have elapsed from the date on which he became a Former Participant.

2.5 Participation During Authorized Leave of Absence or During Employment by Subsidiary Which Has Not Joined Plan. Participation in the Plan may continue during periods of Authorized Leave of Absence, and periods during which a Participant is employed by a Subsidiary which has not elected to join the Plan. However, the Participant may neither deposit savings in the Trust Fund nor share in the allocation of the Company contribution during such periods. A Participant on Authorized Leave of Absence who does not return to active employment with the

Company by the expiration of such Authorized Leave of Absence shall be treated for the purposes of the Plan as having terminated employment pursuant to Section 9.1.

2.6 Treatment of Participants Who Cease Being Employees Pursuant to Section 1.29. Notwithstanding the provisions of Section 2.5, any Participant who ceases to be an Employee by reason of Section 1.29(a), (b) or (d), or by becoming employed by a Subsidiary which has not elected to join the Plan, or by becoming a participant in a plan described in Section 1.29(c), shall be treated thereupon as a Former Participant in accordance with the provisions of this Plan.

ARTICLE III

COMPANY CONTRIBUTION

3.1 Amount of Contribution. For each Fiscal Year or portion thereof, each Participating Company shall make the following contributions to the Trust Fund:

(a) Section 401(k) Contributions, as provided by Article V;

(b) a matching contribution on behalf of each Participant in the amount of fifty percent (50%) of the Participant's Combined Basic Savings for each payroll period; and

(c) any additional contribution, if any, as determined in the absolute and sole discretion of the Host Marriott Corporation Board of Directors.

Notwithstanding anything to the contrary, in no event shall the amount contributed by any Participating Company include an amount, if any, equal to the amount of any "excess aggregate contributions" (as defined in Section 401(m)(6)(B) of the Code) for such year that would otherwise be allocable to Participants who are Highly Compensated Employees, if such amounts were contributed to the Plan.

In no event shall the amount of the contribution exceed the maximum amount deductible by a Participating Company for the Fiscal Year with respect to which the contribution is made under Section 404(a) of the Code or the corresponding provision of any subsequent tax law.

3.2 Time of Payment of Contributions. A Participating Company may pay its contributions at such time or times and in such amount or amounts as it may deem appropriate during the Fiscal Year for which each such contribution becomes due and for such period thereafter during which payment thereof may be permitted as a deduction for the previous Fiscal Year under the Code.

3.3 Form of Payment of Contributions. All payments of contributions shall be made directly to the Trustees. Payments may be in cash, Qualifying Employer Securities (including treasury stock or previously unissued stock of Host Marriott Corporation), Qualifying Employer Real Property or in such other property of any kind as the Named Fiduciary may authorize the Trustees to accept, to the extent permitted by law. The value of any property other than cash which may be paid to the Trustees shall be its fair market value as of the date of such payment, as determined by the Named Fiduciary, based on the report of an independent appraiser.

3.4 Return of Contributions to Company. Notwithstanding any other provisions of this Plan, any contributions made by a Participating Company pursuant to Section 3.1 shall, to the extent permitted by Section 403(c) of ERISA, be returned to a Participating Company if:

(a) The contributions are made as the result of a mistake of fact;

(b) A tax deduction claimed for the contributions pursuant to Section 404 of the Code is denied to the Company by the Internal Revenue Service; or

(c) The IRS determines that the Plan is not tax-qualified under Section 401 of the Code.

Notwithstanding the foregoing, however, no contributions may be returned to a Participating Company under the above provisions later than one (1) year from the date a mistaken contribution is made, a tax deduction for a contribution is denied, or the IRS determines that the Plan is not tax-qualified, as the case may be. Further, except as otherwise provided in this paragraph, the assets of the Plan shall not inure to the benefit of the Company, and shall be held for the exclusive purposes of providing benefits to Participants and Beneficiaries and defraying reasonable expenses of administering the Plan.

ARTICLE IV

PARTICIPANTS' AFTER-TAX SAVINGS

4.1 Participant After-tax Savings. Subject to the provisions of Section 4.2, each Participant may deposit After-tax Savings into the Trust Fund.

4.2 Amount of After-tax Savings. Subject to the limitation provisions of Section 6.5, a Participant may deposit in the Trust Fund, specified in multiples of one percent (1%), an amount which is at least one percent (1%), but not more than fifteen percent (15%), of his Compensation paid for each payroll period. The maximum amount of After-Tax Savings is reduced by the amount of the Participant's 401(k) Contributions as provided in Section 5.8.

4.3 Payroll Deduction. Each Participant's After-tax Savings shall be withheld by the Company from Compensation paid such Participant for each payroll period.

4.4 Change in Rate of After-tax Savings. A Participant may change the rate of his After-tax Savings to any other rate authorized by Section 4.2 at any time by giving written notice to the Plan Administrator. Such notice shall be effective as specified by the Committee. In addition, a Participant may discontinue his After-tax Savings at any time by giving written notice to the Plan Administrator. Such notice of discontinuation shall be effective as specified in Section 2.3, unless the Participant has made an election pursuant to Section 5.2.

4.5 Payment to Trustees. The Participants' After-tax Savings withheld shall be paid to the Trustees by the Company on the earliest date on which such After-tax Savings can reasonably be segregated from the Company's general assets. A statement showing the amount representing the After-tax Savings of each Participant shall accompany each such payment.

4.6 Investment of Participants' After-tax Savings. Subject to the Participant's right to direct investments, the Participant's After-tax Savings shall be commingled with other assets in the Trust Fund for investment purposes.

4.7 In-Service Withdrawal of After-tax Savings. A Participant may withdraw After-tax Savings from his After-tax Savings Account as provided in Sections 10.1 and 10.5.

4.8 Effect of Termination of Plan or Discontinuance of After-Tax Contributions. In the event (a) the Plan is terminated or partially terminated with respect to a Participating Company or particular group or class of Participants, or (b) the Company or any Participating Company discontinues the making of After-Tax Contributions, the election made by any affected Participant under the provisions of this Article IV shall be immediately null and void and of no further effect, and no additional amounts of After-Tax Savings shall be contributed to the Trust Fund by the Company or the Participating Company.

ARTICLE V

SECTION 401(k) CONTRIBUTIONS

5.1 Designation of Flexible Compensation. The books and records of the Company shall designate fifteen percent (15%) of each Participant's Compensation for each payroll period as "Flexible Compensation." Flexible Compensation shall for all purposes, tax or otherwise, be treated as part of a Participant's Compensation and the designation of such amount shall be relevant only for purposes of this Article V.

5.2 Section 401(k) Contributions. Subject to the terms and conditions of this Article V, any Participant may, at any time and from time to time, elect to have contributed to the Trust Fund out of his Flexible Compensation, specified in multiples of one percent (1%), an amount which shall be designated a Section 401(k) Contribution and shall constitute a contribution to the Trust Fund by the Company on behalf of the Participant under the provisions of Section 401(k) of the Code.

5.3 Election Rules.

(a) Method of Election. The Committee shall determine the method by which an election may be made pursuant to this Article V. Any such election method must be consistent with the provisions of Section 401(k)(2) of the Code and (assuming such consistency) may include either an affirmative election procedure whereby Participants shall only be treated as having made an election upon written direction of the Participants or a negative election procedure whereby Participants shall be deemed to have made an election until and unless a Participant files a written direction negating the election. Regardless of the method of election determined by the Committee, Participants shall be given prompt and adequate notice thereof and thus be afforded an appropriate opportunity to exercise their rights under this Article V.

(b) Effective Date of Election. An election shall become effective (unless previously revoked) upon the first day of the payroll period of the Company immediately following receipt by the Plan Administrator of the election.

(c) Revocation or Amendment. An election may be made to change a Participant's rate of Section 401(k) Contributions to any other rate authorized under Section 5.2 at any time. Such election shall be made in the manner, and shall be effective, as specified by the Committee. In addition, an election may be made to discontinue future Section 401(k) Contributions at any time. Such election to discontinue future contributions shall be effective as specified in Section 2.3, unless the Participant is depositing After-tax Savings into the Trust Fund pursuant to Section 4.2. Finally, the Plan Administrator shall have the right and obligation to reduce a Participant's rate of Section 401(k) Contribution to any rate as necessary, from time to time, in order to assure compliance by this Plan with the standards of Section 401(k)(3) of the Code.

5.4 Compensation Reduction. For each payroll period, a Participant's Compensation shall be reduced by the portion of a Participant's Flexible Compensation which such Participant has elected to have contributed by the Company to the Trust Fund as a Section 401(k) Contribution (or

such lesser amount determined by the Plan Administrator pursuant to Section 5.3(c)). A Participant's Flexible Compensation for the payroll period in excess of such amount shall be paid to the Participant as cash compensation for the period.

5.5 Limitations on Section 401(k) Contributions. Notwithstanding any provision of this Plan to the contrary, the maximum amount of Section 401(k) Contributions for any Fiscal Year shall not exceed the least of:

(a) Fifteen percent (15%) of each Participant's Compensation;

(b) Such lesser amount which may be allowed in order to assure compliance by the Plan with one of the Actual Deferral Percentage Tests set forth in Section 5.6.

Furthermore, the maximum amount of a Participant's Section 401(k) Contributions for a calendar year shall not exceed the amount in effect under Section 402(g)(5) for such calendar year.

5.6 Actual Deferral Percentage Tests. The Actual Deferral Percentage Test shall be satisfied for a Plan Year if one of the following two tests is met for such Plan Year:

(a) The Actual Deferral Percentage for the eligible Highly Compensated Employees is not more than the Actual Deferral Percentage of all other eligible Employees for the prior Plan Year multiplied by 1.25; or

(b) The Actual Deferral Percentage for the Highly Compensated Employees is not more than the Actual Deferral Percentage of all other eligible Employees for the prior Plan Year multiplied by 2.0, and the excess of the Actual Deferral Percentage for the Highly Compensated Employees for the prior Plan Year over all other eligible Employees for the prior Plan Year is not more than two percentage points.

5.7 Recharacterization of Certain Section 401(k) Contributions. To the extent that contributions made on behalf of a Participant pursuant to an election under Section 5.2 by a Participant who is a Highly Compensated Employee would otherwise cause the Plan to fail to comply with the Actual Deferral Percentage Test set forth in Section 5.6, such contributions shall constitute After-tax Savings by the Participant rather than Section 401(k) Contributions. Excess contributions for a Plan Year shall be recharacterized as After-Tax Savings on the basis of the amount of contributions by, or on behalf of, each Highly Compensated Employee starting with the Highly Compensated Employee having the highest dollar amount.

5.8 Coordination of After-tax Savings and Section 401(k) Contributions. A Section 401(k) Contribution is made in lieu of all or a portion of such Participant's After-tax Savings deposits into the Trust Fund under Section 4.2 of the Plan. Thus, the maximum After-tax Savings deposit which may be made by a Participant under Section 4.2 during any Fiscal Year is equal to (a) the amount which may be made under Section 4.2 without regard to this Section 5.8, less (b) the Section 401(k) Contribution made on behalf of the Participant under Section 5.2.

5.9 Payment to Trustees. Section 401(k) Contributions shall be paid to the Trustees by the Company on the earliest date on which such Section 401(k) Contributions can reasonably be segregated from the Company's general assets. A statement showing the amount representing the Section 401(k) Contributions of each Participant shall accompany each such payment.

5.10 Distribution of Section 401(k) Contributions.

(a) Restrictions on Distributions. Notwithstanding any provision of this Plan to the contrary, a Participant's Section 401(k) Contributions (and earnings attributable thereto) shall not be distributable other than upon:

(1) The Participant's separation from service (within the meaning of Section 401(k)(2)(B) of the Code), death or Permanent Disability;

(2) The Participant's attainment of age 59-1/2, or termination of participation in the Plan after attaining age 59-1/2;

(3) The Participant's Hardship;

(4) The termination of the Plan by the Company without establishment or maintenance of another defined contribution plan (other than an employee stock ownership plan as defined in Section 4975(e)(7) of the Code);

(5) The sale or other disposition by the Company (or a Participating Company employing the Participant) of substantially all of the assets (within the meaning of Section 409(d)(2) of the Code) used in a trade or business of the Company (or such Participating Company) with respect to a Participant who continues employment with the corporation acquiring such assets; or

(6) The sale or other disposition by the Company (or a Participating Company) employing the Participant of its interest in a Participating Company (within the meaning of Section 409(d)(3) of the Code or any successor provision) with respect to a Participant who continues employment with the sold Participating Company.

Notwithstanding the foregoing, any distribution made pursuant to subsections (a)(4), (a)(5) and (a)(6) of this Section must meet the requirements of Section 410(k)(10) of the Code.

(b) In-Service Withdrawal of Section 401(k) Contributions. Any Participant or Former Participant who meets the requirements of subsection (a)(2) or (3) of this Section may withdraw his Section 401(k) Contributions during the Participant's continued employment, as provided in Section 10.5.

5.11 of Termination of Plan or Discontinuance of Section 401(k) Contributions. In the event (a) the Plan is terminated or partially terminated - ------------ with respect to a Participating Company

or particular group or class of Participants, or (b) the Company or any Participating Company discontinues the making of Section 401(k) Contributions, the election made by any affected Participant under the provisions of this Article V shall be immediately null and void and of no further effect, and no additional amounts of such Participant's Flexible Compensation shall be contributed to the Trust Fund by the Company or the Participating Company.

ARTICLE VI

ALLOCATION OF CONTRIBUTIONS AND NET INCOME AMONG PARTICIPANTS

6.1 Maintenance of Separate Accounts. The Plan Administrator shall maintain the following accounts in the name of each person participating in the Plan:

(a) After-tax Savings Account (consisting of Participants' After-tax Savings pursuant to Article IV and any earnings or losses thereon);

(b) Section 401(k) Contribution Account (consisting of Section 401(k) Contributions pursuant to Article V and any earnings or losses thereon); and

(c) Company Contribution Account (consisting of Company contributions under Section 3.1(b) and (c), forfeitures and any earnings or losses thereon).

All of such separate accounts and the separate Fund Subaccounts, as established pursuant to Section 14.5(a), shall in the aggregate constitute the Participant's Account.

6.2 Allocation to After-tax Savings Accounts. The After-tax Savings deposited by a Participant pursuant to Section 4.2 shall be credited, as made, to the Participant's After-tax Savings Account.

6.3 Allocation to Section 401(k) Contribution Account. Section 401(k) Contributions made by the Company on behalf of a Participant pursuant to Section V shall be credited, as made, to the Participant's Section 401(k) Contribution Account.

