SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ 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 Year Ended December 31, 2003 **Commission file number 001-14625**

HOST MARRIOTT CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Maryland	**53-0085950**
(State of Incorporation)	**(I.R.S. Employer Identification Number)**
6903 Rockledge Drive, Suite 1500, Bethesda, Maryland	**20817**
(Address of Principal Executive Offices)	**(Zip Code)**

(240) 744-1000

(Registrant's Telephone Number, Including Area Code)

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 (324,303,016 shares outstanding as of February 15, 2004) Purchase share rights for Series A Junior Participating Preferred Stock, $.01 par value	New York Stock Exchange Chicago Stock Exchange Pacific Stock Exchange Philadelphia Stock Exchange
Class A Preferred Stock, $.01 par value (4,160,000 shares outstanding as of February 15, 2004) Class B Preferred Stock, $.01 par value (4,000,000 shares outstanding as of February 15, 2004) Class C Preferred Stock, $.01 par value (5,980,000 shares outstanding as of February 15, 2004)	New York Stock Exchange

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 (or for such shorter period that the registrant was required to file such reports), and (ii) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

The aggregate market value of shares of common stock held by non-affiliates of the registrant as of June 20, 2003 (based on the closing sale price as reported on the New York Stock Exchange on June 20, 2003) was approximately $2,126,064,000.

Documents Incorporated by Reference

Portions of the registrant's proxy statement for the annual meeting of stockholders to be held in 2004 are incorporated by reference into Part III of this Form 10-K. We expect to file our proxy statement by April 14, 2004.

Items 1 & 2 Business and Properties

We are a Maryland corporation and we operate as a self-managed and self-administered real estate investment trust, or REIT. We own our properties and conduct our operations through Host Marriott, L.P., a Delaware limited partnership of which we are the sole general partner and in which we hold 93% of the partnership interest. In this report we use the terms "operating partnership" or "Host LP" to refer to Host Marriott, L.P., a Delaware limited partnership, and its consolidated subsidiaries. The terms "we" or "our" refer to Host Marriott and Host LP together, unless the context indicates otherwise.

As of February 15, 2004, our lodging portfolio consisted of 113 upper-upscale and luxury full-service hotels containing approximately 57,000 rooms. Our portfolio is geographically diverse with hotels in most of the major metropolitan areas in 28 states, Washington, D.C., Toronto and Calgary, Canada and Mexico City, Mexico. Our locations include central business districts of major cities, near airports and resort/convention locations.

The address of our principal executive office is 6903 Rockledge Drive, Suite 1500, Bethesda, Maryland, 20817. Our phone number is 240-744-1000. Our Internet website address is www.hostmarriott.com.

We make available free of charge, on or through our Internet website, as soon as reasonably practicable after they are electronically filed or furnished to the SEC, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act.

In addition, at the Investor Information section of our website, we have a Corporate Governance page that includes, among other things, copies of our Code of Business Conduct and Conflicts of Interest Policy for directors, our Code of Business Conduct and Ethics for employees, our Corporate Governance Guidelines and the charters for each of our standing committees of our Board of Directors, which are: the Audit Committee, the Compensation Policy Committee and the Nominating and Corporate Governance Committee. Copies of these charters and policies are also available in print to stockholders upon request.

The Lodging Industry

The lodging industry in the United States consists of both private and public entities which operate in an extremely diversified market under a variety of brand names. Competition in the industry is based primarily on the level of service, quality of accommodations, location and room rates. In order to cater to a wide variety of tastes and needs, the lodging industry is broadly divided into six groups: luxury, upper-upscale, upscale, midscale (with and without food and beverage service) and economy. Most of our hotels operate in urban markets either as luxury properties under such brand names as Ritz-Carlton and Four Seasons or as upper-upscale properties under such brand names as Marriott, Hyatt, Westin and Hilton.

Supply and demand growth in the lodging industry and the markets in which we operate may be influenced by a number of factors, including growth of the economy, interest rates, unique local considerations and the relatively long lead time required to develop urban and resort/convention, upper-upscale and luxury hotels. Properties in the upper-upscale segment of the lodging industry benefited from a favorable imbalance between supply and demand during the early 1990's, driven in part by low construction levels and high gross domestic product, or GDP growth. From 1998 through 2000, supply moderately outpaced demand, which caused slight declines in occupancy rates; however, the impact of the occupancy decline was more than offset by increases in the average daily rate during that period. In 2001, the weakening economy was significantly affected by the September 11 terrorist attacks leading to a significant decline in demand. Over the past two years demand growth has been slowed primarily due to the threat of additional terrorist acts, the war in Iraq and, in 2002, continued weakness in the economy. We expect the rate of supply growth, which has declined significantly since 2000, to continue to be relatively low for at least the next two years due to the limited availability of development financing for new construction. We believe that demand growth will begin to accelerate during the first half of 2004, as the economy continues to strengthen and business travel increases.

Business Strategy

Our primary business objective is to provide superior total returns to our shareholders through a combination of appreciation in net asset value per share, growth in earnings and dividends. In order to achieve this objective we seek to:

- maximize the value of our existing portfolio through aggressive asset management which includes working with the managers of our hotels to continue to minimize operating costs and increase revenues and by completing selective capital improvements designed to increase profitability;
- acquire upper-upscale and luxury hotels, including hotels operated by leading management companies;
- maintain a capital structure and liquidity profile that has an appropriate balance of debt and equity and provides flexibility given the inherent volatility in the lodging industry, and improving, over the next lodging cycle, our EBITDA-to-interest coverage ratio to greater than 3.0x,; and
- opportunistically dispose of non-core assets, such as older assets with significant capital needs, assets that are at a competitive risk given potential new supply or assets in slower-growth markets.

We believe we are well-qualified to pursue our business strategies. Our management team has extensive experience in acquiring and financing lodging properties. We believe that management’s industry knowledge, relationships and access to market information provide a competitive advantage with respect to identifying, evaluating, financing, acquiring and opportunistically disposing of lodging properties and that this competitive advantage carries over to the work we do to improve and maintain the quality of our assets. These efforts include maximizing the value of our existing portfolio by overseeing our managers in their efforts to reduce operating costs and to increase revenues at our hotels, monitoring property and brand performance, pursuing expansion and repositioning opportunities, overseeing capital expenditure budgets and forecasts, assessing return on capital expenditure opportunities and analyzing competitive supply conditions in each of our markets.

Our acquisition strategy focuses on hotels operating as upper-upscale and luxury hotels. We continue to believe there will be opportunities to acquire these hotels at attractive multiples of cash flow and at discounts to replacement cost. Our acquisition strategy continues to focus on:

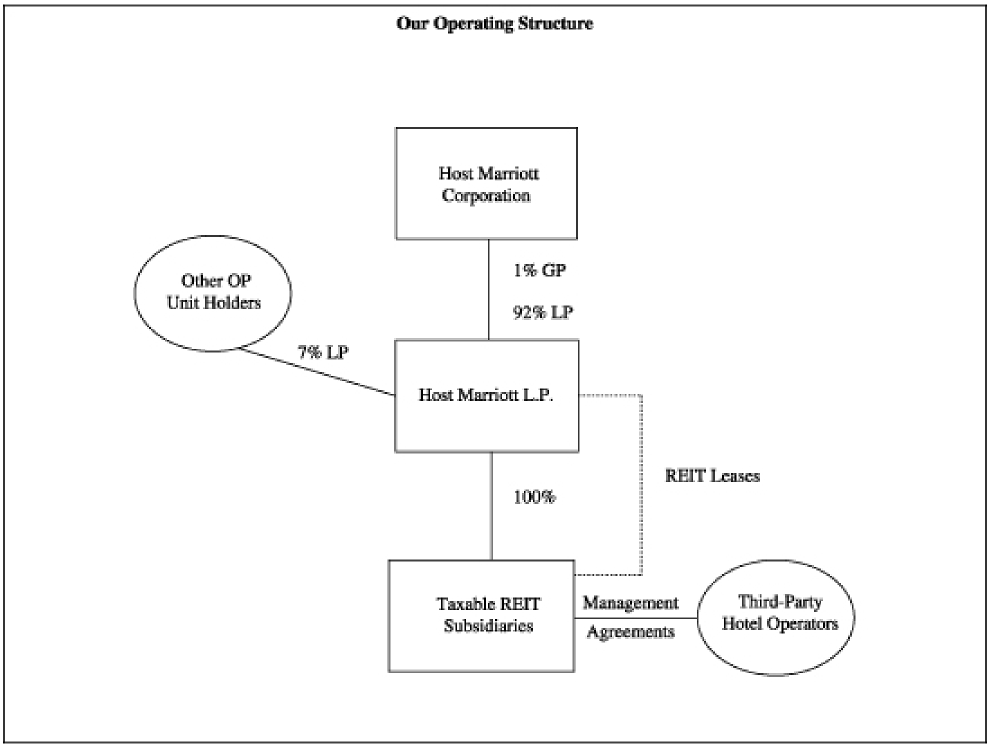
- properties with unique locations in markets with high barriers to entry for prospective competitors, including hotels located in urban and resort/convention locations;
- properties operated under premium brand names, such as Marriott, Ritz-Carlton, Four Seasons, Hilton, Hyatt and Westin;
- larger hotels that are consistent with our portfolio objectives and may require significant investment, which narrows the competition for these acquisitions;
- underperforming hotels whose operations can be enhanced by conversion to high quality brands and/or by upgrading or adding to the existing facilities; and
- acquisitions through various structures, including transactions involving portfolios, single assets and through joint ventures.

From 1999 through mid-2003, our acquisitions were limited by the lack of suitable targets that complement our portfolio, inadequate returns and capital limitations due to weak investment markets. Consequently, our activity has been primarily focused on acquiring the interests of limited or joint venture partners, consolidating our ownership of assets already included in our portfolio, and as described in “Operating Structure,” purchasing the lessee interests, which were created as part our conversion to a REIT. We believe that as a result of the capital markets strengthening in 2003, suitable single asset and portfolio acquisition opportunities have become available; however, the number of competitive bidders for such opportunities has also correspondingly increased. We are interested in exploring acquisitions that can be accomplished, at least in part, through the issuance of operating partnership units of Host LP, particularly where such an acquisition would result in an overall improvement in our credit profile.

We have not acquired hotels outside of the United States in recent years due to the difficulty in identifying opportunities that meet our return criteria. However, we intend to continue to evaluate acquisition opportunities in international locations, and will pursue these only when we believe they will offer satisfactory returns after adjustments for currency and country-related risks.

Operating Structure

Our operating structure is as follows:



As a result of our conversion to a REIT, we became the sole general partner of Host LP. For each share of our common stock we issue, Host LP issues one unit of operating partnership interest, or OP unit, to us. When distinguishing between ourselves and Host LP, the primary difference is the approximate 7% of the partnership interests of Host LP not held by us as of February 15, 2004. Our conversion to a REIT in 1998 also created the opportunity for our shareholders to generally avoid double taxation on dividend distributions (as non-REIT corporations generally are taxed on earnings prior to distributing dividends to shareholders), provided we meet certain requirements, including the distribution of at least 90% of our taxable income. As a result, we believe this structure affords our shareholders with both a potential tax advantage, as well as the increased liquidity associated with being a publicly traded company.

All of our assets are owned through Host LP or its subsidiaries, all of which are general or limited partnerships or limited liability companies. The OP units owned by holders other than us are redeemable at the option of the holders, generally beginning one year after the date of issuance of the holder's OP units. Upon redemption of an OP unit, a holder may receive cash from us in an amount equal to the market value of one share of our common stock. We have the right, however, to acquire any OP unit offered for redemption directly from the holder in exchange for one share of our common stock, instead of a cash redemption by us.

As a REIT, certain tax laws limit the amount of "non-qualifying" income we can earn, including income derived directly from the operation of hotels. As a result, we lease substantially all of our properties to a subsidiary of the operating partnership designated as a taxable REIT subsidiary for Federal income tax purposes or to third party lessees. The lessees enter into agreements with third party hotel operators to manage the operations of the hotels. Other assets that produce non-qualifying income may also be held in taxable REIT subsidiaries. Unlike other subsidiaries of a REIT, taxable income of a taxable REIT subsidiary is subject to Federal and state income taxes.

Lodging Properties Portfolio

Overview. Our lodging portfolio consisted primarily of 113 upper-upscale and luxury hotels containing approximately 57,000 rooms as of February 15, 2004. It is geographically diverse, with hotels in most of the major metropolitan areas in 28 states, Washington, D.C., Toronto and Calgary, Canada and Mexico City, Mexico. Our locations include central business districts of major cities, near airports and resort/convention locations where further large-scale development opportunities are limited. These hotels, because of their locations, typically benefit from significant barriers to entry by competitors. Historically, our properties in urban and resort/convention locations have had higher RevPAR (as defined herein) results than similar properties in suburban locations. Our hotels have an average of approximately 504 rooms per hotel. Fifteen of our hotels have more than 750 rooms. Our hotels typically include meeting and banquet facilities, a variety of restaurants and lounges, swimming pools, gift shops and parking facilities, the combination of which enable them to serve business, leisure and group travelers. The average age of our properties is 19 years, although many of the properties have had substantial renovations or major additions.

The following chart details our portfolio by brand as of February 15, 2004:

Brand	Number of Hotels	Rooms
Marriott	89	46,793
Ritz-Carlton	10	3,831
Hyatt	6	3,521
Swissôtel	2	1,127
Four Seasons	2	608
Westin	1	365
Hilton	1	223
Other brands	2	463
	113	56,931

Our properties are operated under premium brand names such as Marriott, Ritz-Carlton, Hyatt and others, which we believe have consistently outperformed other brands in the industry. Consistent with our strategy of engaging the leading hotel management companies to operate our properties, we converted our 498-room Swissôtel Boston to the Boston Hyatt Regency on June 26, 2003 and we converted our 365-room Atlanta Swissôtel to the Westin Buckhead on January 7, 2004. We believe that the broader brand name recognition and resources of Hyatt and Starwood will help improve operations and drive increased profitability in the long term at these hotels.

To maintain the overall quality of our lodging properties we assess annually the need for refurbishments, replacements and capital improvements. Typically, room refurbishments occur at intervals of approximately seven years, based on an annual review of the condition of each property. However, the timing of refurbishments may vary based on the type of property and equipment being replaced and are generally divided into the following types: soft goods, hard goods and infrastructure. Soft goods include items such as carpeting, bed spreads, curtains and wall vinyl and may require more frequent updates to maintain brand quality standards. Hard goods include furniture such as dressers, desks, couches, restaurant chairs and tables and are generally not replaced as frequently. Infrastructure includes the physical plant of the hotel, including such items as the roof, elevators, façade, fire systems, etc., which are regularly maintained and then replaced at the end of their useful lives. The management agreements for the majority of our properties require us to escrow 5% of hotel sales for refurbishments, and on average, we spend approximately $180 million to $220 million on replacements and refurbishments of soft and hard goods. In addition to amounts escrowed under the management agreement, we will fund infrastructure improvements and, on average, spend approximately $20 million to $30 million annually. In addition to capital spending for replacement and refurbishment of the properties, we fund projects where we believe our return on investment will exceed our targeted corporate return on capital. For example, in 2001, we completed a $25 million, 50,000 square foot spa facility for The Ritz-Carlton, Naples. All capital expenditure decisions, however, are based on the economic environment and our cash requirements, and as a result, we will occasionally spend less than these amounts. For example, in 2002 and 2003, we reduced our capital expenditures based on our assessment of the operating environment and to preserve capital. During this period, our capital expenditures were focused on property maintenance and improvements designed to maintain appropriate levels of quality. As a result of the commitment we have historically made to maintaining our assets, we believe that the reductions in capital expenditures during the last two years have not adversely affected the long-term value of our portfolio. As the industry recovers, we plan to return to our strategy of pursuing capital expenditure projects designed to enhance the value of our hotels.

Development Projects. During 2003, we began construction on a project to expand the Memphis Marriott by 200 rooms and to connect the property to the adjacent convention center. We expect to spend approximately $15 million on the expansion which will be completed in 2004. In January 2002, we opened The Ritz-Carlton, Naples Golf Resort, which is located approximately three miles from our Ritz-Carlton, Naples beachfront hotel. The Golf Resort had a development cost of approximately $75 million and includes 15,000 square feet of meeting space, four food and beverage outlets and full access to the Tiburon Golf Club, a 36-hole Greg Norman designed golf complex bordering the hotel. We own a 49% limited partner interest in the partnership that owns Tiburon Golf Club, and invested $3 million in 2002 to complete the 36-hole golf club.

Foreign Operations. We currently own four Canadian properties and one Mexican property containing a total of 1,952 rooms. During each of 2003, 2002 and 2001, approximately 3%, or $120 million, of our revenues were attributed to foreign operations, while the remaining 97% were attributed to our domestic properties.

Competition. The lodging industry is highly competitive, and over the past decade there has been a proliferation of the number of brands in the lodging industry. Competition is often specific to individual markets and is based on a number of factors, including location, brand, price, guest amenities and service, as well as property condition. Our competition includes hotels operated under brands in the upper-upscale and luxury full-service segments, as well as hotels operated under upscale or other lower tier brands in many locations. Many management contracts do not have restrictions on the ability of management companies to convert, franchise or develop other hotel properties in our markets. As a result, our hotels in a given market often compete with hotels which our managers may own, invest in, manage or franchise.

We believe that our properties enjoy competitive advantages associated with their operations under the Marriott, Ritz-Carlton, Four Seasons, Hyatt, Westin and Hilton hotel brand systems. The national marketing programs and reservation systems of these brands, combined with the strong management systems and expertise they provide, should enable our properties to perform favorably in terms of both occupancy and room rates. Each of our managers maintains national reservation systems. Our website permits users to connect to the reservation systems for each of these brands to reserve rooms at our hotels. In addition, repeat guest business is enhanced by guest rewards programs offered by most of these brands.

Seasonality. Our hotel sales have traditionally experienced moderate seasonality, which varies based on the individual hotel property and the region. Additionally, hotel revenues in the fourth quarter reflect sixteen or seventeen weeks of results compared to twelve weeks for each of the first three quarters of the fiscal year. Hotel sales by quarter for the years 2001 through 2003 for our lodging properties are as follows:

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2001	23%	26%	23%	28%
2002	22	26	23	29
2003	23	25	23	29
Average	23%	26%	23%	28%

Hotel Properties. The following table sets forth the location and number of rooms of our 113 full-service hotels as of February 15, 2004. Each hotel is operated as a Marriott brand hotel unless otherwise indicated by its name.

Location	Rooms
Arizona	
Mountain Shadows Resort	337
Scottsdale Suites	251
The Ritz-Carlton, Phoenix	281
California	
Coronado Island Resort(1)	300
Costa Mesa Suites	253
Desert Springs Resort and Spa	884
Fullerton(1)	224
Hyatt Regency, Burlingame	793
Manhattan Beach(1)	385
Marina Beach(1)	370
Newport Beach	586
Newport Beach Suites	254
Sacramento Host Airport	89
San Diego Hotel and Marina(1)(2)	1,358
San Diego Mission Valley(2)	350
San Francisco Airport	685
San Francisco Fisherman's Wharf	285
San Francisco Moscone Center(1)	1,498
San Ramon(1)	368
Santa Clara(1)	755
The Ritz-Carlton, Marina del Rey(1)	304
The Ritz-Carlton, San Francisco	336
Torrance	487
Colorado	
Denver Southeast(1)	590
Denver Tech Center	628
Denver West(1)	305
Connecticut	
Hartford/Farmington	381
Hartford/Rocky Hill(1)	251
Florida	
Fort Lauderdale Marina	579
Harbor Beach Resort(1)(2)	637
Miami Airport(1)	772
Miami Biscayne Bay(1)	601
Orlando World Center Resort	2,000
Singer Island Hilton	223
Tampa Airport(1)	296
Tampa Waterside	717
Tampa Westshore(1)	310
The Ritz-Carlton, Amelia Island	449
The Ritz-Carlton, Naples	463
The Ritz-Carlton, Naples Golf Resort	295
Georgia	
Atlanta Marquis	1,675
Georgia (continued)	
Atlanta Midtown Suites(1)	254
Atlanta Norcross	222
Atlanta Perimeter(1)	400
Four Seasons, Atlanta	244
Grand Hyatt, Atlanta	438
JW Marriott Hotel at Lenox(1)	371
Westin Buckhead	365
The Ritz-Carlton, Atlanta	444
The Ritz-Carlton, Buckhead	553
Hawaii	
Hyatt Regency, Maui	806
Illinois	
Chicago/Deerfield Suites	248
Chicago/Downers Grove Suites	254
Chicago/Downtown Courtyard	337
Chicago O'Hare	681
Chicago O'Hare Suites(1)	256
Swissôtel, Chicago	632
Indiana	
South Bend(1)	298
Louisiana	
New Orleans	1,290
Maryland	
Bethesda(1)	407
Gaithersburg/Washingtonian Center	284
Massachusetts	
Boston/Newton	430
Boston Copley Place	1,139
Hyatt Regency, Boston	498
Hyatt Regency, Cambridge	469
Michigan	
The Ritz-Carlton, Dearborn	308
Detroit Livonia	224
Minnesota	
Minneapolis City Center	583
Minneapolis Southwest(2)	321
Missouri	
Kansas City Airport(1)	382
New Hampshire	
Nashua	245
New Jersey	
Hanover	353
Newark Airport(1)	591
Park Ridge(1)	289
New Mexico	
Albuquerque(1)	411

Location	Rooms
New York	
Albany(2)	359
New York Financial Center	504
New York Marquis(1)	1,944
Swissôtel, The Drake	495
North Carolina	
Charlotte Executive Park	297
Greensboro/Highpoint(1)	299
Raleigh Crabtree Valley	375
Research Triangle Park	225
Ohio	
Dayton	399
Oregon	
Portland	503
Pennsylvania	
Four Seasons, Philadelphia	364
Philadelphia Convention Center (2)	1,408
Philadelphia Airport(1)	419
Tennessee	
Memphis	393
Texas	
Dallas/Fort Worth Airport	491
Dallas Quorum(1)	548
Houston Airport(1)	565
Houston Medical Center(1)	386
JW Marriott Houston	514
San Antonio Rivercenter(1)	1,001
Location	Rooms
Texas (continued)	
San Antonio Riverwalk(1)	512
Utah	
Salt Lake City(1)	510
Virginia	
Dulles Airport(1)	368
Fairview Park	395
Hyatt Regency, Reston	517
Key Bridge(1)	583
Pentagon City Residence Inn	299
The Ritz-Carlton, Tysons Corner(1)	398
Washington Dulles Suites	253
Westfields	336
Washington	
Seattle SeaTac Airport	459
Washington, D.C.	
JW Marriott, Washington, D.C.	772
Washington Metro Center	456
Canada	
Calgary	384
Toronto Airport(2)	424
Toronto Eaton Center(1)	459
Toronto Delta Meadowvale	374
Mexico	
JW Marriott, Mexico City(2)	311
Total	56,931

(1) The land on which this hotel is built is leased under one or more long-term lease agreements.
(2) This property is not wholly owned by us.

Other Real Estate Investments

In addition to our 113 full-service hotels, we maintain investments, which are not consolidated in our financial statements, in a joint venture and partnerships that in the aggregate own four full-service hotels, 120 limited-service hotels, the Tiburon Golf Club, and other investments. Typically, we manage these investments and conduct business through a combination of general and limited partnership and limited liability company interests. As of December 31, 2003, the combined balance sheets of these investments included approximately $1.2 billion in assets and $0.9 billion in debt, principally first mortgages on hotel properties, senior notes secured by the ownership interests in the partnership and mezzanine debt. All of the debt of these entities is non-recourse to us and our subsidiaries.

We also have a leasehold interest in 53 Courtyard by Marriott properties and 18 Residence Inns, which, in a series of related transactions, were sold to Hospitality Properties Trust and leased back prior to 1997. As part of our conversion to a REIT, these properties were subleased to Barceló Crestline Corporation, formerly Crestline Capital Corporation (“Crestline”). The initial term of these leases expire between 2010 and 2012 and are renewable at our option.

For a more detailed discussion of our other real estate investments, including a summary of the outstanding debt balances of our affiliates, see "Management's Discussion and Analysis of Results of Operations and Financial Condition—Investments in Affiliates" and Notes 3 and 8 to the Consolidated Financial Statements—"Investments in Affiliates" and "Leases."

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. These 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 businesses may be operated, and these restrictions may require corrective or other expenditures. In connection with our current or prior ownership or operation of hotels, we may be potentially liable for various environmental costs or liabilities. Although we are currently not aware of any material environmental claims pending or threatened against us, we can offer no assurance that a material environmental claim will not be asserted against us in the future.

Material Agreements

Substantially all of our hotels are managed and operated by third parties pursuant to management agreements with our lessee subsidiaries. The initial term of our management agreements is generally 15 to 20 years with one or more renewal terms. Our management agreements with our operators typically include the terms described below.

- *General.* Under each management agreement, the manager provides comprehensive management services to the applicable lessee.
- *Operational services*. The managers generally have sole responsibility and exclusive authority for all activities necessary for the day-to-day operation of the hotels, including establishing all room rates, processing reservations, procuring inventories, supplies and services, providing periodic inspection and consultation visits to the hotels by the managers' technical and operational experts and promoting and publicizing of the hotels. The manager receives compensation in the form of a base management fee, typically 3% and calculated as a percentage of gross revenues, and an incentive management fee, typically calculated as a percentage (10% to 50%) of operating profit, up to certain limits (typically 20% of cumulative operating profit), after the owner has received a priority return on its investment in the hotel.
- *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 to the hotel, such as planning and policy services, financial planning, divisional financial services, risk management services, product planning and development, employee staffing and training, corporate executive management, legislative and governmental representation and certain in-house legal services, and protect trademarks, trade-names and service marks.
- *Chain services*. The management agreements require the manager to furnish chain services that are generally furnished on a centralized basis. Such services include: (1) the development and operation of certain computer systems and reservation services, (2) regional management and administrative services, regional marketing and sales services, regional training services, manpower development and relocation 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 basis rather than at an individual hotel. Costs and expenses incurred in providing these services are generally allocated among all hotels managed by the manager or its affiliates.
- *Working capital and fixed asset supplies*. Our management agreements typically require us to maintain working capital for each hotel and to fund the cost of certain fixed asset supplies (for example, linen,

china, glassware, silver and uniforms). We are also responsible for providing funds to meet the cash needs for hotel operations if at any time the funds available from hotel operations are insufficient to meet the financial requirements of the hotels.

- *Furniture, Fixtures and Equipment replacements*. Under the agreements, we are required to provide to the manager all necessary furniture, fixtures and equipment for the operation of the hotels (including funding any required furniture, fixtures and equipment replacements). The management agreements generally provide that, on an annual basis, the manager will prepare a list of furniture, fixtures and equipment to be acquired and certain routine repairs and maintenance to be performed in the next year and an estimate of the funds that are necessary, which is subject to our review or approval. For purposes of funding the furniture, fixtures and equipment replacements, a specified percentage (typically 5%) of the gross revenues of the hotel is deposited by the manager in an escrow account. However, for 78 of our hotels, we have entered into an agreement with Marriott International to allow us to fund such expenditures directly as incurred from one account which we control, subject to maintaining a minimum balance of the greater of $29 million, or 30% of total annual specified contributions, rather than escrowing funds at accounts at each hotel.
- *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 which we are required to review and approve based on their recommendations and our judgment. 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 consistent with the manager's brand standards, over which we also have approval authority.
- *Sale of the hotel.* Most of the management agreements limit our ability to sell, lease or otherwise transfer the hotels by requiring that the transferee assume the related management agreements and meet specified other conditions, including the condition that the transferee not be a competitor of the manager.
- *Service marks.* During the term of the management agreements, the service mark, symbols and logos used by the manager may be used in the operation of the hotel. 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.* While most of our management agreements are not terminable prior to their full term in connection with casualties, condemnations or the sale of the related hotels, we have negotiated rights to terminate management agreements in connection with the sale of Marriott-branded hotels within certain limitations, including a pool of 46 hotels, 75% of which (as measured by EBITDA) may be sold free and clear of their existing management agreements over a ten year period.
- *Performance Termination.* Many of the management agreements provide for termination rights in the case of a manager's failure to meet certain financial performance criteria. Similarly, certain of the management agreements condition the manager's right to extend the term upon satisfaction of certain financial performance criteria.

Employees

On February 15, 2004, we had 182 employees, including approximately 27 employees at the Sacramento Airport Host hotel. Fourteen of our employees at the Sacramento Airport Host hotel are covered by a collective bargaining agreement that is subject to review and renewal on a regular basis. Employees at our other hotels are employed by our management companies.

Certain of our third-party managed hotels also are covered by collective bargaining agreements that are subject to review and renewal on a regular basis. We believe that we and our managers generally have good relations with labor unions at our hotels. We and our managers have not experienced any material business interruptions as a result of labor disputes.

Certain Policies

The following is a discussion of our policies with respect to investments, financing, lending and certain other activities. Our policies with respect to these activities are determined by our Board of Directors and may be amended or revised from time to time at the discretion of the Board of Directors.

Investment Policies

Investments in Real Estate or Interests in Real Estate. We are required to conduct all of our investment activities through Host LP. Our investment objectives are to:

- achieve long-term sustainable growth in Funds From Operations per diluted share and cash flow;
- maximize the value of our existing portfolio through an aggressive asset management program which includes focusing on selectively improving and expanding our hotels and, when appropriate, pursuing alternate real estate uses;
- acquire additional existing and newly developed upscale and luxury full-service hotels in targeted markets (primarily focusing on downtown hotels in core business districts in major metropolitan markets and resort/convention locations);
- complete our current development and expansion program, and selectively develop and construct upper-upscale and luxury full-service hotels; and
- recycle capital through opportunistic asset sales and selective dispositions of non-core assets.

We also may participate with other entities in property ownership through joint ventures, partnerships or other types of co-ownership. Equity investments may be subject to existing mortgage financing and other indebtedness or such financing or indebtedness may be incurred in connection with acquiring investments. Any such financing or indebtedness will have priority over our equity interest in such property.

Investments in Real Estate Mortgages. While we will emphasize equity real estate investments, we may, at our discretion, invest in mortgages and other similar interests. We do not intend to invest to a significant extent in mortgages or deeds of trust, but may acquire mortgages as a strategy for acquiring ownership of a property or the economic equivalent thereof, subject to the investment restrictions applicable to REITs. In addition, we may invest in mortgage-related securities and/or may seek to issue securities representing interests in such mortgage-related securities as a method of raising additional funds.

Securities of, or Interests in, Persons Primarily Engaged in Real Estate Activities and Other Issuers. Subject to the percentage ownership limitations and gross income and asset tests necessary for REIT qualification, we also may invest in securities of other entities engaged in real estate activities or invest in securities of other issuers, including for the purpose of exercising control over such entities. We may acquire all or substantially all of the securities or assets of other REITs or similar entities where such investments would be consistent with our investment policies. No such investments will be made, however, unless the Board of Directors determines that the proposed investment would not cause either Host LP or us to be an “investment company” within the meaning of the Investment Company Act of 1940, as amended.

Financing Policies

Neither our nor Host LP’s organizational documents contain restrictions on incurring debt. The indenture for our senior notes and our existing credit facility impose limitations on the incurrence of indebtedness. We may, from time to time, reduce our outstanding indebtedness by repurchasing a portion of such outstanding indebtedness, subject to certain restrictions contained in Host LP's partnership agreement and the terms of our outstanding indebtedness. We will, from time to time, re-evaluate our borrowing policies in light of then current economic conditions, relative costs of debt and equity capital, market conditions, market values of properties, growth and acquisition opportunities, our goal of obtaining an EBITDA-to-interest coverage ratio of 3.0x or greater and other factors. Consequently, our financing policy is subject to modification and change. We may waive or modify our borrowing policy without notice to, or vote of, the holders of any of our securities or any securities of Host LP.

To the extent that the Board of Directors determines to seek additional capital, we may raise such capital through equity offerings, OP unit offerings, debt financing or retention of cash flow or a combination of these methods. The net proceeds of all equity capital raised will be contributed to Host LP in exchange for OP Units, which will dilute the percentage ownership interest of Host LP's limited outside (or third party) partners.

In the future, we may seek to extend, expand, reduce or renew our existing credit facility, or obtain new credit facilities or lines of credit for the purpose of making acquisitions or capital improvements or providing working capital or meeting the taxable income distribution requirements for REITs under the Internal Revenue Code. We have issued in the past, and may in the future, issue securities senior to our common shares or Host LP OP units, including preferred shares and debt securities (either of which may be convertible into common shares or OP units or may be accompanied by warrants to purchase common shares or OP units).

We have not established any limit on the number or amount of mortgages that may be placed on any single hotel or on our portfolio as a whole, although one of our current objectives is to reduce our reliance on secured indebtedness.

Lending Policies

We may consider offering purchase money financing in connection with the sale of a hotel where the provision of such financing will increase the value we receive for the property sold.

Policies With Respect to Other Activities

We may, but do not presently intend to, make investments other than as previously described. Other than di minimus amounts, we will make investments only through Host LP. We and Host LP have authority to offer our securities, subject to Board of Director approval, and to repurchase or otherwise reacquire certain securities in the open market or otherwise and may engage in such activities in the future. We and Host LP also may make loans to joint ventures in which we may participate in the future to meet working capital needs. We do not, and Host LP does not, intend to engage in trading, underwriting, agency distribution or sale of securities of other issuers. Our policies with respect to such activities may be reviewed and modified from time to time by our Board of Directors without notice to, or the vote of, the holders of any securities of ours or Host LP.

Item 3. Legal Proceedings

Legal Proceedings

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. Management believes that the final resolution of these lawsuits will not have a material adverse effect on our financial condition.

Accelerated High Yield Growth Fund, Ltd., et al. v. HMC Hotel Properties II Limited Partnership et al., C.A. No. 18254NC. This litigation represents the last in a series of cases that began in 1996 in response to a tender offer by our predecessor for interests in the Marriott Hotel Properties II Limited Partnership, or MHP II, and expanded to cover the 1998 roll-up of MHP II into Host LP.

In late 2001, we reached an agreement to settle two MHP II-related class actions—one in Florida state court, the other in Delaware state court—in which we agreed to pay $12,000 per limited partnership unit of MHP II. The settlement included all claims arising out of both the 1996 tender offer and the REIT conversion. MacKenzie Patterson Special Fund 2, L.P., or MacKenzie Patterson, elected to opt out of this settlement with respect to its 28 limited partnership units.

On August 23, 2000, MacKenzie Patterson filed this lawsuit in Delaware Chancery Court against us alleging breach of contract, fraud, and conversion in the MHP II roll-up. MacKenzie Patterson alleges that our acquisition of MHP II violated the partnership agreement and that the general partner breached its fiduciary duties by allowing the roll-up to occur. MacKenzie Patterson is seeking unspecified damages. Discovery is underway in the case.

Joseph S. Roth et al. v. MOHS Corporation et al, Case No. 00CH14500 ("O'Hare Suites"). On October 5, 2000, Joseph S. Roth and Robert M. Niedelman, filed a putative class action lawsuit in the Circuit Court of Cook County, Illinois, Chancery Division, against us, Marriott International, and MOHS Corporation (one of our subsidiaries and a former general partner of O'Hare Suites). On July 2, 2003, the court ruled on plaintiffs' motion for class certification, certifying a 256-person class on plaintiffs' contract and breach of fiduciary duty claims, but denying certification on their six tort claims (which included unjust enrichment, fraud, negligence, negligent misrepresentation, and conspiracy to defraud).

The certified class of plaintiffs consists of 256 limited partners who owned units in Mutual Benefit Marriott Chicago Suites Hotel Partners, L.P. as of the date of the roll-up of the partnership into Host LP on December 30, 1998. Plaintiffs allege that we improperly paid incentive management fees to the hotel manager in 1997 and 1998, which resulted in an inadequate appraised value for their limited partner units in connection with the acquisition of O'Hare Suites during our conversion to a REIT. Plaintiffs are seeking damages of approximately $17 million.

On August 18, 2003, plaintiffs filed: (1) a class certification motion for the tort claims for a subclass of approximately 200 former limited partners residing in Illinois and six other states; and (2) a motion for partial summary judgment on their breach of contract claim. On the latter motion, we are seeking our own summary judgment ruling that the incentive management fee payment was appropriate under a proper reading of the partnership agreement, and in light of MOHS's obligations under its bank agreement. Judge Nowicki heard both motions on February 26, 2004 and is expected to rule on the motions in several months. A trial date has not yet been set.

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

None

EXECUTIVE OFFICERS

In the following table we set forth certain information regarding those persons currently serving as our executive officers as of February 15, 2004.

Name and Title	Age	Business Experience Prior to Becoming an Executive Officer of the Company
Richard E. Marriott *Chairman of the Board*	65	Richard E. Marriott joined our company in 1965 and has served in various executive capacities. In 1979, Mr. Marriott was elected to the Board of Directors. In 1984, he was elected Executive Vice President and in 1986, he was elected Vice Chairman of the Board of Directors. In 1993, Mr. Marriott was elected Chairman of the Board.
Christopher J. Nassetta *President and Chief Executive Officer and Director*	41	Christopher J. Nassetta joined our company in October 1995 as Executive Vice President and was elected our Chief Operating Officer in 1997. He became our President and Chief Executive Officer in May 2000. Prior to joining us, Mr. Nassetta served as President of Bailey Realty Corporation from 1991 until 1995, and he had previously served as Chief Development Officer and in various other positions with The Oliver Carr Company.
Elizabeth A. Abdoo *Executive Vice President, General Counsel and Corporate Secretary*	45	Elizabeth A. Abdoo joined our company in June 2001 as Senior Vice President and General Counsel and became Executive Vice President in February 2003. She was elected Corporate Secretary in August 2001. Prior to joining our company, Ms. Abdoo served as Senior Vice President and Assistant General Counsel of Orbital Sciences Corporation from 1996 to 2001.
Minaz Abji *Executive Vice President, Asset Management*	50	Minaz Abji joined our company in 2003 as Executive Vice President, Asset Management. Prior to joining us, Mr. Abji was President of Canadian Hotel Income Properties REIT, a Canadian REIT located in Vancouver, British Columbia where he began working in August 1998. Mr. Abji previously worked for Starwood Hotels and Resorts and Westin (until its acquisition by Starwood) in Canada in various positions from 1975 to 1988, most recently serving as area managing director.
James F. Risoleo *Executive Vice President, Acquisitions and Development*	48	James F. Risoleo joined our company in 1996 as Senior Vice President for Acquisitions, and he became Executive Vice President in 2000. He is responsible for our development, acquisition and disposition activities. Prior to joining us, Mr. Risoleo served as Vice President of Development for Interstate Hotels Corporation, then the nation’s largest independent hotel management company. Before joining Interstate, he was Senior Vice President at Westinghouse Financial Services.
W. Edward Walter *Executive Vice President and Chief Financial Officer*	48	W. Edward Walter joined our company in 1996 as Senior Vice President for Acquisitions, and became Treasurer in 1998, Executive Vice President in 2000, Chief Operating Officer in 2001 and Chief Financial Officer in 2003. Prior to joining us, Mr. Walter was a partner with Trammell Crow Residential Company and the President of Bailey Capital Corporation, a real estate firm that focused on tax-exempt real estate investments.