6.4 Allocation of Company Contribution. Subject to Section 6.7, Company contributions shall be allocated as follows:

(a) Company contributions pursuant to Section 3.1(b) shall be credited as made to the Participant's Company Contribution Account; and

(b) Company contributions pursuant to Section 3.1(c) shall be allocated and applied in the following order:

(1) To the restoration of forfeitures of Terminated Participants readmitted to the Plan in accordance with Section 9.5(b) and unclaimed benefits previously reallocated in accordance with Section 6.10, to the extent that current forfeitures are insufficient to provide for such restoration, as provided in Sections 6.9 and 6.10; and

(2) To the Company Contribution Accounts of all Participants who are Employees of the Company on the last day of the Fiscal Year and all Participants who become Retired, Disabled or Deceased Participants during the Fiscal Year, based on the ratio that each such

Participant's Combined Basic Savings for such Fiscal Year bears to the total Combined Basic Savings of all such Participants for such Fiscal Year. The Company Contributions allocated to each Participant's Account shall be further allocated among such Participant's Fund Subaccounts in accordance with the provisions of Article XIV.

6.5 (a) Limitation on After-tax Savings and Company Contributions.

Notwithstanding any provisions of the Plan to the contrary, the Participant's After-tax Savings and Company contributions (including forfeitures used to reduce contributions under Section 3.1(b) or (c)) for a Plan Year must satisfy the Actual Contribution Percentage Tests for such Plan Year. The Actual Contribution Percentage Test shall be satisfied for a Plan Year if one of the following two tests is met for such Plan Year:

(1) The Actual Contribution Percentage for the eligible Highly Compensated Employees is not more than the Actual Contribution Percentage for the prior Plan Year of all other eligible Employees multiplied by 1.25; or

(2) The Actual Contribution Percentage for the Highly Compensated Employees is not more than the Actual Contribution Percentage for the prior Plan Year of all other eligible Employees multiplied by 2.0, and the excess of the Actual Contribution Percentage for the Highly Compensated Employees over all other eligible Employees for the prior Plan Year is not more than two percentage points.

(b) Multiple Use of the Alternative Limitation. Notwithstanding the above, if both Section 5.6(a) and subsection (a)(1) of this Section are not satisfied for a Plan Year and one Highly Compensated Employee of the Company is eligible to have Section 401(k) Contributions made on his behalf, and to make deposits of After-tax Savings to his After-tax Savings Account or have Company contributions allocated to his Company Contribution Account during such Plan Year, then the sum of the Actual Deferral Percentage and the Actual Contribution Percentage for eligible Highly Compensated Employees shall not exceed the greater of:

(1) The sum of:

(a) 1.25 multiplied by the greater of:

(i) The Actual Deferral Percentage for eligible Employees for the prior Plan Year who are not Highly Compensated Employees, or

(ii) The Actual Contribution Percentage for eligible Employees who are not Highly Compensated Employees for the prior Plan Year; and

(b) Two (2) plus the lesser of:

(i) Subsection (b)(l)(a)(i) of this Section, or

(ii) Subsection (b)(1)(a)(ii) of this Section, which shall in no event exceed twice the lesser of subsection (b)(1)(a)(i) of this Section or subsection (b)(1)(a)(ii); or

(2) The sum of:

(a) 1.25 multiplied by the lesser of:

(i) Subsection (b)(1)(a)(i) of this Section, or

(ii) Subsection (b)(1)(a)(ii); and

(b) Two (2) plus the greater of:

(i) Subsection (b)(1)(a)(i), or

(ii) Subsection (b)(1)(a)(ii), which shall in no event exceed twice the greater of subsection (B)(1)(a)(i) or subsection (b)(1)(a)(ii) above.

In the event that the limitation of this subsection (b) is exceeded, the Actual Contribution Percentage shall be reduced in accordance with the manner described in Section 6.6

6.6 Correcting Excess Aggregate Contributions. In the event that the limitation imposed by Section 6.5 is not satisfied for any Plan Year, Participant After-tax Savings (including recharacterized Section 401(k) Contributions) credited to a Participant's Account shall, to the extent such credited amounts constitute "excess aggregate contributions" (within the meaning of Section 401(m)(6)(B) of the Code, and after taking into account the last subsection of Section 3.1(c) and Section 6.7), be distributed to affected Participants on or before the date which is two and one-half (2-1/2) months after the end of the Plan Year to which such credited amounts relate. The excess aggregate contributions for a Plan Year shall be allocated to each Highly Compensated Employee in an amount equal to the amount by which the Highly Compensated Employees' After-tax Savings (including recharacterized Section 401(k) contributions) are reduced in accordance with the following procedure. The dollar amount of After-tax Savings (including recharacterized Section 401(k) Contributions) for the Plan Year made on behalf of the Highly Compensated Employee with the highest dollar amount of After-tax Savings (including recharacterized Section 401(k) contributions) for the Plan Year is reduced to the extent required to (1) reduce the Plan's excess aggregate contributions to zero, or (2) cause such Highly Compensated Employee's dollar amount of After-tax Savings (including recharacterized Section 401(k) contributions) for the Plan Year to equal the After-tax Savings (including recharacterized Section 401(k) contributions) of the Highly Compensated Employee with the next highest dollar amount of After-tax Savings (including recharacterized Section 401(k) contributions) for the Plan Year. This process is repeated until the Plan's excess aggregate contributions are reduced to zero. Each Highly Compensated Employee's After-tax Savings (including recharacterized Section 401(k) contributions that are treated as excess aggregate contributions) shall consist first of unmatched After-tax Savings (including recharacterized Section 401(k) contributions), and then to the extent necessary, matched Employee After-tax Savings (including recharacterized Section 401(k) contributions). Distribution of credited amounts shall

include any income attributable thereto, and shall be determined in accordance with regulations promulgated by the United States Secretary of the Treasury under Section 401(m) of the Code.

6.7 Special Provision for Allocating Company Contributions.

Notwithstanding any other provision of this Plan, Company contributions pursuant to Sections 3.1(b) and 3.1(c) shall be allocated and applied to the accounts of Participants who are not Highly Compensated Employees as if the reduction of contributions provided in the last subsection of Section 3.l(c) had not taken place. Company contributions shall be allocated and applied to the accounts of Highly Compensated Employees after taking into account the reduction of contributions provided in the next to last paragraph of Section 3.1 so that no amounts constituting "excess aggregate contributions" (within the meaning of Section 401(m)(6)(B) of the Code) are allocated to the Company Contribution Account of any Participant under this Article VI.

6.8 Allocation of Net Income. As of each Valuation Date, each Fund shall be charged or credited with the net earnings, gains, losses, Investment Expenses and the Pro Rata Share of Administrative Expenses as well as any appreciation or depreciation in the market value using publicly issued fair market values when available or appropriate. To the extent that a Participant's Subaccounts are invested in Funds that are accounted for as pooled assets or investments, the allocation of earnings, gains and losses of each Participant's accounts shall be based upon the total amount of funds so invested, in a manner proportionate to the Participant's share of such pooled investment. To the extent that a Participant's Subaccounts are invested in Funds that are accounted for as segregated assets, the allocation of earnings, gains and losses from such assets shall be made on a separate and distinct basis.

6.9 Use of Forfeitures. Forfeitures, as described in Section 9.5(a), shall be applied in the following order: (a) first to restore forfeitures of Terminated Participants readmitted to the Plan in accordance with Section 9.5(b) and unclaimed benefits previously reallocated in accordance with Section 9.6, (b) second to pay Plan expenses, and (c) third, to reduce the Company Contributions.

6.10 Use of Unclaimed Benefits.

(a) Method of Allocation. Unclaimed benefits, as described in Section 19.10, shall be reallocated in the same manner as forfeitures as provided in Section 6.9.

(b) Reduction in Forfeitures. If the Plan Administrator pays any unclaimed benefits which had previously been reallocated hereunder, the amount of such benefits shall reduce the amount of forfeitures otherwise reallocated pursuant to Section 6.9. In the event that forfeitures for the Fiscal Year in question are not sufficient to pay any unclaimed benefits, the Company contribution for such Fiscal Year shall first be applied for such payment.

6.11 Allocation Limitations.

(a) Maximum Additions. Notwithstanding anything to the contrary contained in the Plan, the sum of: (1) the total Additions made to the Account of a Participant under this Plan for any Fiscal Year; and (2) the "annual additions" (as defined in Section 415 of the Code) made to the account of a Participant under any other qualified defined contribution plan maintained by the Company or any Affiliated Company, shall not exceed the Maximum Permissible Amount.

(b) Correction of Excess. If the Maximum Permissible Amount is exceeded in any Plan Year for any Participant, the Plan shall distribute to the Participant any After-tax Savings or Section 401(k) Contributions made by the Participant to the Plan for the Plan Year to the extent such distribution would cause the excess to be reduced. If, after returning such After-tax Savings or Section 401(k) Contributions to the Participant an excess still exists, such excess shall be corrected in accordance with the provisions of Treasury Regulation Section 1.415-6(b)(6) or such other rules or procedures as the Internal Revenue Service shall allow.

(c) Further Limitations on Additions. Notwithstanding the foregoing provisions of this Section 6.11, the otherwise permissible annual additions for any Participant under this Plan shall be further reduced to the extent necessary, as determined by the Committee to prevent disqualification of the Plan under Section 415 of the Code, which imposes additional limitations on the benefits payable to Participants who also may be participating in another tax-qualified pension, profit sharing, savings or stock bonus plan of the Company or any Affiliated Company. The Committee shall advise affected Participants of any additional limitation of their annual Additions required by the preceding sentence.

6.12 Transfers From Other Qualified Plans.

(a) Manner of Rollover or Direct Transfer. An Employee (including an Employee who is not a Participant) may rollover or transfer to this Plan amounts received from a retirement plan which are eligible to be rolled over or transferred to this Plan pursuant to the provisions of Section 402 of the Code, including a direct transfer of an eligible rollover distribution pursuant to the provisions of Section 401(a)(31) of the Code, or from an individual retirement account that meets the requirements of Section 408(d)(3)(A) of the Code. Such rollover of transfer must comply with the requirement of Section 402 of the Code.

(b) Governing Provisions. The assets so rolled over or transferred shall be solely in cash. The Committee shall develop such procedures, and may require such information from the Employee desiring to make such a rollover or transfer, as it deems necessary to determine that the proposed rollover or transfer will meet the requirements of this Section and will not jeopardize the tax qualified status of the Plan. All amounts rolled over or transferred pursuant to this Section shall be deposited in the Trust Fund and shall be credited to a rollover account. The rollover account shall be one hundred percent (100%) vested in the Participant, shall share in income allocations in accordance with Section 6.8 (but shall not share in Company contributions) and shall be invested in accordance with the provisions of Article XIV. Distributions of amounts so transferred shall be subject to the same restrictions as those stated in Section 5.10.

ARTICLE VII

VESTING

7.1 Vesting of After-tax Savings Account. The interest of each Participant in his After-tax Savings Account shall vest to the extent of one hundred percent (100%) as soon as such After-tax Savings are withheld from his Compensation pursuant to Article IV and as soon as the earnings on such After-tax Savings are credited pursuant to Article VI.

7.2 Vesting of Section 401(k) Contribution Account. The interest of each Participant in his Section 401(k) Contribution Account shall vest to the extent of one hundred percent (100%) as soon as such Section 401(k) Contributions are made on his behalf by the Company pursuant to Article V and as soon as the earnings thereon are credited pursuant to Article VI.

7.3 Vesting of Company Contribution Account.

(a) Vesting Schedule. The interest of each Participant in his Company Contribution Account shall vest as follows:

Period of Service	Vested Percentage
Less than 2 years	0%
At least 2 years but less than 3 years	25%
At least 3 years but less than 4 years	50%
At least 4 years but less than 5 years	75%
5 years or more	100%

(b) Service to be Credited Upon Resumption of Employment. If an Employee terminates employment and is reemployed by the Company, upon the Employee's reemployment, all Service with the Company (including Service before and after such reemployment) shall be counted for purposes of determining his vested interest in his Company Contribution Account, if any.

(c) Definition of "Service". For purposes of determining a Participant's vested interest in his Company Contribution Account, "Service" means the period of time commencing on the Participant's Hire Date and ending on the Participant's Separation Date and, if applicable, the period of time commencing on the Participant's Reemployment Date and ending on the Participant's subsequent Separation Date. In addition, such Service shall include the period following a Separation Date described in Section 1.63(a) if a Participant's or Former Participant's Reemployment Date occurs within the 12-consecutive month period following such Separation Date; provided, however, that if a Participant or Former Participant is otherwise absent from employment, the period following such Separation Date shall be counted as Service only if the Participant's or Former Participant's Reemployment Date occurs within the 12-consecutive month period following the commencement of such other absence from employment. "Service" shall also include any periods of absence from active employment followed by a Separation Date, and periods of approved leaves of absence granted in accordance with a nondiscriminatory leave policy; provided, however, that if

the Participant or Former Participant does not resume status as an employee of the Company at the time agreed upon by the Company and the Participant, the Participant shall be deemed to be discharged at such time. Service includes periods of employment described in Section 1.64.

(d) Automatic 100% Vesting. Notwithstanding subsection (a) of this Section, the Participant's interest in his Company Contribution Account shall vest to the extent of one hundred percent (100%) upon the earlier of the following while employed by the Company or an Affiliate:

(1) Death;

(2) Permanent Disability; or

(3) Attainment of age fifty-five (55) for Class B Participants and age forty-five (45) for Class A Participants.

Such vesting in the event of Permanent Disability is intended to provide "accident or health insurance" as described in Section 105(a) of the Code, in providing benefits for the permanent loss or loss of use of a member or function of the body, or the permanent disfigurement of Participants, to the extent that Permanent Disability results.

ARTICLE VIII

TERMINATION AND DISTRIBUTION UPON RETIREMENT, DEATH OR DISABILITY

8.1 Retirement. Upon retirement, a Participant shall be eligible to receive the balance in his Account. Retirement for purposes of this Plan may be elected by any Participant upon attaining the earliest of the following age:

Class A Participants - Age forty-five (45)

Class B Participants - Age fifty-five (55)

Any age after two hundred forty (240) Months of Credit with the Company

8.2 Death. The death of any Participant or Former Participant shall be reported promptly to the Plan Administrator by the Company. The death of a Terminated Participant or a Retired Participant shall be reported to the Plan Administrator by dependents or beneficiaries who are directly concerned. Upon the Participant's death, the Participant's Beneficiary shall be entitled to payment of the balance of the Participant's vested Account in the manner provided by the Plan.

8.3 Disability. The termination of a Participant's employment with the Company by reason of Permanent Disability shall be promptly certified to the Plan Administrator by the Company. Upon such termination of employment, the Participant shall be eligible to receive the balance in his Account.