Name and Title	Age	Business Experience Prior to Becoming an Executive Officer of the Company
Richard A. Burton *Senior Vice President, Taxes and General Tax Counsel*	48	Richard A. Burton joined our company in 1996 as Senior Vice President-Taxes and General Tax Counsel. Prior to joining us, Mr. Burton was Senior Tax Counsel at Mobil Oil Corporation, and prior to that was with the law firm of Sutherland, Asbill & Brennan. Mr. Burton also served as Attorney Advisor to the United States Tax Court.
John A. Carnella *Senior Vice President and Treasurer*	39	John A. Carnella joined our company in 1997 as Senior Vice President for Acquisitions. In 1998, he moved to our Treasury Department and was elected Treasurer in 2001. Prior to joining us, Mr. Carnella was an investment banker with Lazard Freres & Co. and, most recently, he served as a Senior Vice President with the investment banking division of National Westminster Bank.
Larry K. Harvey *Senior Vice President and Corporate Controller*	39	Larry K. Harvey rejoined our company in February 2003 as Senior Vice President and Corporate Controller. Prior to joining us, Mr. Harvey served as Chief Financial Officer of Barceló Crestline Corporation, formerly Crestline Capital Corporation and in various other positions with Crestline, from January 1999 to January 2003. From May of 1994 through December of 1998, he served in various accounting positions at Host Marriott and was the Vice President, Corporate Accounting prior to the spin-off of Crestline.
Pamela K. Wagoner *Senior Vice President, Human Resources And Leadership Development*	40	Pamela K. Wagoner joined our company in October 2001 as Vice President for Human Resources and became Senior Vice President in February 2003. Prior to joining us, Ms. Wagoner served as Vice President of Human Resources at SAVVIS Communications. From 1998 through August 2000, Ms. Wagoner was Director of Human Resources at Lucent Technologies, Inc. and prior to that was Director of Human Resources at Yurie Systems Inc., since 1996, which was acquired by Lucent.

PART II

Item 5. Market for our common stock and related shareholder 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 our common stock as reported on the New York Stock Exchange Composite Tape.

	High	Low
2002		
1st Quarter	$ 12.05	$ 9.20
2nd Quarter	12.05	11.10
3rd Quarter	11.60	9.05
4th Quarter	10.02	7.75
2003		
1st Quarter	$ 8.15	$ 6.10
2nd Quarter	9.47	6.92
3rd Quarter	10.27	8.67
4th Quarter	12.32	9.95

We have not declared dividends on our common stock during 2002 or 2003. See "Management Discussion and Analysis of Results of Operations and Financial Condition—Overview." Under the terms of our senior notes indenture and the credit facility, our ability to pay dividends and make other payments is dependent on our ability to satisfy certain financial requirements. See "Risk Factors—Financial Risks—Our future cash distributions on common stock may be limited by the terms of our indebtedness and the terms of our preferred stock."

As of February 15, 2004, there were 42,311 holders of record of our common stock. However, because many of the shares of our common stock are held by brokers and other institutions on behalf of stockholders, we believe that there are considerably more beneficial holders of our common stock than record holders. As of February 15, 2004, there were 2,492 holders of OP Units, each of which is redeemable for cash, or, at our election, convertible into common stock.

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. Our charter provides that, subject to 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. See "Risk Factors—Risks Related to Stock Ownership—There are possible adverse consequences of limits on ownership of our common stock."

Item 6. Selected Financial Data

The following table presents certain selected historical financial data which has been derived from audited consolidated financial statements for the five years ended December 31, 2003. The historical information contained in the following table for our 2003, 2002 and 2001 operations primarily represents gross hotel-level revenues and expenses of our properties. During 2000 and 1999, we owned the hotels but leased them to third-party lessees and, accordingly, during these periods our historical revenues primarily represent rental income generated by our leases.

	Fiscal year				
	2003	2002	2001	2000	1999
Income Statement Data:					
Revenues	$ 3,448	$ 3,516	$ 3,558	$ 1,328	$ 1,228
Income (loss) from continuing operations	(225)	(54)	46	124	177
Income from discontinued operations (1)	239	38	5	32	34
Net income (loss)	14	(16)	51	156	211
Net income (loss) available to common Shareholders	(21)	(51)	19	141	216
Basic earnings (loss) per common share:					
Income (loss) from continuing operations	(.92)	(.34)	.06	.49	.80
Income from discontinued operations	.85	.15	.02	.15	.15
Net income (loss)	(.07)	(.19)	.08	.64	.95
Diluted earnings (loss) per common share:					
Income (loss) from continuing operations	(.92)	(.34)	.06	.52	.81
Income from discontinued operations	.85	.15	.02	.11	.11
Net income (loss)	(.07)	(.19)	.08	.63	.92
Cash dividends per common share	—	—	.78	.91	.84
Balance Sheet Data:					
Total assets	$ 8,592	$ 8,316	$ 8,338	$ 8,396	$ 8,202
Debt	5,486	5,638	5,602	5,322	5,069
Convertible Preferred Securities	475	475	475	475	497
Preferred stock	339	339	339	196	196

(1) Discontinued operations reflect the disposition of nine properties since January 1, 2002, five properties classified as held for sale in accordance with SFAS 144 and the gain on disposition and business interruption proceeds of the New York Marriott World Trade Center hotel as of December 31, 2003.

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

The following discussion should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this report. This discussion contains forward-looking statements about our business. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors discussed in "Forward Looking Statements" and "Risk Factors" contained elsewhere in this report.

Overview

Structure and Business. We are a real estate investment trust, or REIT, that owns 113 full-service hotel properties as of February 15, 2004, which operate primarily in the luxury and upper-upscale hotel sectors. As of December 31, 2003, Host Marriott was the largest hotel REIT in the National Association of Real Estate Investment Trust's composite index. Host Marriott conducts its operations through Host LP, of which Host Marriott is the sole general partner.

Our hotels are operated under brand names that are among the most respected and widely recognized in the lodging industry—including Marriott, Ritz-Carlton, Hyatt, Four Seasons, Hilton and Westin. The majority of our properties are located in central business districts of major cities, near airports and in resort/convention locations. The target profile for our portfolio includes luxury and upper-upscale full-service properties in locations where further large scale development is limited, which we believe allows us to maintain room rate and occupancy premiums over our competitors. We seek to maximize the value of our portfolio through aggressive asset management, by directing the managers of our hotels to maximize property operations and by completing strategic capital improvements. The majority of our customers fall into two broad groups: transient and group travelers. Our transient business, which includes the individual corporate and leisure traveler, is generally accommodated at a premium rate when compared to other customer types. Group business includes hotel bookings related to conferences and events. A smaller portion of our customer base results from contracts for a specified number of rooms over a fixed period.

Our hotels are required to be operated by third-party managers. We retain these third party managers under long-term agreements under which they earn base and incentive management fees related to revenues and profitability of each individual hotel. We provide operating funds, or working capital, which the managers use to operate the property including purchasing inventory and paying wages, utilities and property taxes and other expenses. Our results of operations primarily represent hotel-level sales, which are room, food and beverage and other ancillary income such as telephone, parking and other guest services. Operating expenses consist of the costs to provide these services, as well as management fees paid to the operators of our hotels, real and personal property taxes, utilities, ground rent, equipment rent, property insurance, depreciation and other costs. We generally receive a cash distribution, which reflects hotel-level sales less property-level operating expenses (excluding depreciation), from our hotel managers each period.

Key Performance Indicators

We have several key indicators that we use to evaluate the performance of our business. These indicators include room revenue per available room, or RevPAR, and RevPAR penetration index.

RevPAR is a commonly used measure within the hotel industry to evaluate hotel operations. RevPAR is defined as the product of the average daily room rate charged and the average daily occupancy achieved. RevPAR does not include revenues from food and beverage or parking, telephone, or other guest services generated by the property. Although RevPAR does not include these ancillary revenues, it is generally considered the leading indicator of core revenues for many hotels. We also use RevPAR to compare the results of our hotels between periods and to compare results of our comparable hotels. See "Comparable Hotel Operating Statistics" for further discussion.

We assess what causes changes in RevPAR because changes that result from occupancy as compared to those that result from room rate have different implications on overall revenue levels as well as incremental operating profit. For example, increases in occupancy at a hotel would lead to increases in ancillary revenues, such as food and beverage, parking sand other hotel amenities, as well as additional incremental costs (including housekeeping services, utilities and room amenity costs). RevPAR increases due to higher room rates, however, would not result in these additional room-related costs. For this reason, while operating profit would typically increase when occupancy rises, RevPAR increases due to higher room rates would have a greater impact on our profitability.

A related revenue measure for our hotels is the RevPAR penetration index. The RevPAR penetration index reflects each property's RevPAR in relation to the RevPAR for that property's competitive set. We use the measure as an indicator of a property's market share. For example, a RevPAR penetration index of 100 would indicate that a hotel's RevPAR is, on average, the same as its competitors. A RevPAR penetration index exceeding 100 would indicate that a hotel maintains a RevPAR premium in relation to its competitive set, while a RevPAR penetration index below 100 would be an indicator that a hotel is underperforming its competitive set. One critical component in this calculation is the determination of a hotel's competitive set. Factors that we consider include geographic proximity, as well as the level of service provided at the property. For example, a hotel located near a convention center might have a competitive set that includes other hotels located in close proximity to the convention center. In addition, a luxury hotel might include other luxury or upper-upscale hotels in its competitive set but not economy hotels. Our methodology for determining a hotel's competitive set, however, may differ from those used by other owners and/or managers.

One of our key performance indicators is the profitability of each hotel. Among other things, we use hotel adjusted operating profit, which is a non-GAAP measure, to evaluate this. Hotel adjusted operating profit measures property-level results before funding furniture, fixtures and equipment reserves and debt service and is a supplemental measure of individual property-level profitability. The comparable hotel adjusted operating profit that we discuss is an aggregation of the adjusted operating profit for each of our comparable hotels. See "Non-GAAP Financial Measures—Comparable Hotel Operating Results" for further discussion. We also use, among other things, FFO per diluted share as a supplemental measure of company-wide profitability. See "Non-GAAP Financial Measures—FFO per Diluted Share" for further discussion.

Each of the non-GAAP measures should be considered by investors as supplemental measures to GAAP performance measures such as total revenues, operating profit and earnings per share.

2003 and 2004 Lodging Industry Assessment

We believe the lodging industry was negatively effected in 2003 by low levels of business travel resulting from a weak economy (predominantly in the first half of the year), the war in Iraq, continued changes in terrorist threat levels and travel reductions and restrictions related to severe acute respiratory syndrome, or SARS. Strong economic growth in the United States economy in the second half of 2003 helped improve lodging demand, but generally not enough to offset the weak lodging demand in the first half.

Our industry outlook for 2004 is more optimistic. Historically, we have seen that lodging demand in the United States correlates to U.S. Gross Domestic Product (GDP) growth, with typically a one to two quarter lag period especially within the luxury and upper-upscale sectors of the lodging industry. Therefore, given the relatively strong U.S. GDP growth in the second half of 2003 and the forecasts for 2004, we are optimistic about improvement in lodging demand in 2004. In addition, based on these GDP forecasts, as well as the anticipated strengthening of corporate profits and capital investment, we expect an increase in business-related travel and improvement in the pace of group bookings.

In addition to the favorable demand trends forecasted to affect the lodging industry in general, we believe we may be able to capitalize on the low supply growth trends that have existed during the past few years. Supply growth in the lodging industry and the markets in which we operate may be influenced by a number of factors, including growth of the economy, interest rates, local considerations and the relatively long lead time required to build urban and resort/convention hotels. Historically, supply growth has averaged approximately 3% per year.

However, since 2000 the growth of new supply for the entire lodging industry has exhibited a declining trend below the historic average (2.6%, 1.9%, 1.6%, and 1.2% in 2000, 2001, 2002 and 2003, respectively) based on data prepared by Smith Travel Research and PricewaterhouseCoopers LLP. The upper-upscale segment experienced stronger supply growth than did the industry as a whole during this period, but also exhibited a declining trend (3.7%, 2.9%, 3.2%, and 1.9% in 2000, 2001, 2002 and 2003, respectively.) We believe that the low construction levels over the past few years, together with low expectations for additional supply growth over the next few years, which is because new full-service hotels typically take several years to build, will lead to an imbalance between supply and growing demand that will allow for improved RevPAR performance at our hotels.

In 2003, our hotel revenues (as presented in our statement of operations) declined 2.3% from 2002 as a result of the factors discussed above. However, because accounting rules require us to reclassify the results of operations of hotels we have sold or designated as held for sale to discontinued operations, the decrease in revenues was actually higher. Hotel sales, including the results of hotels acquired or disposed of during 2003 and 2002 through the date of their respective disposition or acquisition, declined 3.4%, which follows a similar decline of 3.6% in 2002 from 2001. Hotel revenues were also down in the fourth quarter of 2003 as compared to the fourth quarter of 2002, but the decline in revenues was less than the decline in the first three quarters of 2003. In response to the decline in operations of our hotels over the last several years, we have been working with our managers to achieve cost reductions at our properties. We believe these efforts have slowed the decline in the operating margins of our hotels and should create some long-term efficiencies. However, in 2003, our operating margins declined further because significant components of our costs, such as employee wages and benefits, property taxes, insurance and utilities increased at a rate greater than inflation. In addition, other costs, such as property taxes are relatively inflexible and tend to remain somewhat constant regardless of any reduction in hotel property revenues. As a result, a change in our revenues usually results in a greater percentage change in our earnings and cash flows.

During 2003, the average RevPAR penetration index, or market share, for our comparable hotels modestly declined, but it remains at a premium in relation to our competitive set. We believe that this decline in market share occurred because:

- our hotels generally have a higher percentage of their revenues generated by corporate group and corporate transient customers than their competitors and the corporate group and transient business were among the poorest performing sectors in 2003;
- the managers of many of our hotels were anticipating an improvement in corporate business in the second half of 2003, leading them to turn down lower-rated business that was ultimately not replaced with the anticipated higher-rated business;
- our hotels generally have a lower percentage of their revenues generated by leisure travelers than their competitors and the leisure business was among the best performing sectors in 2003; and
- Certain of our managers did not fully access internet distribution channels until early 2004, which generally resulted in fewer internet bookings than our competitors.

As lodging demand continues to grow and, in particular, as corporate group and corporate transient business strengthens, we believe that our hotels will regain the majority of the market share lost in 2003. For 2004, we expect RevPAR to increase 3% to 4% for our comparable hotels. We also expect certain of our costs, such as wages, benefits and insurance, to continue to increase at a rate greater than inflation, which will likely result in flat operating margins for 2004.

While we believe the combination of improved demand trends and low supply growth trends in the lodging industry and our strategic cost reductions create the possibility for improvements in our business in 2004, there can be no assurances that any increases in hotel revenues or earnings at our properties will be achieved. The trends discussed above may not occur for any number of reasons, including slower than anticipated growth in the economy, changes in travel patterns and the continued threat of additional terrorist attacks, all of which may result in lower revenues or higher operating costs and declining operating margins.

Management's Priorities

Based on our primary business objectives and forecasted operating conditions, our key priorities, or financial strategies, over the next several years include the following:

- to acquire upper-upscale and luxury hotels in unique locations where further large scale development is limited for prospective competitors, including hotels located in urban and resort/convention locations;
- to use the proceeds from the sale of non-core hotels that do not fit within our business strategy of owning upper-upscale and luxury properties in urban and resort/convention locations, to acquire properties more closely aligned to our profile or repay debt (including up to $382 million in senior notes as specifically permitted by our Board of Directors in November 2003);
- to implement selective capital improvements designed to increase profitability and direct our managers to minimize operating costs and increase revenues;
- to invest capital in our existing portfolio where the return on investment is favorable. Potential investments at our hotels could include increasing the number of rooms, adding a spa, fitness facility, convention or meeting space or upgrading the infrastructure, such as energy efficient heating and cooling systems; and
- to reduce our leverage to achieve an interest coverage ratio of 2.0x or greater under our senior notes indenture; thereby lifting the restrictions which generally prohibit us from incurring additional debt or paying dividends above the minimum amount required to maintain Host Marriott's REIT status.

As we discussed previously, our acquisition efforts to acquire new properties over the past several years have been limited by several factors, including a lack of suitable targets that complement our portfolio and capital limitations due to weak equity markets. Similarly, we have limited our capital expenditures the past two years based on our assessment of the operating environment and to preserve capital. As a result, management has focused its priorities more on recycling capital and improving our overall leverage and financial covenants by selling non-core hotels and using the proceeds to refinance or retire outstanding debt. For further detail on steps we have taken to meet our objectives, see the discussion in "Liquidity and Capital Resources—Debt Repayment and Refinancing" and "Liquidity and Capital Resources—Cash Provided by or Used in Investing Activities."

Results of Operations

The following table reflects key line items from our audited statements of operations and other significant operating statistics (in millions, except operating statistics and percentages):

	2003	2002	% Change 2002 to 2003	2001	% Change 2001 to 2002
Revenues					
Total hotel sales	$ 3,336	$ 3,415	(2.3)%	$ 3,420	(0.2)%
Operating costs and expenses:					
Property-level costs (1)	3,071	3,032	1.3	2,982	1.7
Corporate and other expenses	61	47	29.8	56	(16.1)
Operating Profit	316	437	(27.7)	520	(16.0)
Interest expense	491	462	6.3	455	1.5
Minority interest expense	5	7	(28.6)	23	(69.6)
Income from discontinued operations	239	38	529.0	5	660.0
Net income (loss)	14	(16)	187.5	51	(131.4)
Other Operating Statistics (1)					
Comparable hotel RevPAR	$ 96.85	$ 101.07	(4.2)%	$ N/A	(5.1)%
Comparable average room rate	$ 140.86	$ 143.60	(1.9)%	N/A	(5.9)%
Comparable average occupancy	68.8%	70.4%	(1.6)pts.	N/A	(0.7)pts.

(1) Amount represents operating costs and expenses per our statements of operations less corporate and other expenses.

2003 Compared to 2002

As previously discussed, our hotel sales declined 3.4%, however, due to the reclassification of the results of assets sold or designated as held for sale to discontinued operations, hotel revenues on our statement of operations only declined 2.3% for full year 2003, principally due to the decline in room sales of 2.8%. For 2003, our comparable hotel RevPAR of $96.85 was down 4.2% from 2002, reflecting a decline in average room rate of 1.9% and a decrease in occupancy of 1.6 percentage points, primarily due to reduced transient demand for both business and leisure travel. Beginning in the fourth quarter, demand began to improve relative to the first three quarters of 2003, with less than one-half a percent decrease in room rate and a slight decrease in occupancy over the fourth quarter of 2002. While we have begun to see a general increase in demand, the weakest component of our business continues to be the higher-rated individual transient business traveler which historically has paid the highest average room rates. Our managers have partially offset this decline with additional group and contract business that has resulted in lower average room rates.

While our overall results for 2003 declined, we did experience improvements in comparable hotel RevPAR in four geographic regions for the fourth quarter and two regions for the full year. Comparable hotel RevPAR for our Washington D.C. Metro region increased 4.0% for the fourth quarter and 2.5% for the full year. These increases were driven by strong transient demand particularly at our Northern Virginia properties as occupancy increased 0.9 percentage points for both the fourth quarter and full year for the comparable hotels. Our Florida region also had a slight increase in comparable hotel RevPAR for the year, but a slight decrease for the fourth quarter. The results were primarily driven by our properties in the Ft. Lauderdale and Tampa markets, which benefited from stronger group demand and leisure travel.

The relative improvement of these regions was offset by the overall decline in comparable hotel RevPAR in most of our regions. In particular, our New England and South Central regions had significant declines in comparable hotel RevPAR of 15.1% and 5.8%, respectively, for the year and 14.4% and 5.7%, respectively, for the fourth quarter. The comparable hotel results in the South Central region were primarily affected by our hotels in San Antonio where full year occupancy was down 3.4 percentage points and average room rate declined 3.6%. The decrease in demand was primarily attributable to a reduction in city-wide convention activity in 2003. The decline in our New England properties was driven by the performance of our three comparable hotels in Boston which had comparable hotel RevPAR declines of 18.8% and 19.7%, respectively, for the fourth quarter and full year. The New England results discussed above do not include the Boston Copley Marriott which is considered a non-comparable hotel, which had an increase in RevPAR for the fourth quarter of 1.6%.