8.4 Valuation of Account Balances. The Account balance of a Retired, Deceased or Disabled Participant shall be valued as of the Valuation Date coinciding with or immediately preceding the date distribution is made to such Participant or Beneficiary, as applicable (and shall include such Participant's pro rata share of the Company contribution under Section 3.1(c), as determined under Section 6.4(b), if any, for the year in which such Participant terminated employment).

8.5 Available Payment Options. Subject to the mandatory cash-out of small amounts provided in Section 8.10, a Retired, Deceased or Disabled Participant's Account balance shall be distributed by the Trustees under such of the following payment options as the Participant (or, if a Deceased Participant shall have failed to select a payment option, as his Beneficiary) shall determine:

(a) Lump sum payment;

(b) Deferred payments in installments in any amount from time to time or over a period of time specified by the Participant, including installment payments in substantially equal amounts;

(c) Purchase of a term annuity contract from a commercial insurance company with payments for a term certain in regular installments; or

(d) Purchase of a single-life or Qualified Joint and Survivor Annuity contract from a commercial insurance company with payments for the life of the Participant or the life of the Participant and his or her Surviving Spouse. Election of a single life annuity by a married Participant and revocation of Qualified Joint and Survivor Annuity are subject to the Spousal Consent Rules of Section 8.6.

8.6 Spousal Consent Rules.

(a) Revocation of an Annuity. A married Participant who has selected a Term Annuity pursuant to Section 8.5(c) or a single life annuity or Qualified Joint and Survivor Annuity (hereinafter "QJSA"), pursuant to Section 8.5(d), may revoke such election and elect instead to receive his or her benefits as follows:

(1) If the Participant elected a term certain annuity form of payment and the commercial annuity contract has not yet been purchased by the Plan, the Participant (or the Surviving Spouse, if the Participant has died) may elect to receive any other form of benefit available for the Plan;

(2) If the Participant elected a life annuity or a Qualified Joint and Survivor Annuity form of payment and the commercial annuity contract has not yet been purchased by the Plan, the Participant (or his Surviving Spouse, if the Participant has died) may elect to receive any other form of benefit available from the Plan, provided that the Participant and his Spouse (or the Surviving Spouse, if the Participant has died) consent in writing to the distribution revocation of such election in accordance with Section 8.6(b).

(b) Waiver of Life Annuity or Qualified Joint and Survivor Annuity. A Participant who is married on the Annuity Starting Date may elect a single life annuity pursuant to Section 8.5(d) only if the Participant's Spouse provides a waiver of a Qualified Joint and Survivor Annuity. A married Participant who has selected a QJSA, pursuant to Section 8.5(d), may if permitted under Section 8.6(a) elect to revoke such election and waive the QJSA payment option. Such waivers must be made within the ninety (90) day period ending on the Participant's Annuity Starting Date with respect to such benefit. Subject to Section 8.6(a), a Participant may subsequently revoke the election to waive the QJSA and elect again to waive the QJSA at any time and any number of times prior such Annuity Starting Date. All such elections and revocations shall be in writing. Any election to waive the QJSA must:

(1) Specify the alternate payment option elected;

(2) Be accompanied by the designation of a specific nonspouse Beneficiary (including any class of beneficiaries or any contingent beneficiaries) who will receive the benefit upon the Participant's death, if applicable; and

(3) Be accompanied by Spousal Consent.

Notwithstanding the above, no consent under this subsection (b) shall be valid unless, within thirty (30) days and no more than ninety (90) days before the Annuity Starting Date, the Plan Administrator has provided the Participant with the written explanation described in subsection (c) of this Section. A Participant may elect to receive distribution prior to the expiration of such thirty (30) day period if distribution commences more than seven (7) days after the written explanation described in the previous sentence was provided.

A Participant who is not married on the Annuity Starting Date may, subject to Section 8.6(a), revoke an election to receive a single life annuity. The election must comply with this Section and Section 8.6(c) as if it were an election to waive the Qualified Joint and Survivor Annuity by a married participant, but without the Spousal Consent requirement.

(c) Written Explanation. The written explanation shall contain the following:

(1) The terms and conditions of the QJSA;

(2) The Participant's right to make, and the effect of, an election to waive the QJSA payment option;

(3) The rights of the Participant's Spouse; and

(4) The right to make, and the effect of, a revocation of a previous election to waive the QJSA.

(d) Result of Effective Waiver. In the event of an effective waiver of the QJSA payment option, in accordance with the terms of subsection (b) of this Section, the amount payable to the married Retired or Disabled Participant (or to the Beneficiary of a Deceased Participant) shall be distributed by the Trustees or their delegate under such of the alternate payment options set forth in Section 8.5 as the Participant or his legal representative may select.

(e) Spousal Consent. A Spousal Consent shall specify the non-spouse Beneficiary. Once made, a consent shall be irrevocable unless the Participant changes his Beneficiary designation or revokes his election to waive the Qualified Joint and Survivor Annuity; upon such event, the consent shall be deemed to be revoked.

Notwithstanding the foregoing, Spousal Consent is not required if the Participant establishes to the satisfaction of the Plan Administrator that such written consent cannot be obtained because there is no Spouse or that the Spouse cannot be located. In addition, no Spousal Consent is necessary if the Participant has been legally separated or abandoned within the meaning of local law and the Participant provides the Plan Administrator with a court order to that effect, so long as such court order does not conflict with a Qualified Domestic Relations Order. If the Spouse is legally incompetent to consent, the Spouse's legal guardian may consent on his behalf, even if the legal guardian is a Participant.

8.7 Distributions Upon Married Participant's Death. If a Participant is married on the date of his death, the full amount of the Participant's Account balance shall be payable on the death of the Participant to the Participant's Surviving Spouse, unless the Participant's Surviving Spouse has given Spousal Consent to the designation of a specific non-spouse Beneficiary (including any class of beneficiaries or any contingent beneficiaries) who will receive the Account balance upon the Participant's death.

8.8 General Distribution Requirements. Notwithstanding any provision to the contrary, all Plan distributions to Participants and Beneficiaries shall comply with the requirements of Section 401(a)(9) of the Code and the regulations thereunder, including the incidental death benefit distribution rules of Section 1.401(a)(9)-2 of the Treasury Regulations.

(a) Distributions to Participants. The Participant's Account balance shall be distributed or begin to be distributed no later than the Participant's Required Beginning Date and may only be distributed over:

(1) A period of years not to exceed the life-expectancy of the Participant, or the joint life expectancy of the Participant and the Participant's designated Beneficiary; or

(2) The life of the Participant, or the lives of the Participant and the Participant's designated Beneficiary.

Life expectancy shall be recalculated annually.

(b) Distributions to Beneficiary. Notwithstanding any other provision of this Article VIII, any distribution to a Participant's Beneficiary must comply with the following requirements:

(1) If the Participant dies after distribution of his Account balance has begun, then the remaining portion of such Account balance shall be distributed at least as rapidly as under the method of distribution being used prior to the Participant's death.

(2) If the Participant dies before receiving any portion of his Account balance, then distribution of the Participant's entire Account balance shall be completed by December 31 of the calendar year containing the fifth (5th) anniversary of the Participant's death unless:

(i) The Beneficiary elects to receive payments over his life (or over a period not extending beyond his life expectancy), in which case the first installment must be made by December 31 of the calendar year immediately following the calendar year in which the Participant died; or

(ii) In the case of a Beneficiary who is a Surviving Spouse, the Surviving Spouse elects to receive installment payments as set forth in subsection (b)(2)(i) of this

Section, in which case the first installment may be deferred until the later of: December 31 of the calendar year immediately following the calendar year in which the Participant died, or December 31 of the calendar year in which the Participant would have attained age 70-1/2.

Such an election shall be made by the earlier of: the date the distribution is required to be made under subsection (b)(2) of this Section, or December 31 of the calendar year which contains the fifth (5th) anniversary of the Participant's death. If the Participant has no Beneficiary, or if the Beneficiary does not elect a method of distribution, distribution of the entire Account balance shall be completed by December 31 of the calendar year containing the fifth (5th) anniversary of the Participant's death.

If the Surviving Spouse dies after the Participant, but before payments to such Surviving Spouse begin, then the provisions of subsection (b)(2) of this Section, with the exception of subsection (b)(2)(ii) of this Section, shall be applied as if the Spouse were the Participant.

(c) Commencement of Distribution. Distribution of a Participant's Account balance shall be made or commence no later than 60 days after the close of the Plan Year in which occurs the latest of:

(1) The date on which the Participant attains age 62;

(2) The tenth anniversary of the year in which the Participant commenced participation in the Plan; or

(3) The date on which the Participant terminates employment with the Company.

Notwithstanding the preceding sentence, no payment will be made under the Plan until the Participant files a written claim for such payment, unless otherwise required by the Plan.

8.9 Form of Payment. Distribution may be in cash or employer securities, except that any distribution of employer securities shall be limited to the amount of such securities credited to the Participant's account under the Host Marriott Corporation Stock Fund.

8.10 Mandatory Cash-Out of Small Accounts. Notwithstanding any other provision of this Article VIII, if the total vested value of the Participant's Account does not (and did not, at the time of commencement of the distribution) exceed Five Thousand Dollars ($5,000), the Plan Administrator shall direct the Trustee to distribute as soon as practicable the full amount thereof to the Participant, his legal representative or Beneficiary to the extent permitted by Section 411(a)(11) of the Code and Section 203(e) of ERISA.

8.11 Account Balance. For purposes of this Article VIII, Account balance shall include any rollover account balance.

8.12 Special Rule for Rollovers Out of the Plan. Notwithstanding any provision of the Plan to the contrary that would otherwise limit the election of a Distributee under this Article VIII,

a Distributee may elect, at the time and in the manner prescribed by the Plan Administrator, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a direct rollover. Any portion of an Eligible Rollover Distribution that is not paid directly to an Eligible Retirement Plan shall be subject to applicable income tax withholding. For purposes of this Section 8.12, a "direct rollover" is a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

ARTICLE IX

TERMINATION AND DISTRIBUTION UPON TERMINATION OF EMPLOYMENT OTHER THAN FOR RETIREMENT, DEATH OR DISABILITY

9.1 Terminated Participant. Upon a Participant's or Former Participant's termination of employment with the Company for any reason other than retirement, death or Permanent Disability, the Company shall promptly notify the Plan Administrator in writing of such fact and such Participant shall become (a) a Terminated Participant if such Participant has not attained retirement age (as provided in Section 8.1), or (b) a Retired Participant if such Participant has attained retirement age (as provided in Section 8.1). In the event a Terminated Participant has attained retirement age, the provisions of Article VIII shall thereafter apply to such Participant.

9.2 Distribution of After-tax Savings and Section 401(k) Contributions. The balance of a Terminated Participant's After-tax Savings Account and Section 401(k) Contribution Account (as determined in accordance with Articles IV and V) shall be valued as of the Valuation Date coinciding with or immediately preceding the date distribution is made to the Participant, and shall be subject to distribution in the same manner as provided in Sections 8.5 and 8.10 (and in the same forms as provided in Section 8.9) without discrimination in favor of or against any class.

9.3 Distribution of Vested Company Contribution Account. The vested interest of the Terminated Participant in the Terminated Participant's Company Contribution Account (as determined in accordance with Article VII) shall be valued as of the Valuation Date coinciding with or immediately preceding the date distribution is made to the Participant, and shall be subject to distribution in the same manner as provided in Section 8.5 and 8.10 (and in the same forms as provided in Section 8.9) without discrimination in favor of or against any class. A Terminated Participant may elect to defer distribution of his vested interest until the earliest of the date such Terminated Participant attains age 62, dies, or suffers a Permanent Disability; provided, however, that the Terminated Participant may elect to commence distribution in any of the forms of payment available under Section 8.5 as of any earlier date after the date on which he becomes a Terminated Participant. There will be no pro rata credit of the Company Contribution for the partial Plan Year in valuing a Terminated Participant's Company Contribution Account.

9.4 Mandatory Cash-Out of Small Accounts. Notwithstanding any other provision in this Article IX, if the total value of the Terminated Participant's vested Account does not (and did not, at the time of any prior distribution or withdrawal) exceed Five Thousand Dollars ($5,000), the Plan Administrator shall direct the Trustee to distribute as soon as practicable the full amount thereof to the Terminated Participant or his legal representative or Beneficiary to the extent permitted by Section 411(a)(11) of the Code and Section 203(e) of ERISA, and subject to Section 5.10.

9.5 Unvested Company Contributions.

(a) Forfeiture. Any portion of a Terminated Participant's Company Contribution Account, which has not vested at the time the Participant's employment is terminated will be forfeited upon the Participant's incurring a one year Period of Severance.

(b) Restoration of Forfeiture. Subject to the requirements of subsection (c) of this Section, a Terminated Participant (described in subsection (a) of this Section) who resumes status as an Employee of the Company before incurring five (5) consecutive Periods of Severance and who is readmitted to the Plan in accordance with Section 2.2 shall have his forfeited amounts restored and added to his new Company Contribution Account (where it will vest in accordance with Article VII).

(c) Distribution Prior to Reemployment. A Terminated Participant described in subsection (b) of this Section who previously received a distribution will have his forfeitures restored only if he repays, at any time prior to the end of five (5) consecutive Periods of Severance commencing on the date such distribution is made:

(1) The entire amount of distribution, if any, previously received from the Terminated Participant's After-tax Savings Account under Section 9.2;

(2) The entire amount of distribution, if any, previously received from the Terminated Participant's Section 401(k) Contribution Account under Section 9.2; and

(3) The entire amount of distribution, if any, previously received from the Terminated Participant's Vested Company Contribution Account under Section 9.3.

Any repayment made by a Participant pursuant to this subsection (c) shall be made by means of a single lump sum cash payment.

9.6 Account Balance. For purposes of this Article IX, Account balance shall include any rollover account balance.

9.7 Special Rule for Rollovers Out of the Plan. The special rule provided in Section 8.12 shall apply to distributions under this Article IX.

ARTICLE X

DISTRIBUTION DURING CONTINUED EMPLOYMENT

10.1 Withdrawal of After-tax Savings.

(a) Withdrawal of Additional After-tax Savings. A Participant or Former Participant may withdraw his Additional After-tax Savings at any time and continue to participate in the Plan after such withdrawal.

(b) Withdrawal of Basic After-tax Savings. A Participant or Former Participant may withdraw his Basic After-tax Savings at any time. However, upon withdrawing such Basic After-tax Savings, the Participant shall cease to participate in the Plan and shall in all respects become a Former Participant, except as otherwise provided in Section 10.5 and subject to the provisions of Section 2.4.