Our rental income represents lease income from our 71 limited-service hotels and three office property leases, as well as lease income from one full-service hotel. Operations at the leased limited-service hotel properties continued to suffer due to increased competition from full-service and limited-service properties and weak economic conditions in their markets, resulting in a very competitive environment and lower room rates. We expect that there will be slower improvement in these properties in 2004 than in our full-service properties, in part, because a significant portion of these limited-service properties will be undergoing renovation in 2004 to enable them to compete with the newer supply in the future, which will result in a decrease in the number of available rooms in 2004 while these renovations are underway.

In 2003, we also recognized $9.6 million of other income from the settlement of a claim that we brought against our directors and officers insurance carriers for reimbursement of defense costs and settlement payments incurred in resolving a series of related actions brought against us and Marriott International which arose from the sale of certain limited partnerships units to investors prior to 1993.

Operating Costs and Expenses. The increase in operating costs and expenses is primarily the result of increases in wages, benefits, insurance and utilities at our hotels. Rental and other expense for our limited-service hotel leases, office properties and one full-service hotel that we leased are included in other property-level expenses on the consolidated statements of operations. Consistent with the relatively fixed nature of these costs, our operating expenses increased in both 2003 and 2002 despite the decrease in revenues in both years. We expect that costs such as wages, benefits and insurance will continue to increase at a rate greater than inflation.

Corporate and Other Expenses. Corporate and other expenses primarily consist of employee salaries and other costs such as stock-based employee compensation expense, corporate insurance, audit fees, building rent and system costs. The increase in corporate and other expenses is primarily due to increases in corporate insurance and the appreciation of Host Marriott's stock price, which affects the stock-based employee compensation expense.

Interest Expense. Interest expense increased 6.3% over 2002 as a result of the payment of aggregate call premiums of $25 million and the acceleration of deferred financing fees of $6 million associated with the prepayment of our senior notes and various mortgages during 2003. In 2004, we expect that as a result of the retirement of approximately $500 million of debt (including $262 million retired in January 2004) that interest expense will decrease, however we will continue to incur additional expenses such as call premiums and the acceleration of deferred financing to the extent that we prepay or refinance our debt prior to its original maturity.

Loss on Foreign Currency and Derivative Contracts. The loss on foreign currency and derivative contracts is due primarily to the approximate $18 million loss from the forward currency exchange contracts for our four Canadian hotels being deemed ineffective for accounting purposes. See "Liquidity and Capital Resources—Debt and Effect of Financial Covenants—Mortgage Debt Covenants" for further discussion.

Minority Interest Income (Expense). Minority interest income (expense) consists of our minority partners' share of the income or loss in consolidated hotel partnerships and the approximate 7% percentage ownership in Host LP. The change from 2002 in minority interest primarily reflects earnings in the current year, primarily as a result of the gain on the settlement of the World Trade Center hotel, compared to a net loss in 2002.

Equity in Earnings (Losses) of Affiliates. Equity in earnings (losses) of affiliates consists of our portion of the earnings (losses) of two partnerships in which we own non-controlling interests and do not consolidate in our financial statements. The increase in the loss can be attributed to an increase in the net loss of CBM Joint Venture LLC in 2003. See "Investments in Affiliates" for a discussion of this partnership.

Discontinued Operations. Discontinued operations consists of the eight hotels sold in 2003 and one hotel sold in 2002, the gain on the disposition and business interruption proceeds for the New York Marriott World Trade Center hotel and five properties classified as held for sale as of December 31, 2003, three of which were sold in January 2004. In accordance with SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" or SFAS 144, the results of operations for these properties in the current year and prior periods are reflected in discontinued operations.

For 2003, the eight hotels sold generated net proceeds of approximately $184 million with a net gain on disposition of approximately $65 million, which includes a $56 million gain on the disposition of World Trade Center hotel. For 2003 and 2002, our revenues for these eight properties and the New York Marriott World Trade Center were $222 million and $120 million, respectively, and our income before taxes was $176 million and $23 million, respectively. The St. Louis Marriott Pavilion was transferred to the mortgage lender in January 2002 in a non-cash transaction and we recognized a net gain of $13 million, primarily as a result of the debt extinguished and the forgiveness of management fees net of the fair value of the assets surrendered. For 2003 and 2002, revenues for the five properties classified as held for sale were $42 million and $44 million, respectively, and our income before taxes was $1 million and $4 million, respectively.

On December 3, 2003, we announced the settlement of the outstanding matters relating to the terrorist attacks of September 11, 2001 affecting the New York Marriott World Trade Center and Financial Center hotels with the hotels' insurer, Marriott International, Inc. and the Port Authority of New York and New Jersey. As a result of these settlements, we received net insurance proceeds of approximately $372 million. As a result of this settlement, we recorded a one-time gain of approximately $212 million, which is comprised of approximately $156 million in post-2003 business interruption proceeds and approximately $56 million from the disposition of the World Trade Center hotel. The gain on disposition and the 2003 and 2002 business interruption income, net of expenses, related to the hotel has been reclassified to discontinued operations. The business interruption proceeds received, net of expenses, for the New York Marriott Financial Center hotel are included in rooms revenues from continuing operations.

2002 Compared to 2001

Revenues. Hotel revenues declined 0.2% for full year 2002 principally due to the decline in room sales of 0.6%. As discussed previously, revenues (as presented in our statements of operations) do not reflect the actual decline in revenues because of the reclassification of the results of assets sold or designated as held for sale to discontinued operations. Actual room sales decreased 3.6% in 2002 from 2001. For 2002, our comparable hotel RevPAR of $100.12 was down 5.1%, which was comprised of a decline in average room rate of 5.9% and a decrease in occupancy of 0.6 percentage points. The decline in comparable hotel RevPAR was primarily attributable to reduced transient demand for business and leisure travel. While the decrease in comparable hotel RevPAR is due in part to the reduction in business and leisure travel, it is also the result of the change in business mix at our properties. Transient business, which includes corporate and premium business travelers, which generally pay the highest average room rates has decreased by over 3% since 2000 as a percentage of room sales. Our managers have partially offset this decline with additional group and contract business that have lower average room rates. As a result, while occupancy increased slightly, the average room rate declined significantly.

Although most regions had comparable hotel RevPAR declines in line with our overall portfolio, we did have two regions that had stronger results. Our South Central region comparable hotel RevPAR declined by only 1.1% primarily due to strong results from our three San Antonio hotels. The Mid-Atlantic region also outperformed the overall portfolio with a comparable hotel RevPAR decline of 2.5%. This was due to positive comparable hotel RevPAR at our Philadelphia Convention Center Marriott and Four Seasons, Philadelphia properties, offset by declines at our suburban properties in this region.

The Pacific region had the largest comparable hotel RevPAR decline at 8.3%. These results were largely due to the collapse of the technology market in the San Francisco area with all our hotels in that market having RevPAR declines. The North Central Region also had declines in comparable hotel RevPAR of 6.6%, which was a function of poor results in most of the region with our Chicago and Minneapolis properties reporting significant declines.

Our rental income further declined primarily due to increased competition and weak economic conditions for the leased limited-service hotels.

Operating Costs and Expenses. Operating costs and expenses decreased primarily as a result of our efforts and those of our managers to control operating costs at the hotels and the overall decline in occupancy. Rental expense for our limited-service hotels and office properties are included in other property-level expenses on the consolidated statements of operations. These costs, which include wages, benefits and insurance, increased at a rate greater than inflation throughout the year.

Corporate Expenses. Corporate expenses decreased principally due to a decrease in stock-based compensation. As a result of the decline in Host Marriott's stock price and our operations in 2002, certain performance thresholds were not met and a portion of the shares previously granted were forfeited.

Minority Interest Expense. The variance in minority interest expense was due to the decrease in our results of operations as described above.

Equity in Earnings (Losses) of Affiliates. The decrease in equity in earnings (losses) of affiliates can be primarily attributed to an increase in the net loss of CBM Joint Venture LLC. See "Investments in Affiliates" for a discussion of this partnership.

Discontinued Operations. During January 2002, we transferred the St. Louis Marriott Pavilion to the mortgage lender in a non-cash transaction. We recorded a gain, net of taxes, of $13 million in 2002 and a loss from operations of $3 million in 2001 as discontinued operations. We also reclassified the operations from properties disposed of in 2003 and properties classified as held for sale in 2003 as discontinued operations in 2002 and 2001. For 2002 and 2001, revenues for these properties were $164 million and $209 million and our income before taxes was $27 million and $8 million, respectively.

Liquidity and Capital Resources

Cash Requirements

Host Marriott is required to distribute to its stockholders at least 90% of its taxable income in order to qualify as a REIT. Because we are required to distribute almost all of our taxable income, we depend primarily on external sources of capital to finance future growth, including acquisitions.

Cash Balances. As of December 31, 2003, we had $764 million of cash and cash equivalents, which was an increase of $403 million from December 31, 2002. Over the past two years our cash balances have been in excess of the $100 million to $150 million, which we had historically maintained. We expect to reduce our cash balance through the repayment of indebtedness, the acquisition of additional hotels and further investments in our portfolio. Cash increased for the year principally as a result of our settlement of outstanding matters relating to our New York Marriott World Trade Center and Financial Center hotels for net proceeds of approximately $372 million, the sale of eight hotels for net proceeds of approximately $184 million and Host Marriott’s two equity offerings for net proceeds of approximately $500 million, the proceeds of which were contributed to Host LP. As described in more detail below, cash was used principally for debt repayments, regularly scheduled principal payments and the acquisition of the Hyatt Regency Maui Resort and Spa. In addition, we have $116 million of cash, which is restricted as a result of lender restrictions (including reserves for debt service, real estate taxes, insurance, furniture and fixtures, as well as cash collateral and excess cash flow deposits). The restricted cash balances do not have a significant effect on our liquidity. We also currently have $250 million of availability under our credit facility and have no amounts outstanding under the facility.

Debt Repayments and Refinancings. Proceeds from the sale of eight hotels in 2003, combined with the insurance settlement proceeds from the New York World Trade Center and Financial Center hotels and scheduled principal payments, enabled us to repay or redeem a total of approximately $240 million of debt in 2003 and $262 million of debt in January 2004. In addition, we refinanced approximately $800 million of our debt in 2003, lowering our average interest rate to 7.7% and extending our debt maturities. The refinancing and repayment of this debt will result in an annual reduction in interest expense of approximately $40 million. We have approximately $28 million of our mortgage debt maturing through December 31, 2004. Additionally, during 2004 we will have $58 million of regularly scheduled principal payments on our mortgage debt. We believe we have sufficient cash to deal with our near-term debt maturities, as well as any decline in the cash flow from our business.

Reducing future cash interest payments and our leverage remains a key management priority. In November 2003, Host Marriott’s Board of Directors authorized us to purchase or retire up to $600 million of our senior notes ($382 million of which remains outstanding after the January 2004 repayment of $218 million of 8.45% Series C senior notes). As a result, we may continue to redeem or refinance additional senior notes and mortgage debt from time to time with proceeds from additional asset sales or to take advantage of favorable market conditions. We may purchase senior notes for cash through open market purchases, privately negotiated transactions, a tender offer or, in some cases, through the early redemption of such securities pursuant to their terms. Repurchases of debt, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. Any refinancing or retirement before the maturity date would affect earnings and FFO per diluted share as a result of the payment of any applicable call premiums and the acceleration of previously deferred financing fees. For example, during 2003 and the period from January 1, 2004 through February 1, 2004, we incurred interest expense resulting from the payment of call premiums and the acceleration of deferred financing fees totaling $30 million and $11 million, respectively for those periods.

Capital Expenditures. We reduced our capital expenditures over the past two years because of the uncertain economic environment and our need to conserve cash. For 2003, total capital expenditures for our existing properties were approximately $201 million. Typically, we spend approximately $200 million to $250 million annually on renewals and replacements and other capital improvements. We spent approximately $181 million on renewal and replacement capital expenditures in 2003, reflecting our decision to delay certain projects due to the start of the war in Iraq. Several of these projects have now begun and should be completed by the first quarter of 2004. Capital expenditures were 6.0% and 5.3% of hotel sales for 2003 and 2002, respectively. We expect renewal and replacement capital expenditures for 2004 to be approximately $255 million to $265 million (including approximately $20 million of projects which were in progress at December 31, 2003, but were not fully funded), the vast majority of which would be funded by the furniture, fixture and equipment reserves established at our hotels (typically funded annually with 5% of property revenues) and, to a lesser extent by our available cash. As of December 31, 2003, our furniture, fixture and equipment reserves totaled approximately $150 million. As a result of the challenging environment in 2003, we spent approximately $3 million on return on investment projects. In 2004, we currently estimate that we will increase our spending on return on investment projects to approximately $35 million as we are in the early stages of several large-scale repositioning projects. In addition, we spent $7 million on the $15 million, 200-room expansion of the Memphis Marriott, which we expect to complete in 2004.

Acquisitions. We remain interested in pursuing single asset and portfolio acquisitions and believe that there will be opportunities over the next several years to acquire assets that are consistent with our target profile of upper-upscale and luxury properties in urban and resort/convention locations where further large scale development is limited, such as the Hyatt Regency Maui Resort and Spa, which we purchased for approximately $321 million in the fourth quarter of 2003. We are currently in preliminary discussions with other sellers of hotels that meet our investment objectives, but have not entered into any definitive agreements. Any additional acquisitions may be funded, in part, from the proceeds of equity offerings by Host Marriott or the issuance of OP units by Host LP, as well as proceeds from asset sales and available cash. Because we are generally restricted in our ability to incur new debt as discussed herein, we generally will not finance any acquisitions through the issuance of debt securities until our EBITDA-to-interest coverage is 2.0x or greater. We cannot be certain as to the size or timing of acquisition opportunities or of our ability to obtain additional acquisition financing, if needed.

Sources and Uses of Cash

Our principal sources of cash are cash from operations, the sale of assets, borrowings under our credit facility and our ability to obtain additional financing through various capital markets. Our principal uses of cash are debt repayments, capital expenditures, asset acquisitions, operating costs, corporate expenses and distributions to our equity holders.

Cash Provided by Operations. Cash provided by operations decreased from $380 million in 2002 to $373 million in 2003. The decrease in cash provided by operations in 2003 primarily reflects the overall reduction in hotel operating profit. Additionally, the 2002 cash provided by operations included a one-time, $50 million payment from Marriott International related to negotiated changes in our management agreements with respect to working capital balances at our hotels. Previously, we had recorded this amount in our balance sheet as “due from managers.” There was no income statement impact of this payment.

Cash Provided by or Used in Investing Activities. Cash used in investing activities decreased from $222 million in 2002 to $156 million in 2003. Activity for 2003 primarily included net proceeds of $184 million from the sale of eight hotels, property insurance proceeds of $185 million for the New York World Trade Center hotel, the acquisition of the Hyatt Regency Maui Resort and Spa for $321 million, and capital expenditures of $201 million as discussed above in “Capital Expenditures.” The 2002 cash used in investing activities included a one-time $75 million payment from Marriott International related to negotiated changes in our management agreements with respect to furniture, fixture and equipment escrow funds for our hotels. There was no income statement impact of this payment from Marriott International.

The following table summarizes significant investing activities that have been completed since the beginning of fiscal year 2002 (in millions):

Transaction Date		Description of Transaction	Sale (Investment) Price
January	2004	Sale of the Mexico City Airport Marriott	$ 30
January	2004	Sale of the Atlanta Northwest Marriott, Detroit Romulus Marriott and the Detroit Southfield Marriott	51
December	2003	Insurance recovery from the New York World Trade Center Marriott and New York Marriott Financial Center hotels	372
December	2003	Sale of the Williamsburg Marriott, Oklahoma City Marriott and the Plaza San Antonio Marriott	75
November	2003	Sale of the Jacksonville Marriott	17
November	2003	Purchase of the 806-room Hyatt Regency Maui Resort and Spa	(321)
July	2003	Sale of Norfolk Waterside Marriott, Oklahoma City Waterford Marriott and Palm Beach Gardens Marriott	71
June	2003	Acquisition of remaining interests in the JW Marriott in Washington, D.C.(1)	(98)
January	2003	Sale of Ontario Airport Marriott	26
June	2002	Purchase of the 1,139-room Boston Marriott Copley Place(2)	(214)
January	2002	Development of The Ritz-Carlton, Naples Golf Resort	(75)

(1) Investment price includes the consolidation of $95 million of mortgage debt.
(2) Investment price includes the assumption of $97 million of mortgage debt.

As discussed previously, we continue to pursue opportunities to dispose of non-core assets and expect to complete the sale of two additional non-core properties by the end of the first quarter of 2004. Similar to the hotels already sold in 2003 and the four properties disposed of in the first quarter of 2004, the hotels currently under contract for sale are generally smaller hotels in secondary markets with lower growth prospects. We believe that, if consummated, sales of non-core properties could result in proceeds of up to $500 million in 2004. If the proceeds from these sales are used to retire debt, operating profit will decrease, but net income may improve based on the amount of the reduction in future interest payments. Similarly, if these funds are used to purchase new hotels or reinvest in existing hotels, future operating profit and net income may improve. However, there can be no assurance that operating profit or net income will improve.

Cash Used in and Provided by Financing Activities. Cash provided by financing activities for 2003 was $186 million, compared to cash used in financing activities of $149 million for 2002. Significant financing activities during 2003 included two separate issuances of common stock by Host Marriott totaling 51 million shares for net proceeds of approximately $501 million. The proceeds were contributed to Host LP which used a significant portion of the proceeds to finance the acquisition of the Hyatt Regency Maui Resort and Spa. Host LP also issued $725 million in 7 1/8% Series J senior notes due in 2013. The net proceeds were used to redeem $429 million of our existing 7 7/8% Series A senior notes due in 2005 and $282 million of our 8.45% Series C senior notes due in 2008 on December 8, 2003. The terms of the Series A and C senior notes required that we pay a premium in exchange for the right to retire this debt in advance of its maturity date. In conjunction with the redemption, we recorded a loss of approximately $28 million for the payment of the premium and the acceleration of the related deferred financing fees in the fourth quarter of 2003.

During December 2003, we announced the settlement of all outstanding matters related to the New York Marriott World Trade Center and Financial Center hotels with our insurer, Marriott International and the Port Authority of New York and New Jersey. As a result of this settlement, we received net proceeds of approximately $372 million, substantially all of which were used to repay debt. During the fourth quarter, we used the proceeds to repay the $65 million mortgage debt on the World Trade Center hotel and made a partial prepayment of $33 million of mortgage debt on our Canadian properties. The remainder of the proceeds was used in the first quarter of 2004 for a partial prepayment of $44 million of debt secured by mortgages on two Ritz-Carlton properties and to retire the remaining outstanding Series C senior notes of approximately $218 million. In conjunction with the redemption of the Series C senior notes, we will record a loss of approximately $11 million for the payment of the call premium and the acceleration of the related deferred financing fees in the first quarter of 2004.

The following table summarizes significant financing activity, except for the credit facility, payment of distributions and non-cash equity and derivative transactions completed since the beginning of fiscal year 2002 (in millions):

Transaction Date		Description of Transaction	Transaction Amount
January	2004	Retired a total of $218 million of 8.45% Series C senior notes	$ (218)
January	2004	Partial prepayment of The Ritz-Carlton, Naples and Buckhead 9% mortgage loan	(44)
December	2003	Partial prepayment of the Canadian mortgage loan	(33)
December	2003	Retired a total of $711 million of Series 7 7/8% A and 8.45% C senior notes	(711)
December	2003	Repayment of World Trade Center hotel debt	(65)
November	2003	Issuance of 7 1/8% Series J senior notes due in 2013	725
October	2003	Issuance of 23.5 million shares of common stock	250
September	2003	Refinancing proceeds from the JW Marriott, Washington, D.C. mortgage loan	88
September	2003	Repayment of the JW Marriott, Washington, D.C. mortgage loan	(95)
August	2003	Retired a portion of 7 7/8% Series A senior notes due in 2005	(71)
August	2003	Issuance of 27.5 million shares of common stock	251
April	2003	Partial prepayment of the Canadian mortgage loan	(7)
March	2003	Retired a portion of 9.25% senior notes due in 2007	(8)
January	2003	Repayment of The Ritz-Carlton, Naples and Buckhead 8.03% mortgage loan	(17)
September	2002	Retired 9.5% senior notes due in 2005	(13)

Financial Condition

Debt and Effect of Financial Covenants

As of December 31, 2003, our debt totaled $5.5 billion (as described fully in note 4 to our consolidated financial statements). As of December 31, 2003, the weighted average interest rate of our debt was approximately 7.7% and the average maturity was 5.5 years. Additionally, approximately 85% of debt had a fixed rate of interest. As of December 31, 2003 and 2002, the outstanding senior notes balance includes $37 million and $40 million, respectively, of fair value adjustments for interest rate swap agreements.

Over time, we expect to decrease the proportion of fixed rate debt in our capital structure to 75% to 80% of our total debt, although there can be no assurances that we will be able to achieve this result on terms acceptable to us. We may do this through the use of derivative instruments including interest rate swaps or through the periodic refinancings of fixed rate mortgage debt with floating rate debt. In furtherance of this objective, in August 2003 we entered into two interest rate swap agreements maturing in October 2007. Under the agreements, we receive fixed rate payments at 9.25% and make floating rate payments based on six-month LIBOR plus 590 basis points (7.08% at December 31, 2003) on a combined notional amount of $242 million. These agreements have the effect of swapping our interest obligations on $242 million in principal amount of 9.25% Series G senior notes to a floating rate of interest. In addition, in September 2003 we refinanced the $95 million mortgage debt secured by the JW Marriott in Washington, D.C. with an $88 million floating-rate mortgage loan with an interest rate of one-month LIBOR plus 210 basis points (3.3% at December 31, 2003.) In connection with the refinancing, we also purchased an interest rate cap, which has the effect of limiting the interest rate on the new floating rate mortgage loan to not greater than 8.1% for the first two years of the loan. We may continue to enter into similar swaps or refinancings in the future. See “Quantitative and Qualitative Disclosures about Market Risk” for a discussion of our sensitivity to interest rates.

Credit Facility and Senior Notes Covenants. Under the terms of our senior notes indenture and the credit facility, our ability to incur indebtedness and pay dividends is subject to restrictions and the satisfaction of various conditions, including an EBITDA-to-interest coverage ratio (as defined in the senior notes indenture) for Host LP of at least 2.0 to 1.0. We do not currently meet this interest coverage ratio. As a result, Host Marriott is limited in its ability to pay dividends on its common and preferred stock, except to the extent necessary to maintain Host Marriott’s status as a REIT. In addition, we cannot incur indebtedness, except indebtedness specifically permitted under our senior notes indenture and the credit facility, which in both cases mainly consist of borrowings under the credit facility and borrowings in connection with a refinancing of existing debt. For this reason, we generally cannot currently finance significant capital expenditures, acquisitions or other growth through the issuance of new debt (other than borrowings under our credit facility). Accordingly, we would expect that until such time as our coverage ratio is greater than 2.0 to 1.0 our acquisitions or other growth will generally be funded with available cash, the proceeds of asset sales or the issuance of additional equity.

Under our credit facility, we are required to use the proceeds of asset sales to reinvest in our assets, acquire new properties or to permanently reduce the revolving loan commitment in effect at the time. In general, in the event that we consummate asset sales during any 12 month period that generate net proceeds in excess of 1% of our total assets (calculated using undepreciated real estate assets), the revolving loan commitment will automatically be reduced by the amount of such proceeds to the extent that such proceeds are not reinvested or committed to be reinvested in our business within 364 days following the date the 1% threshold is exceeded. The May 2003 amendment to the credit facility provided for certain exceptions to this general rule. For instance, when the revolving loan commitment is $250 million or less, further revolving loan commitment reductions occur with respect to asset sales proceeds that are not reinvested only to the extent that amounts are outstanding under the credit facility. If no amounts are outstanding, a commitment reduction can be avoided if we achieve commensurate reductions in the amount of our secured indebtedness or indebtedness under our senior notes indenture.

Our senior notes indenture has parallel requirements with respect to asset sales in excess of 1% of our total assets during any 12 month period. Under our senior notes indenture, amounts in excess of the 1% threshold must be either reinvested in the business or used to repay amounts outstanding under our credit facility (our availability under the credit facility would also be permanently reduced by the amount of the repayment). If asset sale proceeds are not used for either of these purposes, then we are required to offer to repurchase our senior notes at par with the excess sale proceeds.

In November 2003, we crossed the 1% threshold. As a result, the revolving loan commitment would automatically be reduced unless we reinvest or commit to reinvest the net sale proceeds from all such dispositions by November 2004. Based on investments we have made (in particular, the acquisition of the Hyatt

Regency Maui Resort and Spa on November 13, 2003 for $321 million), as well as other planned capital expenditures, the dispositions to date will not result in a reduction of the credit facility availability. We will, however, continue to be subject to these credit facility commitment reduction provisions and senior notes indenture requirements with respect to future dispositions, if any.

Mortgage Debt Covenants. Substantially all of our mortgage debt is recourse solely to specific assets except in instances of fraud, misapplication of funds and other customary recourse provisions. As of February 15, 2004, we have 29 assets that are secured by mortgage debt. Eleven of these assets are secured by mortgage debt that have restrictive covenants which require the mortgage servicer or lender to retain and hold in escrow the cash flow after debt service when it declines below specified operating levels. The effect of these covenants is discussed below:

- Eight of our hotel properties secure a $591 million mortgage loan that is the sole asset of a trust that issued commercial mortgage pass-through certificates, which we refer to as the CMBS Loan. The hotels, which comprise what we refer to as the CMBS Portfolio, are listed in the notes to our financial statements. The CMBS Loan contains a provision that requires the mortgage servicer to retain certain excess cash flow from the CMBS Portfolio after payment of debt service (approximately $64 million) if net cash flow after payment of taxes, insurance, ground rent and reserves for furniture, fixtures and equipment for the trailing twelve months declines below $96 million. Annual debt service is $64 million. As a result of the effect of the weak economy on our operations, this provision was triggered beginning in the third quarter of 2002 and will remain in effect until the CMBS Portfolio generates the necessary minimum cash flow for two consecutive quarters, at which point, the cash that has been escrowed will be returned to us. As of December 31, 2003, approximately $15 million of cash has been escrowed. We anticipated that additional cash of approximately $20 million will be required to be escrowed in 2004. We do not expect cash flows from the CMBS Portfolio to be at the level required to trigger the release of the escrow until we have a significant improvement in operations. As such, additional amounts will be escrowed, and these amounts may be significant.
- We currently have a $55 million loan secured by three of our Canadian properties that matures in 2006. This loan was originally entered into during August 2001 for $97 million and was secured by all four of our Canadian properties. As a result of a decline in operations at these properties in late 2001 and 2002, we were required under the loan agreement to escrow operating cash from the hotels after the payment of debt service. In April 2003, approximately $7 million of the cash escrowed in accordance with the loan was applied to the outstanding balance of the indebtedness and approximately $2 million was released to us. Because operating results at our three properties located in Toronto had not yet fully recovered from the impact which SARS had on travel to this city, we entered into an agreement with our lenders in July 2003 to modify certain covenants so that we would not be required to make additional prepayments at that time. The terms of the modification required us to provide additional collateral of $10 million in cash and pay an additional 25 basis points of interest on the loan.

  As this loan is denominated in United States dollars and the functional currency of the properties is Canadian dollars, we entered into currency forward contracts to buy U.S. dollars at a fixed price at the time we entered into the loan. These forward contracts hedge the currency exposure of converting Canadian dollars into U.S. dollars on a monthly basis to cover debt service payments, including the original final balloon payment of approximately $84 million. These contracts had been designated as cash flow hedges of the debt service and balloon payment and were recorded at fair value on the balance sheet with offsetting changes recorded in accumulated other comprehensive income. In December 2003, we made a partial repayment of approximately $33 million of the Canadian mortgage loan in addition to the April 2003 repayment mentioned above. We also terminated foreign currency forward contracts in an amount equal to the aggregate repayment. As a result of these prepayments, the forward currency exchange contracts were deemed ineffective hedges for accounting purposes and we recorded a loss on the contracts of approximately $18 million in 2003. We will record the change in the fair value of the outstanding forward currency contracts in operations each period. In conjunction with the December 2003 prepayment, one of the hotels and the $10 million deposit was released from the collateral. The current loan is still subject to the escrow provisions and we anticipate that additional cash of approximately $4 million will be required to be escrowed in 2004.

Credit Ratings

Currently, we have $3.2 billion of senior notes outstanding that are rated by Moody's Investors Service and Standard & Poor's. As a result of our significantly reduced operating levels over the past few years, the ratings on our senior notes have been downgraded or placed on negative credit watch. On February 13, 2003, Standard and Poor's downgraded its rating on our senior debt from BB- to B+. At the same time Standard & Poor's also downgraded its rating on Host Marriott's preferred stock from B- to CCC+. On August 6, 2003, Moody's announced that it had placed its Ba3 rating of our senior unsecured debt and its B3 rating of Host Marriott's preferred stock under review for possible downgrade. On December 4, 2003, Moody's concluded its review and changed its ratings outlook on our senior notes and Host Marriott's preferred stock to stable. While we have no senior note maturities until 2006, if our operations were to decline further, or if our credit ratios do not otherwise improve, the ratings on our senior notes could be further reduced. If we were unable to subsequently improve our credit ratings, our cost to issue additional senior notes, either in connection with a refinancing or otherwise, or to issue additional preferred stock would likely increase.

Dividend Policy

Host Marriott is required to distribute to its stockholders at least 90% of its taxable income in order to qualify as a REIT, including taxable income we recognize for tax purposes but with regard to which we do not receive corresponding cash. Funds used by Host Marriott to pay dividends on its common and preferred stock are provided through distributions from Host LP. For every share of common and preferred stock of Host Marriott, Host LP has issued to Host Marriott a corresponding common OP unit and preferred OP unit. As of February 15, 2004, Host Marriott is the owner of substantially all of the preferred OP units and approximately 93% of the common OP units. The remaining 7% of the common OP units are held by various third-party limited partners. As a result of the minority position in Host LP common OP units, these holders share, on a pro rata basis, in amounts being distributed by Host LP. As a general rule, when Host Marriott pays a common or preferred dividend, Host LP pays an equivalent per unit distribution on all common or corresponding preferred OP units. For example, if Host Marriott paid a five cent per share dividend on its common stock, it would be based on payment of a five cent per common OP unit distribution by Host LP to Host Marriott and all other common OP unit holders.

Our failure to meet the EBITDA-to-interest coverage ratio in our senior notes indenture and credit facility, as previously discussed, restricts our ability to pay dividends on our common and preferred equity, except to the extent necessary to maintain Host Marriott's status as a REIT. Required income distributions for 2002 were satisfied in part by the payment of dividends on the preferred stock in 2002 and in the first three quarters of 2003.

Taxable income generated by the insurance recovery on the World Trade Center and Financial Center hotels was sufficient to allow Host Marriott to pay the preferred stock dividend for the fourth quarter of 2003. We expect that the taxable income generated by the insurance recovery will also be sufficient to allow Host Marriott to pay up to the first three quarters of preferred stock dividends in 2004. Preferred dividend payments beyond those supported by the taxable income generated by this settlement will depend on, among other factors, taxable income or loss from operations in 2004 or our ability to meet a minimum EBITDA-to-interest coverage ratio (both as required by the senior notes indenture).

Host Marriott did not pay a dividend on its common stock (and, correspondingly, Host LP did not make a distribution on its common OP units) in 2002 and 2003. Host Marriott does not currently expect to pay a meaningful common dividend for 2004 other than to satisfy any remaining 2003 income distribution requirements. The decision to reinstate the common dividend (including the amount of any such dividend) will be made by the Board of Directors and will depend on several factors, including those described above for distributions on the preferred stock, as well as our liquidity and any accrued unpaid dividends on the preferred stock.

Investments in Affiliates

We have made investments in certain ventures which we do not consolidate and, accordingly, are accounted for under the equity method of accounting in accordance with our accounting policies as described in Note 1 to the consolidated financial statements. Over the past several years we have actively marketed and sold our interests in various partnerships which are no longer consistent with our core portfolio. As a result, except for the partnerships described below any remaining interests are insignificant and/or the partnerships have no recourse to the company. We have included the table below and the following discussion to provide investors with additional information on these investments. Investments in affiliates consist of the following at December 31, 2003:

	Ownership Interests	Investment	Debt	Assets
		(in millions)		
CBM Joint Venture LLC	50%	$ 54	$ 901	120 Courtyard Hotels
Tiburon Golf Ventures, L.P.	49%	20	—	36-hole golf club
Total		$ 74	$ 901	

We and Marriott International each own a 50% interest in CBM Joint Venture, which owns, through two limited partnerships, 120 Courtyard by Marriott properties totaling 17,550 rooms. The joint venture, CBM Joint Venture LLC, has approximately $901 million of debt. This debt consists of first mortgage loans secured by the properties owned by each of the two partnerships, senior notes secured by the ownership interest in one partnership and mezzanine debt. The mezzanine debt is an obligation of a subsidiary of the joint venture and the lender is an affiliate of Marriott International. None of the debt is recourse to, or guaranteed by, us or any of our subsidiaries. RevPAR at the Courtyard hotels declined 3.7% for 2003 when compared to the same period in 2002. Based on our current forecasts for the full year 2004, the hotels in one of these two partnerships are not expected to generate sufficient cash flow from operations to fund the partnership's debt service obligations. To the extent that there is insufficient cash flow to fund its debt service obligations, the partnership will continue to make use of (i) available unrestricted cash balances, (ii) a senior note debt service reserve, (iii) certain rights to require repayment to the partnership of a portion of ground rent and certain management fees it has previously paid to Marriott International, and (iv) subordination provisions for current payments in its ground leases and management agreements to cover any shortfall. As of December 31, 2003, the joint venture has deferred a total of $3.8 million in ground rent and base management fees. Interest does not accrue on such deferred amounts, but these amounts must be repaid prior to distributions to equity holders. In addition, we anticipate that the joint venture will continue to defer interest payments on the mezzanine debt for at least the first half of 2004. As of December 31, 2003, the joint venture has deferred $28 million of interest payments on the mezzanine debt. Deferral of these interest payments is not a default under the mezzanine debt agreements. To the extent deferred, unpaid mezzanine debt interest amounts have been added to principal and earn interest at 13%. As of December 31, 2003, the partnerships and the joint venture maintained aggregate unrestricted cash balances of approximately $17 million. We did not receive any cash distributions from this investment during 2003 or 2002.

We currently have a 49% limited partner interest in Tiburon Golf Ventures, L.P., which owns the Greg Norman-designed golf club surrounding The Ritz-Carlton, Naples Golf Resort. Cash distributions from this investment were $1 million in both 2003 and 2002.

Off-Balance Sheet Arrangements and Contractual Obligations

Off-Balance Sheet Arrangements

We are party to various transactions, agreements or other contractual arrangements with unconsolidated entities (which we refer to as "off-balance sheet arrangements") under which we have certain contingent liabilities and guarantees. As of December 31, 2003, we are party to the following material off-balance sheet arrangements:

Tax Sharing Arrangements. Under tax sharing agreements with former affiliated companies (such as Marriott International, Host Marriott Services Corporation and Barceló Crestline Corporation (formerly Crestline

Capital Corporation)), we are obligated to pay certain taxes (Federal, state, local and foreign, including any related interest and penalties) relating to periods in which the companies were affiliated with us. For example, a taxing authority could adjust an item deducted by a former affiliate during the period that this former affiliate was owned by us. This adjustment could produce a material tax liability that we may be obligated to pay under the tax sharing agreement. In addition, under the partnership agreement between Host Marriott and Host LP, Host LP is obligated to pay certain taxes (Federal, state, local and foreign, including any related interest and penalties) incurred by Host Marriott, as well as any liabilities the IRS successfully may assert against Host Marriott. We do not expect any amounts paid under the tax sharing arrangement to be material.

Tax Indemnification Agreements. For reasons relating to tax considerations of the former and current owners of nine hotels, we have agreed to restrictions on selling the hotels, or repaying or refinancing the mortgage debt for varying periods depending on the hotel. These agreements require that we indemnify the owners for their tax consequences resulting from our selling the hotel or refinancing the mortgage debt during the period under the agreement. We have also agreed not to sell more than 50% of the original allocated value attributable to the former owners of a portfolio of 11 additional hotels, or to take other actions that would result in the recognition and allocation of gain to the former owners of such hotels for income tax purposes. Because the timing of these potential transactions is within our control, we believe that the likelihood of any material indemnification to be remote and therefore not material to our financial statements.

Guarantees. We have certain guarantees, which consist of commitments we have made to third parties for leases or debt, that are not on our books due to various dispositions, spin-offs and contractual arrangements, but that we have agreed to pay in the event of certain circumstances including default by an unrelated party. We consider the likelihood of any material payments under these guarantees to be remote. The largest guarantees (by dollar amount) are listed below:

- We remain contingently liable for rental payments on certain divested non-lodging properties. These primarily represent divested restaurants that were sold subject to our guarantee of rental payments. The aggregate amount of these guaranteed payments is approximately $40 million as of December 31, 2003.
- In 1997, we owned Leisure Park Venture Limited Partnership, which owns and operates a senior living facility. We spun-off the partnership as part of Crestline in the REIT conversion, but we remain obligated under a guarantee of interest and principal with regard to $14.7 million of municipal bonds issued by the New Jersey Economic Development Authority through their maturity in 2027. However, to the extent we are required to make any payments under the guarantee, we have been indemnified by Crestline, who, in turn, is indemnified by the current owner of the facility.

Information on other guarantees and other off-balance sheet arrangements may be found in Note 17 to our consolidated financial statements.

Contractual Obligations

The table below summarizes our obligations for principal payments on our debt, future minimum lease payments on our operating and capital leases and projected capital expenditures, each as of December 31, 2003 (in millions):

	Payments due by period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Long-Term Debt Obligations(1)	$ 5,437	$ 86	$ 831	$ 2,549	$ 1,971
Capital Lease Obligations(2)	15	5	10	—	—
Operating Lease Obligations(3)	1,779	111	209	214	1,245
Purchase Obligations(4)	65	65	—	—	—
Total	$ 7,296	$ 267	$ 1,050	$ 2,763	$ 3,216

(1) The amounts shown include amortization of principal and debt maturities on our debt as well as discounts of $4 million on our senior notes.
(2) Future minimum lease payments have not been reduced by aggregate minimum sublease rentals from restaurants of $2 million, payable to us under non-cancelable subleases. The lease payments also include interest payable of $3 million.
(3) Future minimum lease payments have not been reduced by aggregate minimum sublease rentals from restaurants and the HPT subleases of $27 million and $618 million, respectively, payable to us under non-cancelable subleases.
(4) Our purchase obligations consist of commitments for capital expenditures at our hotels. Under our contracts, we have the ability to defer some of these expenditures into later years and some of the current year amount reflects prior year contracts that were deferred or not completed. See “Capital Expenditures.”

Critical Accounting Policies

Our consolidated financial statements include the accounts of Host Marriott and all consolidated subsidiaries. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. While we do not believe the reported amounts would be materially different, application of these policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. We evaluate our estimates and judgments, including those related to the impairment of long-lived assets, on an ongoing basis. We base our estimates on experience and on various other assumptions that are believed to be reasonable under the circumstances. All of our significant accounting policies are disclosed in the notes to our consolidated financial statements. The following represent certain critical accounting policies that require us to exercise our business judgment or make significant estimates:

- *Impairment testing*. We are required by GAAP to record an impairment charge when we believe that one or more of our hotels has been impaired, whereby, future undiscounted cash flows for the hotel would be less than the net book value of the hotel. For impaired assets, we record an impairment charge when a property’s fair value less selling costs is less than its net book value. We test for impairment in several situations in accordance with SFAS 144, including when current or projected cash flows are less than historical cash flows, when it becomes more likely than not that a hotel will be sold before the end of its previously estimated useful life, as well as whenever an asset is classified as “held for sale” or events or changes in circumstances indicate that a hotel’s net book value may not be recoverable. In the evaluation of the impairment of our hotels, we make many assumptions and estimates, including:
  - projected cash flows,
  - holding period,
  - expected useful life
  - future capital expenditures
  - fair values, including consideration of capitalization rates, discount rates and comparable selling prices

Changes in these estimates, assumptions, future changes in economic conditions or property-level results could require us to record additional impairment charges, which would be reflected in operations in the future.