(c) Valuation of After-tax Savings Account. The After-tax Savings Account of the Participant or Former Participant shall be valued as of the Valuation Date coinciding with or immediately preceding the date distribution is made to the Participant or Former Participant.

(d) Form of Payment. Withdrawals of After-tax Savings under this Section 10.1 (including the withdrawal of any earnings thereon) shall be distributed in whole or in part as a single lump sum payment and may be in cash or employer securities, except that any withdrawal of employer securities shall be limited to the amount of such securities credited to the Participant's or Former Participant's account under the Host Marriott Corporation Stock Fund.

(e) Taxation of Withdrawal. After-Tax Savings (including earnings) shall be treated as a "separate contracts" from all other contributions for purposes of determining the tax consequences of withdrawals.

10.2 Withdrawal of Section 401(k) Contribution. Distribution of a Participant's or Former Participant's Section 401(k) Contribution Account (and the earnings thereon) is subject to Section 5.10 and the limitations of Section 401(k) of the Code.

10.3 Withdrawal of Vested Company Contribution Account. A Participant or Former Participant may not withdraw his vested Company contributions (or any earnings thereon) prior to his Separation Date, except as provided in Section 10.5.

10.4 Readmission of Former Participant to Plan. A Former Participant who terminates participation in the Plan during continued employment shall be entitled to readmission thereto as provided in Section 2.4.

10.5 Distributions Upon Attainment of Age 59-1/2. Upon attainment of age 59-1/2, a Participant or Former Participant may elect to withdraw the entire balance of his After-tax Savings Account, Section 401(k) Contribution Account and vested Company Contribution Account and

continue participation in the Plan. Application for withdrawal under this Section 10.5 by Participants or Former Participants shall be made in writing and shall be made in accordance with the distribution requirements set forth in Article VIII.

10.6 Account Balance. For purposes of this Article X, Account balance shall include any rollover account balance.

10.7 Hardship Withdrawals.

(a) Terms of Hardship Withdrawals. Any Participant who sustains a Hardship may submit a request to the Plan Administrator for a distribution from the Plan as may be necessary to meet such Hardship. The Plan Administrator shall have the power in its sole discretion to approve or disapprove (in whole or in part) any such request, based on the standards set forth in this Section 10.7. Any distribution to a Participant pursuant to this Section 10.7 shall not exceed the amount required to meet the Hardship, and distribution shall be made only if participant represents in writing that such amount is not reasonably available from other resources of the Participant as described in Treas. Reg. Section 1.401(k)-1(d)(2)(ii)(B). Such distributions shall be limited to the sum of (1) amounts in the Participant's Section 401(k) Contribution Account attributable to amounts transferred from the Prior Plan that had accrued on or before December 31, 1988 (along with earnings attributable thereto), plus (2) amounts in the Participant's Section 401(k) Contribution Account accrued under the Prior Plan and this Plan after December 31, 1988 (exclusive of any earnings), plus (3) amounts in the Participant's Rollover Account.

(b) Restrictions. Participants receiving Hardship distribution under this Section 10.7 shall be subject to the following restrictions:

(1) The Participant's limit under Section 402(g) of the Code on Section 401(k) Contributions for the Fiscal Year immediately following the Fiscal Year in which a distribution is made to the Participant shall be reduced by the amount of Section 401(k) Contributions for the Fiscal Year in which such distribution was made; and

(2) The Participant shall be prohibited for twelve (12) months from the date of a distribution under this Section 10.7 from electing any Section 401(k) Contributions under Article V or making contributions of Basic or Additional After-tax Savings under Article IV of this Plan. The Participant shall likewise be prohibited for the same twelve (12) month period from making employee contributions under any deferred compensation plan of the Company, in accordance with written guidelines set forth by the Committee.

(c) Committee Guidelines and Determination. The Committee shall set forth written guidelines for the Administrator to make its determination under this Section 10.7 in accordance with the above standards (and the definition of Hardship) in a uniform and nondiscriminatory manner. The Committee shall make its determination under this Section 10.7 in

accordance with the above standards (and the definition of Hardship) and in a uniform and nondiscriminatory manner.

10.8 Special Rule for Rollovers Out of the Plan. Unless otherwise provided by a provision of the Code, the rule provided in Section 8.12 shall apply to distributions under this Article X.

ARTICLE XI

LOANS TO PARTICIPANTS

11.1 General Provisions. The Committee shall direct the Trustees to make a loan to Participants who are "parties in interest" (as defined in Section 3(14) of ERISA) (and to beneficiaries of such Participants as designated in written rules set forth by the Committee) as provided in this Section 11.1. Such loan shall be in an amount that does not exceed the amount set forth in Section 11.2. Loans shall be made on written application to the Plan Administrator and on such terms and conditions as set forth in this Article XI, and in accordance with the rules and procedures established by the Committee in a written resolution. All such rules and procedures shall be uniform and nondiscriminatory and shall relate to such matters as:

(a) Procedures for applying for loans;

(b) The basis on which loans will be approved or denied;

(c) Limitations on the types of loans offered;

(d) The procedure for determining a reasonable rate of interest;

(e) The types of collateral which may secure a loan;

(f) The events constituting default;

(g) Minimum loan amounts;

(h) Frequency of loans; and

(I) Any other appropriate matters consistent with this Article XI.

11.2 Maximum Loan Amount. A loan to a Participant (when added to the outstanding balance of all other loans made to the Participant under this Plan) shall not be in an amount that exceeds the Allocable Portion of the total balance in the Participant's After-tax Savings Account and Section 401(k) Contribution Account (valued as of the Valuation Date coinciding with or immediately preceding the date of such loan). The Allocable Portion shall be adjusted accordingly in the event the maximum permissible loan amount under Section 72(p) of the Code (or any successor provision) is decreased.

11.3 Minimum Loan Amount. The minimum loan amount for each loan shall be One Thousand Dollars ($1,000).

11.4 Repayment Period. The term of a loan made under this Article XI shall be fixed by the Committee, but in no event shall such term exceed (a) one hundred twenty (120) months in the

case of a loan for the purchase of a principal residence, or (b) sixty (60) months in the case of a loan for any other purpose.

11.5 Terms and Conditions. Loans made to Participants shall be made in accordance with the following terms and conditions:

(a) The loans shall be secured by the Participant's interest in the Plan, plus by the Participant's promissory note for the amount of the loan (including interest) payable to the order of the Trustees. The Plan Administrator may also require such other collateral which in a normal commercial setting would be considered adequate for the full protection of the Trust Fund.

(b) The interest rate for the loan shall be the Federal prime rate as of the last day of the quarter immediately preceding or ending on the date the loan is made.

(c) Payment of principal and interest shall be made through appropriate payroll deductions from the Compensation otherwise payable to the Participant while the Participant is an Employee. Such payroll deductions shall continue until the full outstanding balance of any loans is repaid, regardless of whether the borrower remains a Participant in the Plan. Payment of principal and interest by an individual who is no longer an Employee shall be made through such other means (not less frequently than quarterly) as the Committee deems appropriate.

(d) The loan shall be made to the Participant from his Account and shall be treated as an investment of assets of such Account. All interest and all losses attributable to loans shall be charged to the borrowing Participant's Account, and all loan payments shall be credited to the Participant's Account.

(e) The loan shall not be used as a means of distributing benefits before they otherwise become due.

(f) Any loan made under the Plan shall be subject to such other terms and conditions as the Committee shall determine are necessary or appropriate, including the condition that the Participant pay (through payroll withholding) the reasonable expenses determined by the Committee incurred by the Plan to make and service the loan.

(g) Effective on and after December 12, 1994, loan repayments will be suspended during a period of Qualified Military Service as defined in Section 414(u) of the Code.

11.6 Nondiscrimination. In making loans under this Article XI, the Committee shall not discriminate in favor of or against any Participant or group of Participant. Accordingly, loans shall be available to all Participants on a reasonably equivalent basis and shall not be made to Highly-Compensated Employees of the Company in an amount greater than the amount made available to other Participants.

11.7 Decision of the Plan Administrator. The Plan Administrator's decision to grant or deny a loan under this Article XI shall be final.

11.8 Offset of Account Balance. Notwithstanding anything to the contrary contained elsewhere in the Plan, in determining the amount of any distribution made in accordance with Article VIII or Article IX, the amount of any security interest held by the Plan by reason of any loan made against the Participant's Account under this Article XI, including accrued interest, shall be collected by the Plan Administrator from any amounts standing to the credit of the Participant in the Plan in satisfaction of the loan before making any payments to the Participant or to the Participant's Beneficiary.

11.9 Default. In the event a Participant defaults on the repayment of a loan (under uniform and nondiscriminatory written standards adopted by the Committee as to what constitutes default), the Trustees may treat the loan as a distribution and pay the principal and interest owing under the loan from the Participant's After-tax Savings Account in the following order of priority:

(a) Current year After-tax Savings;

(b) Prior years' After-tax Savings;

(c) Earnings on prior years' After-tax Savings; and

(d) Earnings on current year After-tax Savings.

In the event the Participant's After-tax Savings Account is insufficient to repay the full amount of principal and interest owing, the Plan Administrator, in its sole discretion, may treat the unpaid balance as a distribution from the vested portion of the Participant's Company Contribution Account.

In the event the Participant's After-tax Savings Account and the vested portion of the Participant's Company Contribution Account are insufficient to repay the full amount of principal and interest owing, a determination shall be made whether the Participant qualifies for a Hardship withdrawal under the provisions of Section 10.7, and, if so, a distribution shall be made in accordance therewith. If the Participant fails to qualify for a Hardship distribution, the Plan Administrator shall take such other collection action as it deems fit, in accordance with written standards adopted by the Committee; provided, however, that the Plan Administrator shall defer making any distribution from the Participant's Section 401(k) Contribution Account to repay any unpaid loan balance until such time as the Participant has incurred a Separation Date or has attained age 59 1/2, or until an event described in Section 401(k)(10) of the Code has occurred.

ARTICLE XII

BENEFICIARIES

12.1 Designation of Beneficiary. Each Participant or Alternate Payee may designate, on the forms provided by the Plan Administrator, one or more Beneficiaries and contingent Beneficiaries to receive the Plan benefits in the event of the Participant's or Alternate Payee's death. Notwithstanding the preceding sentence, if the Participant is married at the time of his death and has not elected a Qualified Joint and Survivor Annuity, his Account balance shall be payable in full to his Surviving Spouse, unless he has designated a different beneficiary with the consent of his Spouse, if any, in accordance with Sections 1.65 and 8.6(c).

12.2 Manner of Designation. Such designation may be delivered, on forms provided by the Plan Administrator, at the time such Participant commences participation in the Plan, or thereafter. A beneficiary designation completed by an Alternate Payee may be delivered at the time the Administrator notifies the Alternate Payee that he is entitled to Plan benefits under a Qualified Domestic Relations Order, or thereafter. A Participant or Alternate Payee may designate different Beneficiaries at any time by delivering a new written designation to the Plan Administrator. Any such designation shall become effective only upon its receipt by the Plan Administrator. The last effective designation received by the Plan Administrator shall supersede all prior designations. A designation of a Beneficiary shall be effective only if the designated Beneficiary survives the Participant or Alternate Payee. All designations must be signed by either the Participant or Alternate Payee, as appropriate.

12.3 Absence of Valid Designation of Beneficiary. Except as provided in section 8.7, if a Participant or Alternate Payee fails to designate a Beneficiary, if no designated Beneficiary survives the Participant or Alternate Payee, or if such designation is for any reason illegal or ineffective, distribution of benefits otherwise payable under this Plan shall be made to the Participant's or Alternate Payee's estate.

12.4 Beneficiary Bound by Plan Provisions. Whenever the rights of a Participant or Alternate Payee are stated or limited in the Plan, the Participant's or Alternate Payee's Beneficiaries shall be bound thereby.

ARTICLE XIII

QUALIFIED DOMESTIC RELATIONS ORDERS

13.1 Governing Provisions. Notwithstanding any other provisions of this Plan, a Participant's Account may be assigned in whole or in part pursuant to the provisions of a Qualified Domestic Relations Order (hereinafter "QDRO"). In such case, the following rules shall apply:

(a) A separate Account shall be established for any Alternate Payee who has been awarded Plan assets, unless a QDRO obligates the Plan to distribute, as soon as administratively practicable, all or part of a Participant's Account to the Alternate Payee. In such cases, a pro rata portion of the amount payable to the Alternate Payee shall be withdrawn from each Fund in which the Participant, pursuant to Section 14.1, has invested. This pro rata withdrawal from each Fund shall be calculated according to the percentage of the Participant's total Account which the Participant has placed in each Fund. Thus, for example, if a Participant with an Account of $200,000 has invested fifty percent (50%) in the Balanced Fund and fifty percent (50%) in the Bond Fund, and a QDRO awards $100,000 to an Alternate Payee, fifty percent (50%) of the Alternate Payee's award shall be deducted from the Bond Fund and fifty percent (50%) from the Balanced Fund.

(b) All such payments pursuant to a QDRO shall be subject to reasonable rules and regulations promulgated by the Committee respecting the time of payment pursuant to such order and the valuation of the Participant's Account from which payment is made, provided that all such payments are made in accordance with such order and Section 414(p) of the Code.

(c) The balance of a Participant's Account subject to any QDRO shall be reduced by the amount of any payment made pursuant to such order.

An Alternate Payee for whom a separate Account is established pursuant to this Article XIII shall be entitled to file an election with regard to investment of that Account in the manner specified by Article XIV and subject to the terms of the QDRO. All such elections shall be subject to the same terms and conditions as Article XIV imposes upon Participant elections, and all such elections shall be carried out by the Administrator in accordance with Article XIV.

Upon the death of an Alternate Payee, the Alternate Payee's Beneficiaries shall be entitled to payment of benefits in an amount and in the manner provided by the Plan.

ARTICLE XIV

PARTICIPANT'S DIRECTED INVESTMENTS

14.1 Election by Participants. Subject to the terms and conditions of this Article XIV, each Participant shall have the right to direct that his (a) Account balance, (b) share of future allocations of Company contributions, (c) share of future forfeitures, and (d) future After-tax Savings and Section 401(k) Contributions, be invested, in specified multiples of one percent (1%), in any of the Funds maintained under the Plan, provided the Participant elects to do so. The Plan Administrator shall carry out the election in accordance with the provisions of this Article XIV. For the purposes of making elections under this Article XIV, the term "Participant" shall include a Beneficiary, and an Alternate Payee for whom a separate account has been established in accordance with Article XIII.

14.2 Election Rules.

(a) Election to be in Writing. A Participant's election to direct investments shall be in writing, on a form furnished by the Plan Administrator, or shall be made under such other procedures as specified by the Plan Administrator. The election shall state the percentage to be transferred to or from a Fund.