- *Classification of Assets as “Held for Sale.”* We classify properties that we are actively marketing as held for sale when all of the following conditions are met:
  - our Board of Directors has approved the sale (to the extent the dollar magnitude of the sale requires Board approval);
  - a binding agreement to purchase the property has been signed;
  - the buyer has committed a significant amount of non-refundable cash; and
  - no significant financing contingencies exist which could cause the transaction not to be completed in a timely manner.

To the extent a property is classified as held for sale and its fair value less selling costs is lower than the net book value of the property, we will record an impairment loss. See the discussion above concerning the use of estimates and judgments in determining fair values for impairment tests.

- *Depreciation and Amortization Expense.* Depreciation expense is based on the estimated useful life of our assets and amortization expense for leasehold improvements is the shorter of the lease term or the estimated useful life of the related assets. The lives of the assets are based on a number of assumptions including cost and timing of capital expenditures to maintain and refurbish the assets, as well as specific market and economic conditions. While management believes its estimates are reasonable, a change in the estimated lives could affect depreciation expense and net income or the gain or loss on the sale of any of our hotels.
- *Valuation of Deferred Tax Assets.* We have approximately $90 million, net of a valuation allowance of $9 million, in consolidated deferred tax assets as of December 31, 2003. SFAS 109, “Accounting for Income Taxes,” establishes financial accounting and reporting standards for income taxes, the objectives of which are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in a company’s financial statements or tax returns. We have considered various factors, including future reversals of existing taxable temporary differences, future projected taxable income and tax planning strategies in determining a valuation allowance for our deferred tax assets, and we believe that it is more likely than not that we will be able to realize the $90 million in deferred tax assets in the future. When a determination is made that all, or a portion, of the deferred tax assets may not be realized, an increase in income tax expense would be recorded in that period.
- *Valuation of Foreign Currency and Derivative Contracts.* SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” establishes accounting and reporting standards for derivative instruments. We have three interest rate swap agreements outstanding as of December 31, 2003. Our interest rate swap agreements with a fair market value of $37 million as of December 31, 2003 have been designated as fair value hedges, as described in Note 1 to our consolidated financial statements. While we intend to continue to meet the conditions for hedge accounting, if a particular interest rate swap does not qualify as highly effective, any change in the fair value of the derivative used as a hedge would be reflected in current earnings. Should any change in management strategy, or any other circumstance, cause an existing highly-effective hedge to become ineffective, the accumulated loss or gain in the value of the derivative instrument since its inception may be reclassified from the shareholders’ equity section of the balance sheet to current net income. We also have two interest rate cap agreements that are fair valued each quarter and the increase or decrease in fair value is recorded in net income. We also have several foreign currency forward exchange contracts that we previously used to hedge the mortgage loan on our Canadian properties. The hedge has been deemed ineffective for accounting purposes. See the discussion in “Quantitative and Qualitative Disclosures About Market Risk.” We estimate the fair value of all of these instruments through the use of third party valuations, which utilize the market standard methodology of netting the discounted future cash receipts and the discounted expected cash payments. The variable cash flow streams are based on an expectation of future interest and exchange rates derived from observed market interest and exchange rate curves. The values of these instruments will change over time as cash receipts and payments are made and as market conditions change. Any event that impacts the level of actual and expected future interest or exchange rates will impact our valuations. The fair value of our existing foreign currency and derivatives is likely to fluctuate materially from year to year based on changing levels of interest and exchange rates and shortening terms to maturity.
- *Consolidation Policies.* Judgment is required with respect to the consolidation of partnership and joint venture entities in the evaluation of control, including assessment of the importance of rights and privileges of the partners based on voting rights, as well as financial interests that are not controllable through voting interests. We adopted FASB Interpretation No. 46, “Consolidation of Variable Interest Entities” in 2003. Currently, we have investments in entities that in the aggregate own 124 hotel

properties and other investments which we record using the equity method of accounting. These entities are considered to be voting interest entities. The debt on these investments is non-recourse to the company and the effect of their operations on our results of operations is not material. While we do not believe we are required to consolidate any of our current partnerships or joint ventures, if we were required to do so, then all of the results of operations and the assets and liabilities would be included in our financial statements. For further detail on our unconsolidated entities see Note 4 to our consolidated financial statements.

Lodging Statistics

Reporting Periods for Hotel Operating Statistics and Comparable Hotel Results

The results we report are based on results of our hotels reported to us by our hotel managers. Our hotel managers use different reporting periods. Marriott International, Inc., the manager of the majority of our properties, uses a year ending on the Friday closest to December 31 and reports twelve weeks of operations for the first three quarters and sixteen or seventeen weeks for the fourth quarter of the year for its Marriott-managed hotels. In contrast, other managers of our hotels, such as Hyatt, report results on a monthly basis. Host Marriott, as a REIT, is required by tax laws to report results on a calendar year. As a result, we elected to adopt the reporting periods used by Marriott International modified so that our fiscal year always ends on December 31 to comply with REIT rules. Our first three quarters of operations end on the same day as Marriott International but our fourth quarter ends on December 31.

Two consequences of the reporting cycle we have adopted are: (1) quarterly start dates will usually differ between years, except for the first quarter which always commences on January 1, and (2) our first and fourth quarters of operations and year-to-date operations may not include the same number of days as reflected in prior years. For example, the third quarter of 2003 ended on September 12 and the third quarter of 2002 ended on September 6, though both quarters reflect twelve weeks of operations. In contrast, fourth quarter results for 2003 reflected 110 days of operations, while our fourth quarter results for 2002 reflected 116 days of operations.

In contrast to the reporting periods for our statement of operations, our hotel operating statistics (i.e., RevPAR, average daily rate and average occupancy) are always reported based on the reporting cycle used by Marriott International for our Marriott-managed hotels. This facilitates year-to-year comparisons, as each reporting period will be comprised of the same number of days of operations as in the prior year (except in the case of fourth quarters comprised of seventeen weeks, such as fiscal year 2002, versus sixteen weeks). This means, however, that the reporting periods we use for hotel operating statistics may differ slightly from the reporting periods used for our statements of operations for the first and fourth quarters and the full year. For the hotel operating statistics and comparable hotel results reported herein:

- Hotel results for fiscal year 2003 reflect 52 weeks of operations for the period from January 4, 2003 to January 2, 2004 for our Marriott-managed properties and results from January 1, 2003 to December 31, 2003 for operations of all other hotels which report results on a monthly basis.
- Hotel results for fiscal year 2002 reflect 53 weeks of operations for the period from December 29, 2001 to January 3, 2003 for our Marriott-managed hotels and results from January 1, 2002 to December 31, 2002 for operations of all other hotels which report results on a monthly basis.
- Hotel results for the fourth quarter of 2003 reflect 16 weeks of operations for the period from September 13, 2003 to January 2, 2004 for our Marriott-managed hotels and results from September 1, 2003 to December 31, 2003 for operations of all other hotels which report results on a monthly basis.
- Hotel results for the fourth quarter of 2002 reflect 17 weeks of operations for the period from September 7, 2002 to January 3, 2003 for our Marriott-managed hotels and results from September 1, 2002 to December 31, 2002 for operations of all other hotels which report results on a monthly basis.

Comparable Hotel Operating Statistics

We present certain operating statistics (i.e., RevPAR, average daily rate and average occupancy) and operating results (revenues, expenses and adjusted operating profit) for the periods included in this report on a comparable hotel basis. We define our comparable hotels as full-service properties (i) that are owned or leased by us and the operations of which are included in our consolidated results, whether as continuing operations or discontinued operations, for the entirety of the operating periods being compared, and (ii) that have not sustained substantial property damage or undergone large-scale capital projects during the reporting periods being compared. For 2003 and 2002, we consider 112 of our portfolio of 117 full-service hotels owned on December 31, 2003 to be comparable hotels. The operating results of the following hotels that we owned as of December 31, 2003 are excluded from comparable hotel results for these periods:

- The New York Marriott Financial Center (substantially damaged in the September 11, 2001 terrorist attacks and re-opened in January 2002);
- The Ritz-Carlton, Naples Golf Resort (opened in January 2002);
- The Boston Marriott Copley Place (acquired in June 2002);
- The JW Marriott, Washington, D.C. (consolidated in our financial statements beginning in the second quarter of 2003); and
- The Hyatt Regency Maui Resort and Spa (acquired in November 2003).

In addition, the operating results of the eight hotels we disposed of in 2003 and the one hotel we disposed of in 2002 are also not included in comparable hotel results for the periods presented herein. Moreover, because these statistics and operating results are for our full-service hotel properties, they exclude results for our non-hotel properties and leased limited-service hotels.

Hotel Operating Statistics

The following tables set forth performance information for our full-service hotels by geographic region for 2003 and 2002 for our comparable hotels, as well as all full-service hotels.

Comparable by Region

	As of December 31, 2003		Year ended December 31, 2003			Year ended December 31, 2002			
	No. of Properties	No. of Rooms	Average Daily Rate	Average Occupancy Percentages	RevPAR	Average Daily Rate	Average Occupancy Percentages	RevPAR	Percent Change in RevPAR
Pacific	22	11,526	$ 146.12	68.0%	$ 99.29	$ 150.77	69.3%	$ 104.42	(4.9)%
Florida	11	7,047	155.59	69.5	108.11	153.37	70.3	107.88	0.2
Atlanta	15	6,563	134.29	65.2	87.58	138.70	66.4	92.03	(4.8)
Mid-Atlantic	9	6,222	178.89	74.5	133.27	186.41	76.7	143.05	(6.8)
South Central	9	5,700	128.11	75.1	96.25	132.39	77.2	102.16	(5.8)
North Central	15	5,395	121.81	66.4	80.88	120.89	67.8	82.00	(1.4)
DC Metro	11	4,296	146.07	70.5	102.91	144.29	69.6	100.42	2.5
Mountain	8	3,313	103.61	61.9	64.16	107.87	64.1	69.17	(7.3)
International	6	2,552	110.95	67.9	75.33	110.03	71.0	78.09	(3.5)
New England	6	2,274	122.83	62.3	76.47	129.97	69.3	90.02	(15.1)
All regions	112	54,888	140.86	68.8	96.85	143.60	70.4	101.07	(4.2)

All Full-Service Hotels by Region (1)

	As of December 31, 2003		Year ended December 31, 2003			Year ended December 31, 2002			
	No. of Properties	No. of Rooms	Average Daily Rate	Average Occupancy Percentages	RevPAR	Average Daily Rate	Average Occupancy Percentages	RevPAR	Percent Change in RevPAR
Pacific	23	12,332	$ 147.11	68.0%	$ 100.02	$ 149.43	69.3%	$ 103.63	(3.5)%
Florida	12	7,342	155.97	69.0	107.56	152.53	69.3	105.76	1.7
Atlanta	15	6,563	134.29	65.2	87.58	138.70	66.4	92.03	(4.8)
Mid-Atlantic	10	6,726	180.11	74.3	133.85	186.47	76.5	142.70	(6.2)
South Central	9	5,700	124.93	75.0	93.76	128.47	76.5	98.32	(4.6)
North Central	15	5,395	121.81	66.4	80.88	120.89	67.8	82.00	(1.4)
DC Metro	12	5,068	145.09	71.1	103.13	139.70	69.9	97.59	5.7
Mountain	8	3,313	103.61	61.9	64.16	107.87	64.1	69.17	(7.2)
International	6	2,552	110.95	67.9	75.33	110.03	71.0	78.09	(3.5)
New England	7	3,413	142.32	67.5	96.11	142.27	70.0	99.65	(3.6)
All regions	117	58,404	141.93	69.1	98.01	143.19	70.4	100.74	(2.7)

(1) The number of properties and the room count reflect all consolidated properties as of December 31, 2003. However, the operating statistics include the results of operations for the nine properties sold in 2003 and 2002 prior to their disposition and the results of operations of properties acquired subsequent to the date of their acquisition.

Non-GAAP Financial Measures

We use certain "non-GAAP financial measures," which are measures of our historical financial performance that are not calculated and presented in accordance with GAAP, within the meaning of applicable SEC rules. They are as follows: (i) Funds From Operations (FFO) per diluted share, and (ii) Comparable Hotel Operating Results. The following discussion defines these terms and presents why we believe they are useful measures of our performance.

FFO per Diluted Share

We present FFO per diluted share as a non-GAAP measure of our performance in addition to our earnings per share (calculated in accordance with GAAP). We calculate FFO per diluted share for a given operating period as our FFO (defined as set forth below) for such period divided by the number of fully diluted shares outstanding during such period. The National Association of Real Estate Investment Trusts (NAREIT) defines FFO as net income (calculated in accordance with GAAP) excluding gains (or losses) from sales of real estate, the cumulative effect of changes in accounting principles, real estate-related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. FFO is presented on a per share basis after making adjustments for the effects of dilutive securities, including the payment of preferred stock dividends, in accordance with NAREIT guidelines.

We believe that FFO per diluted share is a useful supplemental measure of our operating performance and that presentation of FFO per diluted share, when combined with the primary GAAP presentation of earnings per share, provides beneficial information to investors. By excluding the effect of real estate depreciation, amortization and gains and losses from sales of real estate, all of which are based on historical cost accounting and which may be of limited significance in evaluating current performance, we believe that such measure can facilitate comparisons of operating performance between periods and between other REITs, even though FFO per diluted share does not represent an amount that accrues directly to holders of our common stock. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. As noted by NAREIT in its April 2002 “White Paper on Funds From Operations,” since real estate values have historically risen or fallen with market conditions, many industry investors have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. For these reasons, NAREIT adopted the definition of FFO in order to promote an industry-wide measure of REIT operating performance.

We calculate FFO per diluted share, in accordance with standards established by NAREIT, which may not be comparable to measures calculated by other companies who do not use the NAREIT definition of FFO or calculate FFO per diluted share in accordance with NAREIT guidance. In addition, although FFO per diluted share is a useful measure when comparing our results to other REITs, it may not be helpful to investors when comparing us to non-REITs. This information should not be considered as an alternative to net income, operating profit, cash from operations, or any other operating performance measure prescribed by GAAP. Cash expenditures for various long-term assets (such as renewal and replacement capital expenditures) and other items have been and will be incurred and are not reflected in the FFO per diluted share presentations. Management compensates for these limitations by separately considering the impact of these excluded items to the extent they are material to operating decisions or assessments of our operating performance. Our consolidated statement of operations and cash flows include interest expense, capital expenditures, and other excluded items, all of which should be considered when evaluating our performance, as well as the usefulness of our non-GAAP financial measures. Additionally, FFO per diluted share should not be considered as a measure of our liquidity or indicative of funds available to fund our cash needs, including our ability to make cash distributions. In addition, FFO per diluted share does not measure, and should not be used as a measure of, amounts that accrue directly to shareholders’ benefit.

Comparable Hotel Operating Results

We present certain operating results for our full-service hotels, such as hotel revenues, expenses and adjusted operating profit, on a comparable hotel, or “same store” basis as supplemental information for investors. Our comparable hotel operating results present operating results for full-service hotels owned during the entirety of the periods being compared without giving effect to any acquisitions or dispositions, significant property damage or large scale capital improvements incurred during these periods. We present these comparable hotel operating results by eliminating corporate-level costs and expenses related to our capital structure, as well as depreciation and amortization. We eliminate corporate-level costs and expenses to arrive at property-level results because we believe property-level results provide investors with more specific insight into the ongoing operating performance of our hotels and the effectiveness of management in running our business on a property-level basis. We eliminate depreciation and amortization, because even though depreciation and amortization are property-level expenses, these non-cash expenses, which are based on historical cost accounting for real estate assets, implicitly assume that the value of real estate assets diminishes predictably over time. As noted earlier, because real estate values have historically risen or fallen with market conditions, many industry investors have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves.

As a result of the elimination of corporate-level costs and expenses and depreciation and amortization, the comparable hotel operating results we present do not represent our total revenues, expenses or operating profit and these comparable hotel operating results should not be used to evaluate our performance as a whole. Management compensates for these limitations by separately considering the impact of these excluded items to the extent they are material to operating decisions or assessments of our operating performance. Our consolidated statements of operations include such amounts, all of which should be considered by investors when evaluating our performance.

We present these hotel operating results on a comparable hotel basis because we believe that doing so provides investors and management with useful information for evaluating the period-to-period performance of our hotels and facilitates comparisons with other hotel REITs and hotel owners. In particular, these measures assist management and investors in distinguishing whether increases or decreases in revenues and/or expenses are due to growth or decline of operations at comparable hotels (which represent the vast majority of our portfolio) or from other factors, such as the effect of acquisitions or dispositions. While management believes that presentation of comparable hotel results is a “same store” supplemental measure that provides useful information in evaluating our ongoing performance, this measure is not used to allocate resources or assess the operating performance of these hotels, as these decisions are based on data for individual hotels and are not based on comparable portfolio hotel results. For these reasons, we believe that comparable hotel operating results, when combined with the presentation of GAAP operating profit, revenues and expenses, provide useful information to investors and management.

The following table presents certain operating results and statistics for our comparable hotels for fiscal years 2003 and 2002.

Comparable Hotel Results
(in millions, except hotel statistics)

	Year ended December 31, 2003	Year ended December 31, 2002
Number of hotels	112	112
Number of rooms	54,888	54,888
Percent change in Comparable Hotel RevPAR	(4.2)%	
Comparable hotel sales		
Room	$ 1,937	$ 2,052
Food and beverage	1,061	1,091
Other	224	250
Comparable hotel sales(1)	3,222	3,393
Comparable hotel expenses		
Room	490	502
Food and beverage	791	798
Other	137	142
Management fees, ground rent and other costs	1,109	1,117
Comparable hotel expenses(2)	2,527	2,559
Comparable Hotel Adjusted Operating Profit	695	834
Non-comparable hotel results, net(3)	43	13
Comparable hotels classified as held for sale(4)	(7)	(9)
Office building and limited service properties, net	1	4
Other income	12	—
Depreciation and amortization	(367)	(358)
Corporate and other expenses	(61)	(47)
Operating Profit	$ 316	$ 437

(1) The reconciliation of total revenues per the consolidated statements of operations to the comparable hotel sales is as follows (in millions):

	Year ended December 31, 2003	Year ended December 31, 2002
Revenues per the consolidated statements of operations	$3,448	$3,516
Revenues of hotels held for sale	42	44
Non-comparable hotel sales	(221)	(172)
Hotel sales for the property for which we record rental income, net	46	45
Rental income for office buildings and limited service hotels	(75)	(77)
Other income	(12)	—
Adjustment for hotel sales for comparable hotels to reflect Marriott's fiscal year for Marriott-managed hotels	(6)	37
Comparable hotel sales	$3,222	$3,393

(2) The reconciliation of operating costs per the consolidated statements of operations to the comparable hotel expenses is as follows (in millions):

	Year ended December 31,	
	2003	2002
Operating costs and expenses per the consolidated statements of operations	$3,132	$3,079
Operating costs of hotels held for sale	35	35
Non-comparable hotel expenses	(183)	(155)
Hotel expenses for the property for which we record rental income	50	48
Rent expense for office buildings and limited service hotels	(74)	(73)
Adjustment for hotel expenses for comparable hotels to reflect Marriott's fiscal year for Marriott-managed hotels	(5)	30
Depreciation and amortization	(367)	(358)
Corporate and other expenses	(61)	(47)
Comparable hotel expenses	$2,527	$2,559

(3) Non-comparable hotel results, net includes the following items: (i) the results of operations of our non-comparable hotels whose operations are included in our consolidated statements of operations as continuing operations and (ii) for 2003 and 2002 results, the difference between comparable hotel adjusted operating profit which reflects 364 days and 371 days, respectively, of operations and the operating results included in the consolidated statements of operations which reflects 365 days.