(b) Effective Date of Election. An election shall become effective upon the next subsequent Transfer Date (as described in Section 14.3) occurring within a reasonable time (as determined under procedures specified by the Plan Administrator) after the receipt of the Participant's valid election by the Plan Administrator, unless such election is revoked before such Transfer Date.

(c) Revocation of Election. A Participant may revoke an election, in whole or in part, any time prior to the Transfer Date. Thereafter, a revocation shall become effective as of the next ensuing Transfer Date occurring within a reasonable time (as determined under procedures specified by the Plan Administrator) after the Plan Administrator's receipt of such revocation.

(d) Change in Election. Each Participant may elect to change the Funds (and/or the percentage to be allocated thereto) in which his (1) Account balance, (2) share of future allocations of Company contributions, (3) share of future forfeitures, and (4) future After-tax Savings and Section 401(k) Contributions, are to be invested. Upon the receipt by the Plan Administrator of a Participant's request for a change in writing or in some other form authorized by the Plan Administrator, the election shall be effective as provided in paragraph (b) of this Section.

(e) Default Election. In the event that a Participant does not make an initial election to direct investments, his (1) Account balance, (2) share of future allocations of Company contributions (3) share of future forfeitures, and (4) future After-tax Savings and Section 401(k)

Contributions, shall be invested in the Fund(s) determined in the sole discretion of the Committee until an election is made pursuant to this Article.

14.3 Transfer Date. The Committee on behalf of the Named Fiduciary shall establish one or more Transfer Dates in each Fiscal Year; provided, however, that such Transfer Dates shall occur no less frequently than quarter-annually.

14.4 Confirmation. The Plan Administrator shall provide written confirmation to a Participant within a reasonable time after an election or change of election is made by such Participant.

14.5 Subdivision of Accounts.

(a) Establishment of Subaccounts. The Account of a Participant who has made an election pursuant to this Article shall be subdivided as of the Transfer Date into a Subaccount corresponding to each of the Funds maintained under the Plan into which the Participant has made an election to have his Account invested. Such Participant's Fund Subaccounts shall each have a balance as of the Transfer Date giving effect to the percentages indicated by the Participant's election. If a Participant has not made an election as to any Fund, such Participant's Account shall be placed into the Fund(s) determined under Section 14.2(e) and the Participant's Fund Subaccount(s) shall have an aggregate value equal to the Participant's entire Account balance.

(b) Allocation of After-tax Savings, Section 401(k) Contributions, Company Contributions and Forfeitures Among Subaccounts. The following amounts shall be further allocated among such Participant's Fund Subaccounts in the appropriate percentages in accordance with the Participant's election: (1) that portion of any Company contribution which is allocated pursuant to Section 6.4 to the Company Contribution Account of a Participant who has made an election; (2) the Participant's After-tax Savings; (3) the Participant's Section 401(k) Contributions; and (4) forfeitures allocated under Section 6.9 to the Company Contribution Account of a Participant.

14.6 Investment Funds.

(a) Committee's Responsibility for Funds. The Committee shall be responsible for designating Funds in the Trust Fund into which Participants may elect to invest their Accounts as provided in this Article. The Plan Administrator shall provide sufficient information to Participants concerning the Funds to permit them to make informed investment decisions, or, if appropriate, provide Participants with directions as to how such information may be obtained.

(b) Investment Policy of Funds. The Committee shall determine the Funds to be made available under the Plan; provided however, that at all times that in addition to the Host Marriott Corporation Stock Fund, three (3) or more Funds shall be maintained which (1) shall not invest in Qualifying Employer Securities or Qualifying Employer Real Property; (2) shall be designed to enable Participants, by choosing among them, to minimize the risk of large losses in

their Accounts; (3) shall be designed to enable Participants, by combining them, to achieve general risk and return characteristics in their Accounts as desired by Participants; and (4) shall be designed to permit Participants to generally minimize the risk to their Accounts at any level of expected return.

The Named Fiduciary, acting by and through the Committee, shall establish an investment policy and method consistent with the objectives of the Plan and the requirements of Title I of ERISA. Such objectives shall include, those set forth in Article XIV with respect to the Funds. The Committee acting on behalf of the Named Fiduciary shall at least annually review such investment policy and method. In establishing and reviewing such investment policy and method, the Named Fiduciary shall endeavor to determine the Plan's short-term and long-term objectives and financial needs, taking into account the need for liquidity to pay benefits and the need for investment growth. All actions of the Committee acting on behalf of the Named Fiduciary taken pursuant to this subsection (b) and the reasons therefor shall be recorded and shall be communicated to the Trustees and to the Board of Directors.

(c) Funds. The Committee shall make available to the Participants the following Funds or such other Funds as the Committee shall determine from time to time:

(1) Stable Value Fund. The assets of the Stable Value Fund shall be invested in a manner that emphasizes a high level of stability and preservation of principal over capital appreciation or income.

(2) Spectrum Income Fund. The assets of the Spectrum Income Fund are invested in a number of other T. Rowe Price mutual funds which invest principally in fixed income securities. The fund seeks a high level of current income consistent with moderate price fluctuation.

(3) Balanced Fund. The assets of the Balanced Fund shall be invested in a manner that emphasizes long-term growth of capital as well as providing income, with a moderate level of risk.

(4) Blue Chip Growth Fund. The assets of the Blue Chip Growth Fund shall be invested in a manner that emphasizes long-term growth of capital.

(5) Host Marriott Corporation Common Stock. Host Marriott Corporation common stock which constitutes Qualifying Employer Securities.

(6) International Stock Fund. The assets of the International Stock Fund shall be invested in a manner that emphasizes long-term capital growth, principally through investment in a portfolio of diversified common stocks of established non-U.S. companies.

(7) New Horizons Fund. The assets of the Aggressive Growth Fund shall be invested in a manner that emphasizes high growth by investing in stocks of small, rapidly growing companies.

14.7 Voting Rights.

(a) Generally, all shares (including fractional shares) held in a Participant's Host Marriott Corporation Stock Fund Subaccount shall be voted in accordance with the written direction of the Participant.

(1) The Committee shall notify the Participants in writing of each occasion for the exercise of voting rights as soon as practicable, and generally not less than thirty (30) days, before such rights are to be exercised. Such notification shall include all the information that the Corporation distributes to shareholders regarding the exercise of such rights.

(2) Each Participant shall be entitled to direct the exercise of rights other than voting rights (such as, for example, a conversion privilege) with respect to all shares held in the Participant's Host Marriott Corporation Stock Fund Subaccount in the same manner as prescribed in this Section 14.7, to the extent required by the provisions of the Plan and applicable laws.

(3) Notwithstanding the above, in the event of a tender offer for Host Marriott Corporation common stock with time limits that do not permit voting rights with respect to the offer to be passed through to Participants, the Committee shall instruct the Trustee regarding the exercise of rights with respect to the tender offer.

(b) The Trustee shall exercise voting rights with respect to all investments other than Qualifying Employer Securities held in the Host Marriott Corporation Stock Fund.

14.8 Allocation of Income of Funds. The net income of each Fund shall be allocated among the Fund Subaccounts as provided in Section 6.8.

14.9 Investment Authority of Former Employees. Any Participant who ceases to be an Employee shall continue to have the authority to direct the investment of his Account in accordance with the provisions of this Article.

14.10 Investment for the Benefit of Incompetents. If the Plan Administrator receives notice that any person entitled to direct investments hereunder has been determined to be legally incompetent, his Account shall be placed in a Fund(s) determined under Section 14.2(e) until such time as the person's legal representative files an election in the manner specified in this Article.

14.11 Rules of Committee. The Committee may establish such rules as it deems necessary to carry out the provisions of this Article and to comply with the requirements of ERISA.

ARTICLE XV

PLAN FIDUCIARIES

15.1 Plan Fiduciaries.

(a) Named Fiduciary. The Committee is hereby named as the fiduciary of the Plan to have authority to control and manage the operation and administration of the Plan. As such, the Committee may hereinafter be referred to as the "Named Fiduciary". The Named Fiduciary shall have all of the legal liabilities and obligations set forth in ERISA with respect to employee benefit plan fiduciaries.

(b) Profit Sharing Committee. The function of the Committee shall be to advise and assist the Plan Administrator in the day-to-day discharge of its duties hereunder. The Committee shall consist of not more than ten (10) persons appointed by the Board of Directors. The Plan Administrator shall attend all meetings of the Committee and shall act as the secretary of the Committee ex officio to record minutes of all action taken at any such meeting. Each member of the Committee shall sit at the pleasure of the Board of Directors and may be removed at any time with or without cause.

(c) Trustees. The Named Fiduciary shall appoint one or more trustees ("Trustees") under the terms of the Trust Agreement.

15.2 Fiduciary Duty. Subject to Section 403(c) of ERISA, the Named Fiduciary and each other Fiduciary shall discharge its duties with respect to the Plan solely in the interest of the Participants and their Beneficiaries and:

(a) For the exclusive purpose of providing benefits to Participants and their Beneficiaries and defraying reasonable expenses of administering the Plan;

(b) With the care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;

(c) By diversifying the investments of the Plan so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and

(d) In accordance with the provisions of this Plan insofar as they are consistent with the provisions of ERISA.

The diversification requirement of subsection (c) of this Section and the prudence requirement (only to the extent that it requires diversification) of subsection (b) of this Section shall not be violated by

acquisition or holding of Qualifying Employer Real Property or by acquisition or holding of Qualifying Employer Securities.

15.3 Agents and Advisors.

(a) Employment of Agents. The Named Fiduciary and the Committee shall have the power to employ suitable agents and advisors for themselves including but not limited to auditors, accountants, investment advisors and custodians and legal and other counsel, and to pay reasonable compensation for their services. Such agents may be persons acting in a similar capacity for the Company, or may be employees of the Company. The opinion of any such agent shall be complete authority and protection for any action taken or omitted by the Named Fiduciary and the Committee acting in good faith and in accordance with such opinion.

(b) Delegation to Agents and Plan Administrator. The Named Fiduciary acting by and through the Committee may employ agents and delegate to them ministerial duties. The Named Fiduciary may also designate persons, including a Plan Administrator and the Committee, to carry out both ministerial and fiduciary responsibilities; provided, however, that the Trustees' responsibility to manage or control the assets of the Plan may not be so delegated except to an investment manager or managers pursuant to subsection (c) of this Section.

(c) Appointment of Investment Manager. The Named Fiduciary shall have the power as provided in the Trust Agreement to appoint an investment manager or managers with the power to manage, acquire or dispose of any assets of the Plan so long as each such investment manager (1)(i) is registered as an investment advisor under the Investment Advisors Act of 1940; (ii) is a bank, as defined in that Act; or (iii) is an insurance company qualified to manage, acquire, or dispose of assets of employee pension benefit plans under the laws of more than one State; and (2) has acknowledged in writing to the Named Fiduciary that he or she or it is a fiduciary with respect to the Plan.

15.4 Administrative Action.

(a) Action by Majority. The action of a majority of the Board of Directors or the Committee at the time acting hereunder, and any instrument executed by a majority of such Directors or Committee members shall be considered the action or instrument of the Board of Directors or the Committee as the case may be. Action may be taken by the Board of Directors or the Committee at a meeting or in writing without a meeting.

(b) Right to Vote. No Director or Committee member or Plan Administrator shall have the right to vote or decide upon any matter relating solely to himself or solely to any of his rights or benefits under the Plan.

(c) Authority to Execute Documents. The Named Fiduciary or the Committee may authorize in writing any one or more of their number to execute any document or documents on their behalf, and anyone dealing with the Named Fiduciary, Committee or Trustees may accept and rely upon any document executed by such member or members as representing action by the Named Fiduciary, Committee or Trustees, as the case may be.

15.5 Liabilities and Indemnifications.

(a) Liability of Fiduciaries. The Named Fiduciary and their assistants and representatives including members of the Committee and the Plan Administrator (other than any Investment Manager) shall be free from all liability for their acts and conduct in the administration of the Plan except for acts of willful misconduct; provided, however, that the foregoing shall not relieve any of them from any responsibility or liability for any responsibility, obligation or duty that they may have pursuant to ERISA.

(b) Indemnity by Company. In the event, and to the extent not insured against by any insurance company pursuant to provisions of any applicable insurance policy, the Company shall indemnify and hold harmless the Named Fiduciary and their assistants and representatives including members of the Committee and the Plan Administrator from any and all claims, demands, suits or proceedings in connection with the Plan that may be brought by the Company's (or Affiliated Company's) employees, Participants or their Beneficiaries or legal representatives, or by any other person, corporation, entity, government or agency thereof; provided, however, that such indemnification shall not apply to any such person for such person's acts of willful misconduct in connection with the Plan.

15.6 Plan Expenses and Taxes.

(a) Plan Expenses. The administrative expenses (and the Investment Expenses) incurred by the Named Fiduciary, the Committee and Trustees in the performance of their duties, including recordkeeping fees and fees for legal services rendered to the Named Fiduciary and Trustees, such compensation to the Named Fiduciary and Trustees as may be agreed upon in writing from time to time between themselves and the Board of Directors, and all other proper charges and disbursements of the Named Fiduciary, the Committee and Trustees, shall be paid by the Trust Fund to the extent not paid from forfeitures as provided in Section 6.9 or by the Company.

(b) Taxes. All taxes of any and all kinds whatsoever that may be levied or assessed under existing or future laws upon or with respect to the Trust Fund or the income thereof shall be paid from the Trust Fund, subject to the making of appropriate charges.

15.7 Records and Financial Reporting.

(a) Book of Account. The Named Fiduciary acting by and through the Committee and the Trustees shall keep accurate and detailed accounts of all investments, receipts, disbursements and other transactions hereunder. Within ninety (90) days following the close of each Fiscal Year and at the request of the Company ninety (90) days after the removal or resignation of any Trustee as provided in Section 15.1(c), the Trustees shall file with the Company a written account setting forth all investments, receipts, disbursements, allocations and other transactions effected by the Trustees during such Fiscal Year or during the period from the close of the last Fiscal Year to the date of such removal or resignation.

(b) Financial Reporting Under ERISA. The Named Fiduciary shall if required by ERISA cause the Plan to engage, on behalf of the Participants, an independent qualified public

accountant, who shall conduct such examinations and give such opinions as are required in connection with the Plan's reporting and filing requirements under ERISA. The Named Fiduciary shall make available or cause to be made available to each Participant and each beneficiary who is receiving benefits under this Plan, such information, financial and otherwise, and in such manner and at such times as is required under ERISA.