(4) Results of operations for comparable hotels classified as held for sale whose results are included in discontinued operations in the consolidated statement of operations in accordance with SFAS 144.

The following table provides a reconciliation of net income (loss) available to common shareholders per share to FFO per diluted share (in millions, except per share amounts):

Host Marriott Corporation
Reconciliation of Net Loss Available to
Common Shareholders to Funds From Operations per Diluted Share

	Year ended December 31,					
	2003			2002		
	Income (Loss)	Shares	Per Share Amount	Income (Loss)	Shares	Per Share Amount
Net loss available to common shareholders	$ (21)	281.0	$ (.07)	$ (51)	263.0	$ (.19)
Adjustments:						
Gain on the disposition of the New York Marriott World Trade Center hotel	(56)	—	(.20)	—	—	—
Gain on dispositions, net	(9)	—	(.04)	(13)	—	(.05)
Depreciation and amortization	371	—	1.32	366	—	1.39
Partnership adjustments	24	—	.08	20	—	.07
FFO of minority partners of Host LP(a)	(26)	—	(.09)	(30)	—	(.11)
Adjustments for dilutive securities:						
Assuming distribution of common shares granted under the comprehensive stock plan less shares assumed purchased at average market price	—	3.5	(.01)	—	4.0	(.02)
Assuming conversion of Convertible Preferred Securities	—	—	—	32	30.9	—
FFO per diluted share(b)	$ 283	284.5	$ .99	$ 324	297.9	$ 1.09

(a) Represents FFO attributable to the minority interest in Host LP.

(b) FFO per diluted share in accordance with NAREIT is adjusted for the effects of dilutive securities. Dilutive securities may include shares granted under comprehensive stock plans, those preferred OP units held by minority partners, other minority interests that have the option to convert their limited partnership interest to common OP units and the Convertible Preferred Securities of Host Marriott. No effect is shown for securities if they are anti-dilutive.

For 2003, the FFO per diluted share includes the following items:

- As a result of the World Trade Center insurance settlement in the fourth quarter of 2003, we recorded a gain of approximately $212 million, which is comprised of $156 million in post-2003 business interruption proceeds and $56 million from the disposition of the hotel. We excluded the $56 million gain on disposition from FFO in accordance with the NAREIT definition of FFO.
- In conjunction with the redemption of $711 million of our senior notes in the fourth quarter of 2003, we incurred a total of approximately $28 million of expense related to the call premiums paid and the acceleration of related deferred financing fees. We also incurred approximately $5 million of incremental interest expense during the redemption call period. In addition, we incurred approximately $2.3 million of call premiums and accelerated deferred financing fees related to a $71 million senior notes redemption in the third quarter of 2003.
- In the fourth quarter of 2003, we made a partial repayment of the Canadian mortgage debt, which resulted in the related forward currency contracts hedge being deemed ineffective for accounting purposes. Accordingly, we recorded an approximate $17 million decrease in net income and FFO in the fourth quarter in addition to the approximate $1 million recorded in the first three quarters of 2003.
- Approximately $9.6 million of other income in the third quarter of 2003 from the settlement of a claim that we brought against our directors' and officers' insurance carriers for reimbursement of defense costs and settlement payments incurred in resolving a series of related actions brought against us and Marriott International that arose from the sale of certain limited partnership units to investors prior to 1993. The settlement amount, net of taxes of approximately $2.4 million, totaled $7.2 million.

New Accounting Pronouncements

The FASB recently issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," or SFAS 150. This statement requires issuers to classify as liabilities (or assets in some circumstances) three classes of freestanding financial instruments that embody obligations for the issuer. Previously, many such instruments had been classified as equity. A freestanding financial instrument is an instrument that is entered into separately and apart from any of the entity's other financial instruments or equity transactions, or that is entered into in conjunction with some other transaction and is legally detachable and separately exercisable, such as certain put and call options. These provisions are effective for financial instruments entered into or modified after May 31, 2003, and otherwise are effective at the beginning of the first interim period beginning after June 15, 2003. On October 8, 2003, the Financial Accounting Standards Board (FASB) issued guidance with respect to SFAS 150 that issuers whose financial statements include consolidated ventures with finite lives should reflect any minority interests in such consolidated ventures as a liability on the issuer's financial statements presented at its fair value as of the applicable balance sheet date. Under SFAS 150, any fluctuation in the fair value of the minority interest from period to period would be recorded on the issuers financial statements as interest expense for the change in the fair value of the liability. As a result of applying SFAS 150 in accordance with this guidance from the FASB, in our third quarter 2003 Form 10-Q we recorded a loss from a cumulative effect of a change in accounting principle of $24 million. Additionally, we included in our liabilities as of September 12, 2003, minority interests with a fair value of $112 million.

On November 7, 2003, the FASB issued a FASB Staff Position (FSP) 150-3 indefinitely deferring the application of a portion of SFAS 150 with respect to minority interests in consolidated ventures entered into prior to November 5, 2003, effectively reversing its guidance of October 8, 2003. In accordance with the FSP 150-3, in the fourth quarter of 2003 we recorded a cumulative effect of change in accounting principle reversing the impact of our adoption of SFAS 150 with respect to consolidated ventures with finite lives.

We adopted Financial Interpretation No. 46 "Consolidation of Variable Interest Entities" ("FIN 46") in 2003. In December 2003, the FASB issued a revision to FIN 46, which we refer to as FIN 46R. Under this guidance, our limited purpose trust subsidiary that was formed to issue trust-preferred securities (the "Convertible Preferred Securities Trust") is considered to be a special purpose entity because its activities are so restricted that Host Marriott, the sole equity holder, lacks the ability to make decisions about the Convertible Preferred Securities Trust's activities through voting or similar rights. The transition guidance set forth in FIN 46R allows us to apply the provisions of either FIN 46 or FIN 46R to special purpose entities in which we have a variable interest at December 31, 2003. We account for our Convertible Preferred Securities Trust on a consolidated basis as of December 31, 2003 since we are the primary beneficiary under FIN 46 based on our fixed price call option and the holders of the Convertible Preferred Securities are widely dispersed and unrelated.

We are required to apply the provisions of FIN 46R to the Convertible Preferred Securities Trust in the first quarter of 2004. Under FIN 46R we will not be the primary beneficiary and accordingly, we are required to deconsolidate the accounts of the Convertible Preferred Securities Trust. This will result in our recognizing the $492 million in debentures issued by Convertible Preferred Securities Trust as debt, eliminating the $475 million of Convertible Preferred Securities currently classified in the mezzanine section of our balance sheet and recognizing, as an equity investment, the $17 million invested in the Convertible Preferred Securities Trust. Additionally, we would classify the related dividend payments as interest expense.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity

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 scheduled maturities 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. Weighted average interest rates are based on implied forward rates in the yield curve as of December 31, 2003. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates are presented in U.S. dollar equivalents, which is our reporting currency. The interest rate swaps and caps that we have entered into are strictly to hedge interest rate risk and not for trading purposes.

	Expected Maturity Date							
	2004	2005	2006	2007	2008	Thereafter	Total	Fair Value
					($ in millions)			
Liabilities								
Debt:								
Fixed Rate	$ 85	$ 63	$ 626	$ 860	$ 1,689	$ 1,983	$ 5,306	$ 5,415
Average interest rate	8.1%	8.1%	8.1%	8.0%	7.7%	7.5%		
Variable Rate								
Variable rate mortgages	$ 1	$ 89	$ 53	$—	$ —	$ —	$ 143	$ 140
Average interest rate	3.9%	5.3%	7.1%	— %	— %	— %		
Total Debt(1)							$ 5,449	$ 5,555
Interest Rate Derivatives								
Interest Rate Swaps								
Fixed to Variable	$—	$—	$—	$ 692	$ —	$ —	$ 692	$ 37
Average pay rate	6.1%	7.5%	8.7%	9.4%	— %			
Average receive rate	9.4%	9.4%	9.4%	9.4%	— %	— %		

(1) Excludes the fair market value of the swaps which were $37 million as of December 31, 2003.

As of December 31, 2003, approximately 85% of our debt bears interest at fixed rates. This debt structure largely mitigates the impact of changes in interest rates. We have some financial instruments that are sensitive to changes in interest rates, including our credit facility. The interest rate on our credit facility is based on a spread over LIBOR, ranging from 2.5% to 3.75%. There were no amounts outstanding on our credit facility at December 31, 2003.

Over time, we expect to decrease the proportion of fixed rate debt on our capital structure to 75% to 80% of our total debt, although there can be no assurances that we will be able to achieve this result on terms acceptable to us. In furtherance of this objective, we have entered into three interest rate swaps effectively converting $692 million of fixed rate payments to floating rate payments based on a spread to LIBOR.

On December 20, 2001, we entered into a 5-year interest rate swap agreement, which was effective on January 15, 2002 and matures in January 2007, effectively converting our Series I senior notes to floating rate debt. Under the swap, we receive fixed-rate payments of 9.5% and pay floating-rate payments based on one-month LIBOR plus 450 basis points on a $450 million notional amount. We have designated the interest rate swap as a fair value hedge for both financial reporting and tax purposes and the amounts paid or received under the swap agreement will be recognized over the life of the agreement as an adjustment to interest expense. Changes in the fair value of the swap and the Series I notes are reflected in the balance sheet as offsetting changes and have no income statement effect. The fair value of the interest rate swap at December 31, 2003 and December 31, 2002 was $34.5 million and $40.3 million, respectively, which is included in the senior notes line item on our consolidated balance sheet.

On August 21, 2003, we entered into two four-year interest rate swap agreements, which mature October 2007, effectively converting our Series G senior notes to floating rate debt. Under the swaps, we receive fixed-rate payments of 9.25% and we make floating-rate payments based on six-month LIBOR plus 590 basis points on a $242 million notional amount, which is equal to the current amount of outstanding Series G senior notes. We have designated the interest rate swaps as fair value hedges for both financial reporting and tax purposes and the amounts paid or received under the swap agreements will be recognized over the life of the agreements as an adjustment to interest expense. Changes in the fair value of the swaps and our Series G senior notes are reflected in the balance sheet as offsetting changes and have no income statement effect. The fair value of the interest rate swaps at December 31, 2003 was $2.3 million, which is included in the senior notes line item on our consolidated balance sheet.

A change in LIBOR of 100 basis points will result in a $6.9 million increase or decrease in our annual interest expense as a result of the combined $692 million in swap agreements.

In addition, on September 9, 2003, we refinanced the $95 million fixed rate mortgage debt secured by the JW Marriott in Washington, D.C. with an $88 million floating-rate mortgage loan with an interest rate of one-month LIBOR plus 210 basis points. The loan matures September 2005, but can be extended for up to three additional years subject to the satisfaction of certain conditions. We also have approximately $55 million of floating rate mortgage debt associated with three of our Canadian properties. See below for further information.

Exchange Rate Sensitivity

Foreign Currency Forward Exchange Agreements

The table below summarizes information on instruments and transactions that are sensitive to foreign currency exchange rates, including foreign currency forward exchange agreements as of December 31, 2003. The foreign currency exchange agreements that we have entered into are strictly to hedge foreign currency risk and not for trading purposes. For foreign currency forward exchange agreements, the table presents the notional amounts and weighted average exchange rates by expected (contractual) maturity dates. These notional amounts generally are used to calculate the contractual payments to be exchanged under the contract.

	Expected Maturity Date						
	2004	2005	2006	2007	Thereafter	Total	Fair Value
				($ in millions)			
Anticipated Transactions and Related Derivatives							
Foreign Currency Forward Exchange Agreements Contract Amount	$ 7	$ 7	$ 57	$—	$ —	$ 71	$ (12)
Average Contractual Exchange Rate	1.56	1.57	1.57	—	—		

On August 30, 2001, our Canadian subsidiaries entered into a mortgage loan pursuant to which they borrowed $96.6 million (denominated in U.S. dollars) at a variable rate of LIBOR plus 2.75%. The weighted average interest rate for this mortgage loan was 4.5% and 4.6%, respectively, for the years ended December 31, 2003 and 2002. In addition, since the mortgage loan on these Canadian properties is denominated in U.S. Dollars and the functional currency of the Canadian subsidiaries is the Canadian Dollar, the subsidiaries entered into currency forward contracts to hedge the currency exposure of converting Canadian dollars to U.S. dollars on a monthly basis to cover debt service payments. Up until April 2003 as discussed in “Debt”, these forward exchange contracts had been designated as a cash flow hedges of the debt service payments, and the forward contracts were recorded at fair value on the balance sheet with offsetting changes recorded in accumulated other comprehensive income. As of December 31, 2003, substantially all of the remaining forward contracts are not designated as a hedge and accordingly the change in fair value is recorded in operations each period. The fair value of the forward contracts was $(12.3) million and $3.8 million, respectively, at December 31, 2003 and December 31, 2002.

FORWARD-LOOKING STATEMENTS

In this report on Form 10-K and the information incorporated by reference herein we make some "forward-looking" statements. These statements are included throughout this report on Form 10-K and the information incorporated by reference herein, including in the section entitled "Risk Factors" and relate to, among other things, analyses and other information based on forecasts of future results and estimates of amounts not yet determinable. These forward-looking statements are identified by their use of terms and phrases such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will," "continue," and other similar terms and phrases, including references to assumptions.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties. Factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by us in those statements include, among others, the following:

- national and local economic and business conditions and changes in travel patterns, including the effect of terror alerts and potential terrorist activity on travel, that will affect, among other things, demand for products and services at our hotels, the level of room rates and occupancy that can be achieved by such properties and the availability and terms of financing and our liquidity;
- changes in taxes and government regulations that influence or determine wages, prices, construction procedures and costs;
- our ability to maintain properties in a first-class manner, including meeting capital expenditure requirements;
- our ability to compete effectively in areas such as access, location, quality of accommodations and room rate;
- our ability to acquire or develop additional properties and the risk that potential acquisitions or developments may not perform in accordance with expectations;
- our degree of leverage, which may affect our ability to obtain financing in the future;
- the reduction in our operating flexibility and our ability to pay dividends resulting from restrictive covenants in our debt agreements, including the risk of default that could occur;
- government approvals, actions and initiatives, including the need for compliance with environmental and safety requirements, and changes in laws and regulations or the interpretation thereof;
- the effects of tax legislative action;
- our ability to continue to satisfy complex rules in order for us to maintain REIT status for Federal income tax purposes, the ability of the operating partnership to satisfy the rules to maintain its status as a partnership for Federal income tax purposes, the ability of certain of our subsidiaries to maintain their status as taxable REIT subsidiaries for Federal income tax purposes, and our ability and the ability of our subsidiaries to operate effectively within the limitations imposed by these rules;
- the effect of any rating agency downgrades on the cost and availability of new debt financings;
- the relatively fixed nature of our property-level operating costs and expenses;
- our ability to recover fully under our existing insurance for terrorist acts and our ability to maintain adequate or full replacement cost "all-risk" property insurance on our properties; and
- other factors discussed below under the heading "Risk Factors" and in other filings with the Securities and Exchange Commission, or the Commission.

Although we believe the expectations reflected in our forward-looking statements are based upon reasonable assumptions, we can give no assurance that we will attain these expectations or that any deviations will not be material. Except as otherwise required by the federal securities laws, we disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statement contained in this annual report on Form 10-K and the information incorporated by reference herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

RISK FACTORS

Prospective investors should carefully consider, among other factors, the material risks described below.

Financial Risks and Risks of Operation

We depend on external sources of capital for future growth and we may be unable to access capital when necessary. Unlike corporations, our ability to reduce our debt and finance our growth largely must be funded by external sources of capital because we are generally required to distribute to our stockholders at least 90% of our taxable income in order to qualify as a REIT, including taxable income we recognize for tax purposes but with regard to which we do not receive corresponding cash. Our ability to access the external capital we require could be hampered by a number of factors many of which are outside of our control, including, without limitation, declining general market conditions, unfavorable market perception of our growth potential, decreases in our current and estimated future earnings, excessive cash distributions or decreases in the market price of our common stock. In addition, our ability to access additional capital may also be limited by the terms of our existing indebtedness, which, among other things, restricts our incurrence of debt and the payment of distributions. The occurrence of any of these above-mentioned factors, individually or in combination, could prevent us from being able to obtain the external capital we require on terms that are acceptable to us or at all and the failure to obtain necessary external capital could have a material adverse affect our ability to finance our future growth.

We have substantial leverage. We have a significant amount of indebtedness and that could have important consequences. It currently requires us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, which reduces the availability of our cash flow to fund working capital, capital expenditures, expansion efforts, distributions to our stockholders and other general purposes. Additionally, our high level of indebtedness could:

- limit our ability in the future to undertake refinancings of our indebtedness or obtain financing for expenditures, acquisitions, development or other general corporate or business purposes; or
- affect adversely our ability to compete effectively or operate successfully under adverse economic conditions.

If our cash flow and working capital were not sufficient to fund our expenditures or service our indebtedness, we would have to raise additional funds through:

- the sale of our equity;
- the incurrence of additional permitted indebtedness by the Operating Partnership; or
- the sale of our assets.

We cannot assure you that any of these sources of funds would be available to us or, if available, would be on terms that we would find acceptable or in amounts sufficient for us to meet our obligations or fulfill our business plan.

Our revenues and the value of our properties are subject to conditions affecting the lodging industry. The lodging industry has experienced a difficult period, and operations have generally been declining for the past several years, which has caused declines in our revenue per available room, or RevPAR, and profit margins. The decline in the lodging industry has been attributed to a number of factors including a weak economy, the effect of terror alerts and potential terrorist activity in the United States and the war in Iraq, all of which have changed the travel patterns of both business and leisure travelers. It is not clear whether these changes are permanent or whether they will continue to evolve creating new opportunities or difficulties for the industry. Any forecast we make regarding our results of operations may be affected and can change based on the following risks:

- changes in the national, regional and local economic climate;

- reduced demand and increased operating costs and other conditions resulting from terrorist threats;
- changes in business and leisure travel patterns;
- local market conditions such as an oversupply of hotel rooms or a reduction in lodging demand;
- the attractiveness of our hotels to consumers relative to our competition;
- the performance of the managers of our hotels;
- changes in room rates and increases in operating costs due to inflation and other factors; and
- unionization of the labor force at our hotels.

Our expenses may not decrease if our revenue drops. Many of the expenses associated with owning and operating hotels, such as debt payments, property taxes, insurance, utilities, and employee wages and benefits, are relatively inflexible and do not necessarily decrease in tandem with a reduction in revenue at the property. Because of weak economic conditions over the last several years, particularly in the lodging industry, we have been working with our managers to reduce the operating costs of our hotels. While we have achieved reductions in operating costs as a result of these efforts, further cost reductions could be difficult to achieve if operating levels continue to decline. Some of the cost reduction efforts undertaken may eventually need to be reversed even if operations remain at reduced levels. Regardless of these efforts to reduce costs, our expenses will be affected by inflationary increases, and in the case of certain costs, such as wages, benefits and insurance, may exceed the rate of inflation in any given period. Our managers may be unable to offset any such increased expenses with higher room rates. Any of our efforts to reduce operating costs or failure to make scheduled capital expenditures could adversely affect the growth of our business and the value of our hotel properties.

Our revenues may be affected by increased use of reservation systems based on the Internet. Although a majority of the rooms sold on the Internet are sold through websites maintained by our managers, a growing number of rooms are also sold through independent Internet sites. These independent Internet sites often purchase rooms at a negotiated discount from participating properties, which could result in lower average room rates compared to the room rates offered by the manager on its website. While we do not believe that price is the only factor considered when choosing our properties, if the room rate available to consumers using the independent Internet sites were to be significantly lower than those offered by our managers on their websites our results of operations could be adversely affected.