15.8 Compliance with ERISA and Code. The Named Fiduciary shall cause the Plan to comply with all filing requirements as provided in ERISA and in the Code and all regulations promulgated thereunder. All authority granted to the Named Fiduciary, the Committee and the Trustees hereunder is subject to their compliance with Sections 15.2, 15.9 and 15.10 and with ERISA.

15.9 Prohibited Transactions. A Fiduciary shall not engage in any prohibited transaction within the meaning of Sections 406 and 407 of ERISA, or Section 4975(c) of the Code, unless such transaction is exempt under Section 408 or Section 414(c) of ERISA or Section 4975(d) of the Code, or acquire or hold any Company securities or real property except to the extent permitted under Section 407 of ERISA.

15.10 Foreign Assets. No Fiduciary may maintain the indicia of ownership of any assets of the Plan outside the jurisdiction of the district courts of the United States, except as may be authorized by the Secretary of Labor by regulation.

15.11 Exclusive Benefit of Trust Fund. The assets of the Trust Fund shall never inure to the benefit of the Company and shall be held for the exclusive purposes of providing benefits to Participants and their Beneficiaries and defraying reasonable expenses of administering the Plan.

15.12 Board of Directors Resolution. Any action by the Company pursuant to any of the provisions hereof shall be evidenced by a resolution of its Board of Directors certified to the Committee or the Trustees over the signature of its secretary or of any assistant secretary. The Committee and the Trustees shall be fully protected in acting in accordance with such certified resolution.

ARTICLE XVI

PLAN ADMINISTRATION

16.1 Administration of the Plan.

(a) Authority to Administer. On behalf of the Named Fiduciary, the Committee shall administer the Plan in accordance with its terms and shall have all powers and discretionary authority necessary to carry out the provisions of the Plan, including but not limited to, the power to: (1) interpret and construe the provisions of the Plan, including making factual determinations; (2) prepare any rules and regulations which may become necessary or desirable in the operation of the Plan, including but not limited to specifying procedures to be followed by eligible Employees in electing to participate in the Plan and in revoking such participation; (3) determine eligibility for benefits and determine the amounts and manner of payment thereof under the provisions of the Plan; (4) keep individual accounts; (5) establish investment policies to be followed by the Trustees; and (6) perform such other duties as may be required for the proper administration of the Plan. The Committee shall have absolute discretion in interpreting the provisions of the Plan and administering the Plan in accordance with such provisions, including by way of illustration and not of limitation, the making of determinations of eligibility to participate and the calculation of benefits accruing or payable under this Plan.

(b) Delegation of Authority to Plan Administrator. In accordance with Section 15.3(b), the duties described in subsection (a) of this Section shall be exercised by the Plan Administrator acting on behalf of the Committee, subject to review by the Committee under Section 16.2(c) of a denial of a claim for benefits.

(c) Finality of Decision. Any decision of the Named Fiduciary or of the Committee on its behalf, in matters within its jurisdiction shall be final, binding and conclusive upon the Company and upon all persons who have participated or have any interest or concern, whatsoever, in the Plan.

16.2 Claims.

(a) Claims for Benefits. Any claim for benefits under the Plan shall be made in writing to the Plan Administrator. Except as to his own account, no claimant shall have any legal right to inquire as to any payment under the Plan having been made or as to determining the amount of such payment.

(b) Notice of Claim Denied. If a claim for benefits is denied, in whole or in part, the Plan Administrator shall, within sixty (60) days after receipt of the claim, notify the claimant of the denial of the claim. The notice shall be written in language calculated to be understood by the claimant and shall include the following information:

(1) The specific reason or reasons for denial of the claim;

(2) Specific reference to the pertinent Plan provisions upon which the denial is based;

(3) A description of any additional material or information necessary for the claimant to perfect the claim, along with an explanation of why such material or information is necessary; and

(4) An explanation of the Plan's claim review procedure with respect to the denial of benefits.

(c) Request for Review of Denial. Within sixty (60) days after the receipt by the claimant of a written notice of denial of the claim, or such later time as shall be deemed reasonable taking into account the nature of the benefit subject to the claim and any other attendant circumstances, the claimant may file a written request with the Plan Administrator requesting that the Committee conduct a full and fair review of the denial of the claim for benefits. In connection with the claimant's appeal of the denial of the claim for benefits, the claimant (or his authorized representative) may review permanent documents and may submit issues and comments regarding the claim in writing.

(d) Decision on Review of Denial. The Committee shall deliver to the claimant a written decision on the claim within sixty (60) days after the receipt of the aforesaid request for review, except that if there are special circumstances (such as the need to hold a hearing, if necessary) which require an extension of time for processing, the aforesaid sixty (60) day period shall be extended to sixty (60) days. If an extension of time is necessary, written notice shall be furnished to the claimant before the extension period commences. If the claim is denied on review, in whole or in part, the decision shall be written in a manner calculated to be understood by the claimant and shall include the following information: (1) the specific reason or reasons for denial; and (2) specific references to the pertinent Plan provisions on which the decision is based.

ARTICLE XVII

PARTICIPATING COMPANY WITHDRAWAL FROM PLAN; TERMINATION OR MERGER OF THE PLAN

17.1 Voluntary Withdrawal from Plan.

(a) Withdrawal By Participating Company. Any Participating Company may at any time withdraw from the Plan upon giving the Named Fiduciary at least thirty (30) days notice in writing of its intention to withdraw, unless the Named Fiduciary shall waive such thirty (30) days notice. The withdrawal of such Participating Company shall be effective on the last day of the Month in which the foregoing thirty (30) day period ends.

(b) Segregation of Trust Assets Upon Withdrawal. Upon the withdrawal of a Participating Company pursuant to subsection (a) of this Section, the Plan Administrator shall segregate the share of the assets in the Trust Fund, the value of which, determined on the day the withdrawal of such Participating Company shall be effective, shall equal the total credited to the accounts of Participants of the withdrawing Participating Company. The determination of which assets are to be so segregated shall be made by the Committee acting on behalf of the Named Fiduciary in its sole discretion.

(c) Exclusive Benefit of Participants. Neither the segregation and transfer of the Trust assets upon the withdrawal of a Participating Company nor the execution of a new agreement and declaration of trust by such withdrawing Participating Company shall operate to permit any part of the Trust Fund to be used for or diverted to purposes other than for the exclusive benefit of the Participants.

(d) Applicability of Withdrawal Provisions. The withdrawal provisions contained in this Section 17.1 shall be applicable only if the withdrawing Participating Company continues to cover its Participants and eligible employees in another profit-sharing plan or pension plan and trust qualified under Sections 401 and 501 of the Code. Otherwise, the termination provisions of Section 17.3 shall apply.

17.2 Amendment of Plan. The Board of Directors may amend the Plan with respect to all Participating Companies or with respect to a particular Participating Company at any time, and from time to time, pursuant to written resolutions adopted by the Board of Directors (and all Employees and persons claiming any interest hereunder shall be bound thereby); provided, however, that no such amendment shall:

(a) Alter the rights, duties or responsibilities of the Named Fiduciary or Trustees without their written consent;

(b) Permit any portion of the Trust Fund to inure to the benefit of the Company or permit any portion of the Trust Fund to be held or used other than for the exclusive purpose of providing benefits to Participants and their Beneficiaries and defraying reasonable costs of administering the Plan; or

(c) Have the effect of decreasing the "accrued benefit" of any Participant as proscribed in Section 411(d)(6) of the Code;

(d) Have the effect of reducing any then vested percentage of benefits of any Participant as computed in accordance with the vesting schedule under Article VII of the Plan.

If the vesting schedule under Article VII of the Plan shall be amended and such an amendment would, at any time, decrease the percentage of vested benefits which any Participant would have been entitled to receive had the vesting schedule not been so amended, then each Participant who is an Employee on the date such amendment is adopted, or the date such amendment is effective, whichever is later, and who has three (3) or more Periods of Service as of the end of the period within which such Participant may make the election provided for herein, shall be permitted, beginning on the date such amendment is adopted, to irrevocably elect to have the Participant's vested interest computed without regard to such amendment. Written notice of such amendment and the availability of such election must be given to each such Participant, and each such Participant shall be granted a period of sixty (60) days after the later of:

(1) The Participant's receipt of such notice; or

(2) The effective date of such amendment within which to make such election.

Such election shall be exercised by the Participant by delivering or sending written notice thereof to the Named Fiduciary prior to the expiration of such sixty (60) day period.

17.3 Voluntary Termination of Plan.

(a) Right to Terminate Plan. Each Participating Company contemplates that the Plan shall be permanent and that it shall be able to make contributions to the Plan. Nevertheless, in recognition of the fact that future conditions and circumstances cannot now be entirely foreseen, each Participating Company reserves the right to terminate (as to such Participating Company) either the Plan (exclusive of the Trust Fund) or both the Plan and the Trust Fund, at any time, by resolution of the board of directors of the Participating Company.

(b) Merger or Consolidation of Plan and Trust. Neither the Plan nor the Trust Fund may be merged or consolidated with, nor may its assets or liabilities be transferred to, any other plan or trust, unless each Participant would (if the Plan then terminated) receive a benefit immediately after the merger, consolidation, or transfer which is equal to or greater than the benefit

the Participant would have been entitled to receive immediately before the merger, consolidation, or transfer (if the Plan had then terminated).

(c) Termination of Plan and Trust Fund. If the board of directors of a Participating Company determines to terminate (as to such Participating Company) the Plan and Trust Fund completely, the Plan and Trust Fund shall be terminated insofar as they are applicable to such Participating Company as of the date specified in certified copies of resolutions of such board of directors delivered to the Named Fiduciary, the Committee and the Trustees. Upon such termination of the Plan and Trust Fund, after payment of all expenses and proportional adjustment of accounts of Participants employed by such Participating Company to reflect such expenses, Trust Fund earnings or losses, and allocations of any previously unallocated funds to the date of termination, such Participating Company's Participants shall be entitled to receive the amount then credited to their respective accounts in the Trust Fund. The Named Fiduciary, in its sole discretion, may make payment of such amount in cash, in assets of the Trust Fund, or in the form of immediate or deferred payment term annuity contracts for such Participants.

17.4 Discontinuance of Contributions. Whenever a Participating Company determines that it is impossible or inadvisable for it to make further contributions as provided in the Plan, the board of directors of such Participating Company may, without terminating the Trust Fund, adopt an appropriate resolution permanently discontinuing all further contributions by such Participating Company. A certified copy of such resolution shall be delivered to the Named Fiduciary, the Committee and the Trustees. Thereafter, the Named Fiduciary, the Committee and the Trustees shall continue to administer all the provisions of the Plan which are necessary and remain in force, other than the provisions relating to contributions by such Participating Company. However, the Trust Fund shall remain in existence with respect to such Participating Company and all of the provisions of the Plan relating to the Trust Fund shall remain in force.

17.5 Rights to Benefits Upon Termination of Plan or Complete Discontinuance of Contributions. Upon the termination or partial termination of the Plan or the complete discontinuance of contributions by a Participating Company, the rights of each of such Participating Company's Participants affected by such termination or partial termination to the amount credited to such Participant's Account at such time shall be nonforfeitable without reference to any formal action on the part of such Participating Company, the Named Fiduciary, the Committee or the Trustees.

ARTICLE XVIII

ELECTION TO PARTICIPATE BY SUBSIDIARIES

18.1 Consent Required for Subsidiaries to Join Plan. The Plan Administrator, upon receiving a written resolution of the board of directors of a Subsidiary electing to become a Participating Company, may approve or disapprove such election acting as the delegate of the Board of Directors. The Board of Directors shall retain the final authority to override such action and approve or disapprove the Subsidiary's request.

ARTICLE XIX

MISCELLANEOUS PROVISIONS

19.1 Status of Employment. The adoption and maintenance of the Plan shall not be deemed to constitute a contract of employment between the Company and any Employee or Participant, or to be a consideration for, or an inducement or condition of, any employment. Nothing contained herein shall be deemed to give any Employee the right to be retained in the service of the Company or to interfere with the right of the Company to discharge any Employee or Participant at any time.

19.2 Liability of Company. Except as may be determined by the Board of Directors, in its sole discretion from time to time, all benefits payable under this Plan shall be paid or provided solely from the Trust Fund and the Company (other than Host Marriott, L.P. in its role as Named Fiduciary) assumes no liability or responsibility therefor; its obligation which is expressly stated to be non-contractual is limited solely to the making of contributions to the Trust Fund as provided in this Plan.

19.3 Information.

(a) Supplied by Named Fiduciary, the Committee or Trustees. A certification in writing to the Named Fiduciary, Plan Administrator, the Committee or the Trustees, executed in accordance with the provisions of this Plan, certifying to the existence, occurrence or happening of any event, shall constitute evidence of such existence, occurrence or happening; and the Named Fiduciary, Plan Administrator, the Committee, the Trustees and the Company shall be fully protected in accepting and relying upon such certification and shall incur no liability or responsibility for so doing.

(b) Supplied by Company. At the request of the Named Fiduciary, the Committee or the Trustees, the Company shall furnish in writing to the Named Fiduciary, the Committee or the Trustees such information as may be necessary or desirable in order that the Named Fiduciary, the Committee or the Trustees may be able to carry out their respective duties hereunder. The Named Fiduciary, the Committee and the Trustees shall be entitled to rely upon such information as being correct.

19.4 Provisions of Plan to Control. In event of any conflict between the terms of the Plan as set forth in this instrument and in any description of the Plan which may be furnished to Participants or others, the Plan set forth herein shall control.

19.5 Payment for Benefit of Incompetent. The Trustees may make payment to any incompetent who is entitled to receive payments hereunder by making the same to the legal representative of such incompetent or to his parent or Spouse or may apply them for the incompetent benefit.

19.6 Account to be Charged Upon Payment. When any distribution or other payment is made to or for the benefit or on behalf of any party entitled to receive payments hereunder, the account held for the benefit of such party shall be charged accordingly.

19.7 Tax Qualification of Plan. The Plan is intended to qualify as a tax exempt profit sharing plan pursuant to the provisions of Section 401, the cash or deferred arrangement provisions of the Plan set forth in Article V and elsewhere are intended to satisfy the requirements of Sections 401(k) and 401(m), and the Trust created hereunder is intended to qualify as a tax exempt trust under the provisions of Section 501(a) of the Code together with any amendments thereto and all provisions of the Plan shall be construed to obtain those results.

19.8 Deductibility of Company Contributions. The Contributions made by the Company under this Plan are intended to be deductible as business expenses, under the provisions of Section 404 of the Code, together with any amendments thereto, and all provisions of the Plan shall be construed accordingly.

19.9 Restriction on Alienation or Assignment. Benefits provided under the Plan may not be assigned or alienated, except as permitted by Article XIII and the following:

(a) A loan made by the Plan to a Participant in accordance with Article XI shall be secured by the Participant's After-tax Savings Account and Company Contribution Account as provided in Article XI.

(b) If a Participant is indebted to the Company or to the Marriott Employees Federal Credit Union at the time any payments are to be made to such Participant or to the Participant's Beneficiary hereunder and if the Participant, prior to September 2, 1974 has executed in favor of such creditor an irrevocable security assignment of the Participant's account balances in the Plan, the Trustees are authorized to pay to such creditor all or such portion of said payments as may be required to discharge such indebtedness.

(c) An offset to a Participant's benefit against an amount the Participant is required to pay the Plan with respect to a judgment, order, decree or settlement entered into or against a Participant on or after August 5, 1997 shall be permitted in accordance with Code section 401(a)(13)(C).

19 .10 Unclaimed Benefits. In the event that benefit payments owing to a Participant have not been claimed by the Participant within three (3) years of the date on which such benefits first became payable, the Plan Administrator shall, at the end of the Fiscal Year during which such three (3) year anniversary occurs reallocate such benefits to the remaining Participants in the manner provided in Section 6.10(a). If subsequent to such reallocation, the Participant entitled to such benefits makes claim therefor, the Plan Administrator shall promptly pay such forfeited benefit. Funds with which to pay any such benefits shall be provided as set forth in Section 6.10(b).

19.11 Recovery of Plan Benefits Payment Made by Mistake. A Participant or Beneficiary shall be required to return to the Plan any payments made under the Plan made by a mistake of fact or law.

19.12 Bonding. Every Fiduciary of the Plan and every person who handles funds or other property of the Plan shall be bonded if and to the extent required by Section 412 of ERISA.

19.13 Titles and Captions. The titles and captions to the Articles, Sections and subsections in the Plan are placed herein for convenience of reference only, and in case of any conflict the text of this instrument, rather than such titles, shall control.

19.14 Execution of Counterparts. This instrument may be executed in any number of counterparts, each of which shall be deemed to be an original.

19.15 Governing Law. The Plan shall be governed, construed, administered and regulated in all respects by and under the laws of the State of Maryland.

19.16 Separability. If any provisions of the Plan shall for any reason be invalid or unenforceable, the remaining provisions shall nevertheless remain in full force and effect.

19.17 Supplements and Appendices. Supplements and Appendices to the Plan or the Trust may be adopted, attached to and incorporated in the Plan or the Trust at any time. The provisions of any such Supplements or Appendices shall have the same effect that such provisions would have if they were included within the basic text of the Plan or the Trust. Supplements and Appendices shall be adopted by the Board pursuant to the amendment authority set forth in Section 17.2 of the Plan and shall specify the persons affected.

19.18 Military Service. Notwithstanding any other provision of the Plan to the contrary, contributions, benefits and service credit with respect to qualified military service will be provided in accordance with section 414(u) of the Internal Revenue Code.

19.19 Employer Securities. Notwithstanding any provision of the Plan or Trust to the contrary, the Plan may invest in Qualifying Employer Securities and Qualifying Employer Real Property up to 100% of the Plan's assets or otherwise the maximum permitted by ERISA.

ARTICLE XX

TOP HEAVY PROVISIONS

20.1 Determination of Top Heavy Status. For purposes of this Article, the Plan shall be a Top Heavy Plan if, as of the Determination Date, either:

(a) The sum of the aggregated accounts of Participants who are "key employees" (as defined in Section 416(i) of the Code) exceeds sixty percent (60%) of the sum of the aggregated accounts of all Plan Participants; or

(b) The Plan is included in a Top Heavy Group.

If a Participant has received no compensation from the Company during the five (5) year period preceding the Determination Date, his account balance may be disregarded for purposes of determining whether the Plan is top-heavy. Solely for purposes of determining which Participants are "key employees," the term "compensation" (as used in Section 416(I) of the Code) shall mean the compensation stated on an Employee's Form W-2 for the calendar year that ends with or within the Plan Year.

20.2 Definitions. For purposes of this Article, the following terms shall have the meanings set forth herein:

(a) "Aggregation Group" means:

(1) Each Section 401 Plan of the Company in which a "key employee" (as defined in Section 416(i) of the Code) is a participant; and

(2) Each Section 401 Plan of the Company which enables any plan described in subsection (a)(i) of this Section to meet the requirements of Section 401(a)(4) or 410 of the Code.

(b) "Determination Date" means, with respect to any Plan Year, the last day of the preceding Plan Year. In the case of the Plan Year which includes the Effective Date of the Plan, the last day of such Plan Year.

(c) "Section 401 Plan" means any stock bonus, pension, or profit sharing plan subject to the qualification requirements of Section 401 of the Code.

(d) "Top Heavy Group" means any Aggregation Group determined to be a Top Heavy Group in accordance with the test set forth in Code Section 416(g)(2)(B).

(e) "Valuation Date" shall have the same meaning as set forth in Section 1.72.

20.3 Requirements if Plan a Top Heavy Plan. Notwithstanding any other provision of this Plan, for any Plan Year for which the Plan is a Top Heavy Plan, a minimum allocation shall be made on behalf of each Participant who is not a "key employee" (as defined in Section 416(i) of the Code) and who is employed on the last day of such Plan Year in an amount equal to the lesser of (a) three percent (3%) of such Participant's Compensation or (b) the largest percentage of Compensation allocated to any key employee during such Plan Year. The minimum allocation shall not apply to any non-key employee who receives a minimum contribution or a minimum benefit under any other plan of the Company or a Subsidiary. Notwithstanding the above, if a non-key employee participates in this Plan and a defined benefit plan that is included in an Aggregation Group, the non-key employee shall receive a minimum benefit under the defined benefit plan rather than a minimum allocation under this Plan, provided that if the defined benefit plan does not provide for a minimum benefit, the non-key employee shall receive a minimum allocation under this Plan of five percent (5%) of Compensation.

COMMITTEE ACKNOWLEDGMENT AND CONSENT

The undersigned as a member of the Profit Sharing Committee under the Host Marriott, L.P. Retirement and Savings Plan (the "Plan"), on his own behalf and on behalf of the other members of said Committee, hereby acknowledges receipt of the Plan, and consents thereto.

Dated this _____ day of _____, 199__

By_____

Attest:

_____
Plan Administrator

COMMITTEE ACKNOWLEDGMENT AND CONSENT

The undersigned as a member of the Profit Sharing Committee under the Host Marriott, L.P. Retirement and Savings Plan (the "Plan"), on his own behalf and on behalf of the other members of said Committee, hereby acknowledges receipt of the Plan, and consents thereto.

Dated this _____ day of _____, 199__

By_____

Attest:

_____
Plan Administrator

COMMITTEE ACKNOWLEDGMENT AND CONSENT

The undersigned as a member of the Profit Sharing Committee under the Host Marriott, L.P. Retirement and Savings Plan (the "Plan"), on his own behalf and on behalf of the other members of said Committee, hereby acknowledges receipt of the Plan, and consents thereto.

Dated this _____ day of _____, 199__

By_____

Attest:

_____
Plan Administrator

CERTIFICATE OF SECRETARY

I, the undersigned secretary of Host Marriott Corporation, the General Partner of Host Marriott, L.P., do hereby certify that the foregoing Host Marriott, L.P. Retirement and Savings Plan (the "Plan") is a true and correct copy of the Plan and that there have been no amendments or modifications to the Plan that are not reflected in this copy.

IN WITNESS WHEREOF, I have hereunto set my hand and seal of Host Marriott Corporation as of the _____ day of _____, 199__.

_____
Secretary

Exhibit 10.34

Amendment to the Employee Benefits & Other Employment Matters Allocation Agreement

WHEREAS, Sodexho Marriott Services, Inc. previously called Marriott International, Inc., a Delaware corporation ("Sodexho"), and Host Marriott Corporation ("Host Marriott"), made and entered into an Employee Benefits & Other Employment Matters Allocation Agreement (the "Allocation Agreement") as of October 8, 1993;

WHEREAS, the Allocation Agreement was amended as of March 27, 1998 (i) to reflect the conversions and redenominations relating to the benefits and awards covered by the Allocation Agreement which were necessary as a result of certain transactions arising from the spin-off of Marriott International, Inc., previously called New Marriott MI, Inc., and Sodexho's acquisition of International Catering Corporation and Sodexho Financiere du Canada, Inc., and (ii) to add New Marriott MI, Inc. as a party to the Allocation Agreement; and

WHEREAS, Section 5.12 of the Allocation Agreement provides that the Allocation Agreement may be amended in writing executed by the parties; and

WHEREAS, Host Marriott intends to enter into certain transactions pursuant to a plan to reorganize its business operations so that it will qualify as a real estate investment trust as of January 1, 1999 ("Host REIT Conversion"); and

WHEREAS, as part of the Host REIT Conversion, Host Marriott intends to transfer the employment of certain Retained Employees to the various entities that are or will be formed to complete the Host REIT Conversion and to transfer substantially all its liabilities (other than liabilities relating to Crestline Capital Corporation) to Host Marriott, L.P. ("HMLP");

WHEREAS, pursuant to the Employee Benefits and other Employment Matters Allocation Agreement to be entered into by and between Host Marriott, HMLP and Crestline Capital Corporation ("New Host Agreement") (i) certain persons who are Host Individuals (as such term is defined in the Allocation Agreement, as amended) will become employees of Crestline Capital Corporation ("Crestline"); and (ii) certain persons who are Marriott International Employees or Marriott Terminees (as such terms are defined in the Allocation Agreement, as amended) and who hold awards under the Host Marriott Corporation 1997 Comprehensive Stock Incentive Plan denominated in shares of Host Marriott Common Stock will receive Conversion Awards ("Host REIT Conversion Awards") denominated in shares of Host REIT common stock, $.01 par value per share ("Host REIT Stock").

NOW, THEREFORE, BE IT

RESOLVED, that the Allocation Agreement be, and it hereby is, amended as follows, effective as of the Contribution Date:

1. Section 1.01 shall be amended by deleting the definitions of Marriott International Employee of Host Individual in their entirety and replacing them with the following:

Marriott International Employee: any individual who was an Employee of Marriott International (renamed Sodexho Marriott Services, Inc. after the New Marriott Distribution Date) on the Distribution Date.

Host Individual: any individual who (i) is or was an employee of Host Marriott Corporation or Host Marriott Services Corporation on or before the Distribution Date, (ii) is or was an employee of Host Marriott Corporation or its affiliates on or before the Contribution Date, or (iii) is a beneficiary of any individual described in clause (i) or (ii).

2. Section 1.01 shall be amended by adding the following terms and their definitions:

Crestline: Crestline Capital Corporation, a Maryland corporation.

Contribution Date: the Contribution Date, as defined in the New Host Agreement.

HMLP: means Host Marriott, L.P., a Delaware limited partnership.

Host Marriott: Host Marriott Corporation, a Delaware corporation for the period before the Contribution Date and Host Marriott Corporation, a Maryland corporation for the period beginning on or after the Contribution Date.

HMLP: Host Marriott, L.P., a Delaware limited partnership.

Host REIT Conversion: certain transactions entered into by Host Marriott pursuant to a plan to reorganize its business operations so that it will qualify as a real estate investment trust as of January 1, 1999.

Host REIT Conversion Award: an adjustment of an award of an option, restricted share or deferred stock under the Host REIT Stock Plan, in accordance with Section 2.5 of the New Host Agreement.

Host REIT Conversion Entity: the entities that will be formed prior to, substantially concurrent with or within a reasonable time after the Contribution Date as part of the Host REIT Conversion. A Host REIT Conversion Entity shall include, but not be limited to, Crestline and HMLP.

Host REIT Deferred Compensation Plan: the Host Marriott Corporation Executive Deferred Compensation Plan, maintained by HMLP and renamed the Host Marriott, L.P. Executive Deferred Compensation Plan following the Contribution Date.

Host REIT Stock: Host Marriott Corporation common stock, $.01 par value per share.

Host REIT Stock Plan: the HMC Comprehensive Stock Incentive Plan, as defined in the New Host Agreement, as may be amended from time to time.

New Host Agreement: the Employee Benefits and Other Employment Matters Allocation Agreement to be entered into by and between Host Marriott Corporation, Host Marriott, L.P., and Crestline Capital Corporation as part of the Host REIT Conversion, as amended from time to time.

3. Section 2.03(b) shall be amended by adding a new paragraph to the end to read as follows:

> Notwithstanding any other provision to the contrary, effective as of the Contribution Date, HMLP shall assume, in accordance with the New Host Agreement, responsibility for all liabilities and obligations of Host Marriott with respect to Host Individuals covered by the Host Marriott Corporation Executive Deferred Compensation Plan.

4. Section 2.03 shall be amended by adding the following new section (d) to the end thereof:

> (d) Host REIT Conversion Terminations and Transfers. Notwithstanding any other provision to the contrary, a Host Individual shall not be considered to have a termination of employment or severance under the terms of any provision of the New Marriott Deferred Compensation Plan requiring continued employment if the employment of such Host Individual with Host Marriott or its subsidiaries is terminated as part of the Host REIT Conversion and immediately after the termination such individual is employed by a Host REIT Conversion Entity. In addition, all earnings from and periods of service with a Host REIT Conversion Entity shall be considered in determining a Host Individual's benefits under the New Marriott Deferred Compensation Plan.

5. Clause (i) of Section 2.05(c) shall be amended by adding the following paragraph at the end thereof:

Effective as of the Host REIT Conversion Date, each restricted share of Host Marriott Common Stock held by or on behalf of Marriott International Employees or Marriott Terminees and each restricted share of New Marriott Stock held by or on behalf of Host Individuals shall be subject to the terms of this Section 2.05(i), except that: (1) restricted shares of Host Marriott Common Stock held by or on behalf of Marriott International Employees or Marriott Terminees shall be adjusted to a Host REIT Conversion Award in accordance with the New Host Agreement, (2) release of restricted shares of New Marriott Stock held by a Host Individual who is employed by a Host REIT Conversion Entity shall be contingent upon a finding by the Compensation Policy Committee (or a delegate of such Committee) of such entity or its affiliate that of such individual has satisfied the conditions of such release, and (3) release of restrictions imposed on the Host REIT Conversion Awards granted pursuant to section (1) of this paragraph shall be contingent upon a finding by the Compensation Policy Committee (or a delegate of such Committee) of New Marriott that a grantee who is an employee of New Marriott has satisfied conditions for such release.

6. Clause (ii) of Section 2.05(c) shall be amended by adding the following paragraph at the end thereof:

Effective as of the Contribution Date, an award of deferred shares of Host Marriott Common Stock held by or on behalf of New Marriott Employees or on behalf of Host Individuals shall be subject to the terms of this Section 2.05(ii), except that: (1) an award of deferred shares of Host Marriott Common Stock held by or on behalf of Marriott International Employees or Marriott Terminees shall be adjusted to a Host REIT Conversion Award in accordance with the New Host Agreement, (2) vesting in or distribution of such shares held by a Host Individual who is employed by a Host REIT Conversion Entity shall be contingent upon a finding by the Compensation Policy Committee (or a delegate of such Committee) of such entity that such individual has satisfied the conditions of such release, and (3) release of restrictions imposed on the Host REIT Conversion Awards granted pursuant to subparagraph (1) of this paragraph shall be contingent upon a finding by the Compensation Policy Committee (or a delegate of such Committee) of New Marriott that a grantee who is an employee of New Marriott has satisfied the conditions for such release.

7. Clause (iii) of Section 2.05(c) shall be amended by adding the following paragraph at the end thereof:

Effective as of the Contribution Date, with respect to options to acquire stock subject to Conversion Awards or Host REIT Conversion Awards service with Host Marriott or a Host REIT Conversion Entity shall be recognized for purposes of the terms and conditions of such options regarding continuing employment, termination from employment, approved retirement status or expiration following termination of employment or a leave of absence for a period of greater than 12 months (other than a leave of absence approved by the board of directors (or its compensation committee) of the employer of the holder of the options).

8. Section 2.05 shall be amended by adding the following new sections (e) and (f) to the end thereof:

(e) Effect of Host REIT Conversion Terminations and Transfers.

Notwithstanding any other provision of this Agreement to the contrary, a Host Individual shall not be considered to have a termination of employment if such individual leaves the employ of Host Marriott or its affiliates to begin employment with a Host REIT Conversion Entity during the transition period and any service with a Host REIT Conversion Entity shall be considered for purposes of determining such individual's vesting or Service Credit. The transition period, for purposes of the preceding sentence, shall mean the period beginning one day prior to the Contribution Date and ending 7 business days following the Contribution Date. Any termination or transfer of employment relating to a Host Individual that is not part of or in relation to the Host REIT Conversion shall be treated as a termination of employment of such individual.

(f) Effective as of the Contribution Date, Host Marriott shall take all action necessary or appropriate in accordance with the Host REIT Stock Plan and the New Host Agreement to provide each Marriott International Employee or Marriott Terminee who held an award of option, restricted stock or deferred stock under the Host REIT Stock Plan immediately before the Contribution Date with a Host REIT Conversion Award.

9. Section 5.07 shall be amended by adding the following new Sections (d) and (e) to the end thereof:

(d) if to Crestline

CRESTLINE CAPITAL CORPORATION
10400 Fernwood Road
Bethesda, Maryland 20817
Attention: Tracy Colden

(e) if to HMLP

HOST MARRIOTT, L.P.
10400 Fernwood Road
Bethesda, Maryland 20817
Attention: Christopher Townsend

10. Section 5 shall be amended by adding new Sections 5.14 and 5.15 to read as follows:

Section 5.14 Limit on Payment. This Section 5.14 shall be effective as of the Contribution Date. Notwithstanding any other provision of this Agreement to the contrary, the payments otherwise to be made by Marriott International or New Marriott to Host Marriott under this Agreement, if any, (the "Required Payments"), shall not exceed (i) the sum of (A) the maximum amount that can be paid to Host Marriott in any taxable year without causing Host Marriott to fail to meet the requirements of Code Sections 856(c)(2) and (3), determined as if the payment of such amount did not constitute income described in Code Sections 856(c)(2)(A)-(H) and 856(c)(3)(A)-(I) ("Qualifying Income") , as determined by independent accountants to Host Marriott, and (B) in the event Host Marriott receives a letter from outside counsel (the "Indemnification Payment Tax Opinion") indicating that Host Marriott has received a ruling from the IRS holding that Host Marriott's receipt of the Required Payments otherwise to be paid under this Agreement would either constitute Qualifying Income or would be excluded from gross income of Host Marriott within the meaning of Code Sections 856(c)(2) and (3) (the "REIT Requirements") or that the receipt by Host Marriott of the remaining balance of the Required Payments to be made under this Agreement following the receipt of and pursuant to such ruling would not be deemed constructively received prior thereto, the Required Payments less the amount otherwise paid or payable under clause (A) above. The obligation to pay any unpaid portion of any Required

Payment shall terminate three years from the date such payment otherwise would have been made but for this Section 5.14. In the event that Host Marriott is not able to receive the full Required Payment that otherwise would be due under this Agreement as and when such payments otherwise would be required to be made, Marriott International or New Marriott, shall place the unpaid amount in escrow and shall not release any portion thereof to Host Marriott unless and until Marriott International or New Marriott, receive(s) either one of the following: (i) a letter from Host Marriott's independent accountants indicating the maximum amount that can be paid at that time to Host Marriott without causing Host Marriott to fail to meet the REIT Requirements or (ii) an Indemnification Payment Tax Opinion, in either of which events Marriott International or New Marriott shall pay to Host Marriott the lesser of the unpaid Required Payments or the maximum amount stated in the letter referred to in (i) above.

Section 5.15 Addition of HMLP and Crestline. Effective as of the Contribution Date, HMLP and Crestline shall be added as parties to this Agreement and shall be considered as such for purposes of this Agreement, including but not limited for purposes of references to "parties".

IN WITNESS WHEREOF, the parties have executed this Amendment to the Allocation Agreement as of December 28, 1998.

HOST MARRIOTT CORPORATION

By:_____
Name: Christopher G. Townsend
Title: Vice President

SODEXHO MARRIOTT SERVICES, INC.

By:_____
Name: Robert A. Stern
Title: Senior Vice President and General Counsel

MARRIOTT INTERNATIONAL, INC.

By:_____
Name: Myron D. Walker
Title: Vice President

CRESTLINE CAPITAL CORPORATION

By:_____
Name: Bruce Wardinski
Title: President and Chief Executive Officer

HOST MARRIOTT, L.P.

By:_____
Name: Christopher G. Townsend
Title: Vice President

EXHIBIT 12.1

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
AND PREFERRED STOCK DIVIDENDS
(in millions, except ratio amounts)

	1998	1997	1996	1995	1994
Income from operations before income taxes.....	$174	$ 82	$ (8)	$(75)	$(16)
Add (deduct):					
Fixed charges.....	415	365	285	206	184
Capitalized interest.....	(4)	(1)	(3)	(5)	(10)
Amortization of capitalized interest.....	6	5	7	6	8
Net gains (losses) related to certain 50% or less owned affiliate.....	(1)	(1)	1	2	5
Minority interest in consolidated affiliates...	52	32	6	2	1
Adjusted earnings.....	$642	$482	$288	$136	$172
Fixed charges:					
Interest on indebtedness and amortization of deferred financing costs.....	$335	$289	$239	$178	$165
Dividends on convertible preferred securities of subsidiary trust.....	37	37	3	--	--
Portion of rents representative of the interest factor.....	43	39	33	17	11
Debt service guarantee interest expense of unconsolidated affiliates.....	--	--	10	11	8
Total fixed charges and preferred stock dividends.....	$415	$365	$285	$206	$184
Ratio of earnings to fixed charges and preferred stock dividends.....	1.54	1.32	1.01	--	--
Deficiency of earnings to fixed charges and preferred stock dividends.....	--	--	--	70	12

HOST MARRIOTT CORPORATION

SUBSIDIARIES

1) Camelback Inn Associates Limited Partnership
2) Hanover Hotel Acquisition Corporation
3) HMC AP GP, Inc.
4) HMC AP GP LLC
5) HMC Atlanta Marquis Corporation
6) HMC BN Corporation
7) HMC Charlotte GP, Inc.
8) HMC Charlotte GP LLC
9) HMC Gateway, Inc.
10) HMC MHP II, Inc.
11) HMC Toronto Airport GP, Inc.
12) HMC Toronto Airport GP LLC
13) HMC Toronto EC GP, Inc.
14) HMC Toronto EC GP LLC
15) Host Marriott Financial Trust
16) Host Marriott, L.P.
17) Hotel Properties Management Inc.
18) Marriott Hanover Hotel Corporation
19) Marriott MDAH One Corporation
20) Marriott Properties Inc.
21) Marriott MHP Two Corporation
22) MHP Acquisition Corporation
23) MHP II Acquisition Corporation
24) HMC MHP II LLC
25) MOHS Corporation
26) Mutual Benefit/Marriott Hotel Associates I, L.P.
27) Philadelphia Airport Hotel Corporation
28) Philadelphia Market Street Hotel Corporation
29) S.D. Hotels, Inc.
30) Airport Hotels LLC
31) Host of Boston, Ltd.
32) Host of Houston, Ltd.
33) Host of Houston 1979
34) Chesapeake Financial Services LLC
35) CHLP Finance LP
36) City Center Interstate Partnership LLC
37) Host/Interstate Partnership, L.P.
38) Deerfield Capital Trust
39) Farrell's Ice Cream Parlor Restaurants LLC
40) HMC Amelia I LLC
41) HMC Amelia II LLC
42) Ameliatel
43) HMC Atlanta LLC
44) Atlanta Marriott Marquis II L.P.
45) Ivy Street Hotel L.P.
46) HMA-GP LLC
47) HMA Realty L.P.

HOST MARRIOTT CORPORATION

SUBSIDIARIES--(Continued)

48) Ivy Street MPF LLC
49) HMC Burlingame LLC
50) HMC Burlingame II LLC
51) HTKG Development Associates, L.P.
52) HMC California Leasing LLC
53) HMC Cambridge LLC
54) HMC Capital LLC
55) HMC Capital Resources LLC
56) HMC Park Ridge LLC
57) HMC Park Ridge II LLC
58) HMC Park Ridge LP
59) HMC Partnership Holdings LLC
60) HMC/Interstate Ontario, L.P.
61) Host Park Ridge LLC
62) HMC Suites LLC
63) Marriott Suites L.P.
64) PRM LLC
65) Wellsford Park Ridge Marriott Hotel L.P.
66) YBG Associates LLC
67) HMC Chicago LLC
68) Mutual Benefit Chicago Marriott Suite Hotel Partners, L.P.
69) HMC Desert LLC
70) Desert Springs Marriott L.P.
71) HMC DSM LLC
72) DS Hotel LLC
73) HMC Diversified LLC
74) Marriott Diversified American Hotels, L.P.
75) HMC East Side II LLC
76) HMC East Side LLC
77) East Side Hotel Associates, L.P.
78) HMC Gateway LLC
79) HMC Grand LLC
80) HMC Hanover LLC
81) Hanover Marriott L.P.
82) HMC Hartford LLC
83) HMC/RGI Hartford, L.P.
84) HMC Hotel Development LLC
85) HMC HT LLC
86) HMC IHP Holdings LLC
87) IHP Holdings Partnership, L.P.
88) HMC Manhattan Beach LLC
89) HMC/Interstate Manhattan Beach L.P.
90) HMC Market Street LLC
91) New Market Street L.P.
92) Philadelphia Market Street Marriott Hotel L.P.
93) HMC Mexpark LLC
94) HMC Polanco LLC

HOST MARRIOTT CORPORATION

SUBSIDIARIES--(Continued)

95) HMC NGL LLC
96) HMC OLS I LLC
97) HMC OLS I L.P.
98) HMC OLS II L.P.
99) HMC OP BN LLC
100) HMC Pacific Gateway LLC
101) Pacific Gateway Ltd.
102) Marina Hotel LLC
103) San Diego HMC Marina LLC
104) HMC Potomac LLC
105) Potomac Hotel L.P.
106) HMC Properties I LLC
107) Marriott Hotel Properties L.P.
108) Lauderdale Beach Association
109) HMC Properties II LLC
110) HMC Properties II LLC
111) HMC MHP II LLC
112) Marriott Hotel Properties II L.P.
113) Santa Clara Marriott Hotel L.P.
114) HMC Reston LLC
115) HMC Retirement Properties LLC
116) HMC Retirement Properties L.P.
117) HMH Marina LLC
118) HMC RTZ Loan I LLC
119) HMC RTZ Loan II LLC
120) HMC RTZ Loan L.P.
121) HMC RTZ II LLC
122) RAJ Boston Associates
123) HMC Seattle LLC
124) HMC SFO LLC
125) HMC Swiss Holdings LLC
126) BRE/Swiss LLC
127) HMC Waterford LLC
128) HMC/Interstate Waterford
129) HMH General Partner Holdings LLC
130) HMH HPT Courtyard LLC
131) HMH HPT Residence Inn LLC
132) HMH Norfolk LLC
133) HMH Norfolk L.P.
134) HMH Pentagon LLC
135) HMH Restaurants LLC
136) HMH Rivers LLC
137) HMH Rivers, L.P.
138) HMH WTC LLC
139) HMP Capital Ventures LLC
140) HMP Financial Services LLC
141) Host La Jolla LLC

HOST MARRIOTT CORPORATION

SUBSIDIARIES--(Continued)

142) City Center Hotel L.P.
143) Times Square LLC
144) Ivy Street LLC
145) Market Street HMC LLC
146) HMC Desert Springs LLC
147) MDSM Finance LLC
148) MFR of Illinois LLC
149) MFR of Vermont LLC
150) MFR of Wisconsin LLC
151) HMC HPP LLC
152) HMC Partnership Properties LLC
153) HMC Marquis LLC
154) HMC PLP LLC
155) Chesapeake Hotel L.P.
156) HMC SBM Two LLC
157) Philadelphia Airport Hotel LLC
158) Philadelphia Airport Hotel L.P.
159) PM Financial LLC
160) PM Financial LP
161) Saga Property Leasing LLC
162) Saga Restaurants LLC
163) Santa Clara HMC LLC
164) S.D. Hotels LLC
165) Times Square GP LLC
166) Times Square Marquis Hotel L.P.
167) HMC AP LP
168) HMC AP Canada Company
169) HMC Charlotte LP
170) HMC Charlotte (Calgary) Company
171) Calgary Charlotte Holdings Company
172) HMC Grace (Calgary) Company
173) Calgary Charlotte Partnership
174) HMC Toronto Airport LP
175) HMC Toronto Air Company
176) HMC Toronto EC LP
177) HMC Toronto EC Company
178) Ivy Street NPF LLC
179) Durbin LLC
180) HMC MHP II, Inc.

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report included in this Form 10-K, into the Company's previously filed Registration Statements File Nos. 333-50729, 333-28683-99, 333-66622-99, 333-75059, 333-75057, 333-75055.

Arthur Andersen LLP

Washington, DC
March 25, 1999