Our ground lease payments may increase faster than the revenues we receive on the hotels situated on the leased properties. As of February 15, 2004, forty of our hotels are subject to ground leases. These ground leases generally require increases in ground rent payments every five years. Our ability to service our debt could be adversely affected to the extent that our revenues do not increase at the same or a greater rate than the increases in rental payments 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 may result in a lower sales price.

We do not control our hotel operations and we are dependent on the managers of our hotels. Because federal income tax laws restrict REITs and their subsidiaries from operating a hotel, we do not manage our hotels. Instead, we lease substantially all of our full-service properties to subsidiaries that qualify as a "taxable REIT subsidiaries" under applicable REIT laws, and our taxable REIT subsidiaries retain third-party managers to manage our hotels pursuant to management agreements. Our income from the hotels may be adversely affected if our managers fail to provide quality services and amenities or if they fail to maintain a quality brand name. While our taxable REIT subsidiaries monitor the hotel managers' performance, we have limited specific recourse under our management agreements if we believe that the hotel managers are not performing adequately. In addition, from time to time, we have had, and continue to have, differences with the managers of our hotels over their performance and compliance with the terms of our management agreements. We generally resolve issues with our managers through discussions and negotiations. However, if we are unable to reach satisfactory results through discussions and negotiations, we may choose to litigate such a dispute.

Failure by our hotel managers to fully perform the duties agreed to in our management agreements could adversely affect our results of operations. In addition, our hotel managers manage, and in some cases own or have invested in, hotels that compete with our hotels, which may result in conflicts of interest. As a result, our managers have in the past made and may in the future make decisions regarding competing lodging facilities that are not or would not be in our best interests.

The terms of our debt place restrictions on us and our subsidiaries, reducing operational flexibility and creating default risks. The documents governing the terms of the senior notes and credit facility of the operating partnership contain covenants that place restrictions on us and our subsidiaries. The activities upon which such restrictions exist include, but are not limited to:

- acquisitions, mergers and consolidations;
- the incurrence of additional debt;
- the creation of liens;
- the sale of assets;
- capital expenditures;
- raising capital from the issuance of certain types of mandatorily redeemable capital stock;
- the payment of dividends; and
- transactions with affiliates.

In addition, certain covenants in the credit facility of the operating partnership require it and our other subsidiaries to meet financial performance tests. The restrictive covenants in the indenture, the credit facility and the documents governing our other debt (including our mortgage debt) will reduce our flexibility in conducting our operations and will limit our ability to engage in activities that may be in our long-term best interest. The operating partnership's failure to comply with these restrictive covenants could result in an event of default that, if not cured or waived, could result in the acceleration of all or a substantial portion of our debt.

Our mortgage debt contains provisions that may reduce our liquidity. Certain of our mortgage debt requires that, to the extent cash flow from the hotels which secure such debt drops below stated levels, we escrow cash flow after the payment of debt service until operations improve above the stated levels. In some cases, the escrowed amount may be applied to the outstanding balance of the mortgage debt. When such provisions are triggered, there can be no assurance that the affected properties will achieve the minimum cash flow levels required to trigger a release of any escrowed funds. The amounts required to be escrowed may be material and may negatively affect our liquidity by limiting our access to cash flow after debt service from these mortgaged properties.

Our future cash distributions on preferred and common stock may be limited by the terms of our indebtedness and in addition, our ability to pay dividends on our common stock may be further limited by the terms of our preferred stock. Under the terms of our credit facility and our senior notes indenture, distributions to us by the operating partnership, which we depend upon in order to obtain the cash necessary to pay dividends, are permitted only to the extent that, at the time of the distributions, the operating partnership can satisfy certain financial covenant tests and meet other requirements. For example, to make distributions to us, the operating partnership must in general have a consolidated coverage ratio (measuring the pro forma ratio of its consolidated EBITDA to its consolidated interest expense) of 2.0 to 1.0 or greater. In addition, the aggregate amount of all of our debt, not including our Convertible Preferred Securities, must be less than or equal to 65% of our total assets plus accumulated depreciation. If it fails to meet these requirements, the operating partnership will only be able to make cash distributions to us, subject to compliance with certain other requirements, in the amounts required to maintain our qualification as a REIT. We are currently required to distribute to our stockholders at least 90% of our taxable income to maintain our status as a REIT. As of December 31, 2003, we remained under the 2.0 to 1.0 EBITDA-to-interest coverage ratio. Accordingly, we will be able to pay dividends only to the extent that we have taxable income and are required to make distributions to maintain our status as a REIT.

Under the terms of each of our class A, class B and class C cumulative redeemable preferred stock, we are not permitted to pay dividends on our common stock unless cumulative dividends have been paid (or funds for payment have been set aside for payment) on each such class of preferred stock. Therefore, our ability to pay a dividend on our common stock is subject to our having previously paid all cumulative dividends accrued on our outstanding classes of preferred stock. Our ability to pay dividends on our preferred and common stock is also limited by the terms of our Convertible Preferred Securities.

The payment of any dividends on either common or preferred shares depends on operating performance and its impact on current and prior year taxable income and whether our EBITDA-to-interest ratio is below 2.0 to 1.0 coverage for the fiscal year. We cannot provide assurance that our operations will be sufficient to permit us to pay a dividend on our common stock or preferred stock.

Rating Agency downgrades may increase our cost of capital. Both our senior notes and our preferred stock are rated by independent rating agencies, such as Moody’s and Standard & Poor’s. These rating agencies may elect to downgrade their ratings on our corporate debt and our preferred stock at any time. These downgrades negatively affect our access to the capital markets and increase our cost of capital.

Our management agreements could impair the sale or financing of our hotels. Under the terms of our management agreements, we generally may not sell, lease or otherwise transfer the hotels unless the transferee is not a competitor of the manager and the transferee assumes the related management agreements and meets specified other conditions. Our ability to finance or sell any of the properties, depending upon the structure of such transactions, may require the manager’s consent. If, in these circumstances, the manager does not consent, we would be prohibited from taking actions in our best interest without breaching the management agreement.

The acquisition contracts relating to some hotels limit our ability to sell or refinance those hotels. For reasons relating to tax considerations of the former and current owners of nine hotels, we have agreed to restrictions on selling the hotels, or repaying or refinancing the mortgage debt for varying periods depending on the hotel. We have also agreed not to sell more than 50% of the original allocated value attributable to the former owners of a portfolio of 11 additional hotels, or to take other actions that would result in the recognition and allocation of gain to the former owners of such hotels for income tax purposes. We anticipate that, in specified 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 these hotels or repay or otherwise reduce the level of the mortgage debt on such hotels, it may be difficult or costly to do so during their respective lock-out periods.

We may be unable to sell properties 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. The inability to respond promptly to changes in the performance of our investments could adversely affect our financial condition and our ability to service our debt. In addition, there are limitations under the federal tax laws applicable to REITs that may limit our ability to recognize the full economic benefit from a sale of our assets.

We depend on our key personnel. Our success depends on the efforts of our executive officers and other key personnel. None of our key personnel have employment agreements and we do not maintain key person life insurance for any of our executive officers. We cannot assure you that these key personnel will remain employed by us. 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 financial performance.

Litigation judgments or settlements could have a material adverse effect on our financial condition. We are a party to various lawsuits, including lawsuits relating to our conversion into a REIT. While we and the other defendants to such lawsuits believe all of the lawsuits in which we are a defendant are without merit and we are vigorously defending against such claims, we can give no assurance as to the outcome of any of the lawsuits. If any of the lawsuits were to be determined adversely to us or a settlement involving a payment of a material sum of money were to occur, there could be a material adverse effect on our financial condition.

We may acquire hotel properties through joint ventures with third parties that could result in conflicts. 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. For example, we entered into a joint venture with Marriott International that owns two limited partnerships holding, in the aggregate, 120 Courtyard by Marriott hotels. Subsidiaries of Marriott International manage these Courtyard by Marriott hotels and other subsidiaries of Marriott International serve as ground lessors and mezzanine lender to the partnerships. Actions by a co-venturer could subject the assets to additional risk, including:

- our co-venturer in an investment might have economic or business interests or goals that are inconsistent with our, or the joint venture's, interests or goals;
- our co-venturer may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives; or
- our co-venturer could go bankrupt, leaving us liable for its share of joint venture liabilities.

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.

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 the 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 the 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 be costly. Our hotels are subject to various other forms of regulation, including Title III of the Americans with Disabilities Act, building codes and regulations pertaining to fire safety. Compliance with those laws and regulations could require substantial capital expenditures. These regulations may be changed from time to time, or new regulations adopted, resulting in additional costs of compliance, including potential litigation. Any increased costs could have a material adverse effect on our business, financial condition or results of operations.

Future terrorist attacks or changes in terror alert levels could adversely affect us. Previous terrorist attacks in the United States have adversely affected the travel and hospitality industries, including the full-service portion of the hotel industry. The impact which terrorist attacks in the United States or elsewhere could have on our business in particular and the U.S. economy, the global economy and global financial markets in general is indeterminable. It is possible that such attacks or the threat of such attacks could have a material adverse effect on our business, our ability to finance our business, our ability to insure our properties and on our results of operations and financial condition as a whole.

Some potential losses are not covered by insurance. We carry comprehensive insurance coverage for general liability, property, business interruption and other risks with respect to all of our hotels and other properties. These policies offer coverage features and insured limits that we believe are customary for similar type properties. Generally, our “all-risk” property policies provide that coverage is available on a per occurrence basis and that, for each occurrence, there is an overall limit as well as various sub-limits on the amount of insurance proceeds we can receive. Sub-limits exist for certain types of claims such as service interruption, abatement, earthquakes, expediting costs or landscaping replacement, and the dollar amounts of these sub-limits are significantly lower than the dollar amounts of the overall coverage limit. Our property policies also provide that all of the claims from each of our properties resulting from a particular insurable event must be combined together for purposes of evaluating whether the aggregate limits and sub-limits contained in our policies have been exceeded and, in the case of our hotels where the manager provides this coverage, any such claims will also be combined with the claims of other owners participating in the managers’ program for the same purpose. That means that, if an insurable event occurs that affects more than one of our hotels, or, in the case of hotels where coverage is provided by the management company, affects hotels owned by others, the claims from each affected hotel will be added together to determine whether the aggregate limit or sub-limits, depending on the type of claim, have been reached and each affected hotel will only receive a proportional share of the amount of insurance proceeds provided for under the policy. We may incur losses in excess of insured limits and, as a result, we may be even less likely to receive sufficient coverage for risks that affect multiple properties such as earthquakes or certain types of terrorism.

In addition, there are other risks such as war, certain forms of terrorism such as nuclear, biological or chemical terrorism and some environmental hazards that may be deemed to fall completely outside the general coverage limits of our policies or may be uninsurable or may be too expensive to justify insuring against. If any such risk were to materialize and materially adversely affect one or more of our properties, we would likely not be able to recover our losses.

We may also encounter challenges with an insurance provider regarding whether it will pay a particular claim that we believe to be covered under our policy. Should a loss in excess of insured limits or an uninsured loss occur or should we be unsuccessful in obtaining coverage from an insurance carrier, we could lose all, or a portion of, the capital we have invested in a property, as well as the anticipated future revenue from the hotel. In that event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property.

We may not be able to recover fully under our existing terrorism insurance for losses caused by some types of terrorist acts, and federal terrorism legislation does not ensure that we will be able to obtain terrorism insurance in adequate amounts or at acceptable premium levels in the future. As a result of the September 11, 2001 terrorist attacks, most insurers ceased to offer terrorism coverage in conjunction with “all-risk” property policies (described below), and the main source of property terrorism coverage became separate “standalone” terrorism insurance policies offering limited coverage amounts with high premium levels. We have procured such standalone terrorism coverage, which is subject to annual aggregate limits which fall below the full replacement cost of certain high value properties, and with more limited coverage than the all-risk program shared among various hotels.

On November 26, 2002, the Federal Terrorism Risk Insurance Act of 2002 (TRIA) required all-risk and liability insurers who had excluded or limited terrorism coverage to remove the exclusion in exchange for requiring insureds to pay an additional premium for the coverage within a specified time period. Because our liability policies generally offered terrorism coverage, TRIA mainly impacts our all-risk insurance.

We, through Marriott International and our broker for certain of our non-Marriott International properties, purchased the additional TRIA terrorism coverage. The original standalone policies were allowed to expire. This terrorism coverage, compared to standalone coverage, offers the higher limits and more comprehensive coverage associated with our all-risk programs. However, as noted above, the all-risk program also has limitations such as per occurrence limits and sublimits which might have to be shared proportionally across participating hotels under certain loss scenarios. All-risk insurers also only have to provide TRIA-related coverage for "certified" acts of terrorism—namely those which are committed on behalf of non-United States persons or interests. Further, we do not have full replacement coverage at all of our properties for acts of terrorism committed on behalf of United States persons or interests, as our coverage for such incidents is limited to that provided by a new standalone program, or an endorsement to the policy covering our non-Marriott properties, and their aggregate limits. In addition, property damage related to war and to nuclear incidents is excluded under our standalone terrorism policy. The all-risk policy also excludes coverage for chemical and biological incidents, and it is unclear whether these incidents would be covered under our other standalone policy. While TRIA will reimburse insurers for losses resulting from nuclear, biological and chemical perils, TRIA does not require insurers to offer coverage for these perils and, to date, insurers are not willing to provide this coverage, even with government reinsurance. In addition, TRIA terminates on December 31, 2005, and there is no guarantee that the terrorism coverage that it mandates will be readily available or affordable thereafter. As a result of the above, there remains considerable uncertainty regarding the extent and adequacy of terrorism coverage that will be available to protect our interests in the event of future terrorist attacks that impact our properties.

Risks of Ownership of our Common Stock

There are limitations on the acquisition of our common stock and changes in control. Our charter and bylaws, the partnership agreement of the operating partnership, our stockholder rights plan and the Maryland General Corporation Law contain a number of provisions, the exercise of which could delay, defer or prevent a transaction or a change in control of us that might involve a premium price for our stockholders or otherwise be in their best interests, including the following:

- **Ownership limit.** The 9.8% ownership limit described under "Risk Factors—Risks of Ownership of our Common Stock—There are possible adverse consequences of limits on ownership of our common stock" may have the effect of precluding a change in control of us by a third party without the consent of our Board of Directors, even if the change in control would be in the interest of our stockholders, and even if the change in control would not reasonably jeopardize our real estate investment trust, or "REIT," status.
- **Staggered board.** Our charter provides that our number of directors may be increased or decreased according to our bylaws, provided that the total number of directors is not less than three nor more than 13. Pursuant to our bylaws, the number of directors will be fixed by our Board of Directors within the limits in our charter. Our Board of Directors is divided into three classes of directors. Directors for each class are chosen for a three-year term when the term of the current class expires. The staggered terms for directors may affect stockholders' ability to effect a change in control of us, even if a change in control would be in the interest of our stockholders. Currently, there are seven directors.
- **Removal of board of directors.** Our charter provides that, except for any directors who may be elected by holders of a class or series of shares of capital stock other than our common stock, directors may be removed only for cause and only by the affirmative vote of stockholders holding at least two-thirds of all the votes entitled to be cast for the election of directors. Vacancies on the Board of Directors may be filled by the concurring vote of a majority of the remaining directors and, in the case of a vacancy resulting from the removal of a director by the stockholders, by at least two-thirds of all the votes entitled to be cast in the election of directors.
- **Preferred shares; classification or reclassification of unissued shares of capital stock without stockholder approval.** Our charter provides that the total number of shares of stock of all classes that we have authority to issue is 800,000,000, initially consisting of 750,000,000 shares of common stock

and 50,000,000 shares of preferred stock, of which 14,173,182 shares of preferred stock were issued and outstanding as of December 31, 2003. Our Board of Directors has the authority, without a vote of stockholders, to classify or reclassify any unissued shares of stock, including common stock into preferred stock or vice versa, and to establish the preferences and rights of any preferred or other class or series of shares to be issued. The issuance of preferred shares or other shares having special preferences or rights could delay, defer or prevent a change in control even if a change in control would be in the interests of our stockholders. Because our Board of Directors has the power to establish the preferences and rights of additional classes or series of shares without a stockholder vote, our Board of Directors may give the holders of any class or series preferences, powers and rights, including voting rights, senior to the rights of holders of our common stock.

- **Consent rights of the limited partners.** Under the partnership agreement of the operating partnership, we generally will be able to merge or consolidate with another entity with the consent of partners holding limited percentage interests that are more than 50% of the aggregate percentage interests of the outstanding limited partnership interests entitled to vote on the merger or consolidation, including any limited partnership interests held by us, as long as the holders of limited partnership interests either receive or have the right to receive the same consideration as our stockholders. We, as holder of a majority of the limited partnership interests, would be able to control the vote. Under our charter, holders of at least two-thirds of our outstanding shares of common stock generally must approve the merger or consolidation.
- **Maryland business combination law.** Under the Maryland General Corporation Law, specified “business combinations,” including specified issuances of equity securities, between a Maryland corporation and any person who owns 10% or more of the voting power of the corporation’s then outstanding shares, or an “interested stockholder,” or an affiliate of the interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. Thereafter, any of these specified business combinations must be approved by 80% of the votes entitled to be cast by the holders of outstanding voting shares and by two-thirds of the votes entitled to be cast by the holders of voting shares other than voting shares held by an interested stockholder unless, among other conditions, the corporation’s common stockholders receive a minimum price, as defined in the Maryland General Corporation Law, for their shares and the consideration is received in cash or in the same form as previously paid by the interested stockholder. We are subject to the Maryland business combination statute.
- **Maryland control share acquisition law.** Under the Maryland General Corporation Law, “control shares” acquired in a “control share acquisition” have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares owned by the acquiror, by officers or by directors who are employees of the corporation. “Control shares” are voting shares which, if aggregated with all other voting shares previously acquired by the acquiror or over which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power: (1) one-tenth or more but less than one-third, (2) one-third or more but less than a majority or (3) a majority or more of the voting power. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A “control share acquisition” means the acquisition of control shares, subject to specified exceptions. We are subject to these control share provisions of Maryland law.
- **Merger, consolidation, share exchange and transfer of our assets.** Pursuant to our charter, subject to the terms of any outstanding class or series of capital stock, we can merge with or into another entity, consolidate with one or more other entities, participate in a share exchange or transfer our assets within the meaning of the Maryland General Corporation Law if approved (1) by our Board of Directors in the manner provided in the Maryland General Corporation Law and (2) by our stockholders holding two-thirds of all the votes entitled to be cast on the matter, except that any merger of us with or into a trust organized for the purpose of changing our form of organization from a corporation to a trust requires

only the approval of our stockholders holding a majority of all votes entitled to be cast on the merger. Under the Maryland General Corporation Law, specified mergers may be approved without a vote of stockholders and a share exchange is only required to be approved by a Maryland corporation by its Board of Directors if the corporation is the successor. Our voluntary dissolution also would require approval of stockholders holding two-thirds of all the votes entitled to be cast on the matter.

- **Amendments to our charter and bylaws.** Our charter contains provisions relating to restrictions on transferability of our common stock, the classified Board of Directors, fixing the size of our Board of Directors within the range set forth in our charter, removal of directors and the filling of vacancies, all of which may be amended only by a resolution adopted by the Board of Directors and approved by our stockholders holding two-thirds of the votes entitled to be cast on the matter. Amendments of this provision of our charter also would require action of our Board of Directors and approval by stockholders holding two-thirds of all the votes entitled to be cast on the matter. As permitted under the Maryland General Corporation Law, our bylaws provide that directors have the exclusive right to amend our bylaws.

- **Stockholder rights plan.** We adopted a stockholder rights plan which provides, among other things, that when specified events occur, our stockholders will be entitled to purchase from us a newly created class or series of junior preferred shares, subject to our ownership limit described below. The preferred share purchase rights are triggered by the earlier to occur of (1) ten days after the date of a public announcement that a person or group acting in concert has acquired, or obtained the right to acquire, beneficial ownership of 20% or more of our outstanding shares of common stock or (2) ten business days after the commencement of or announcement of an intention to make a tender offer or exchange offer, the consummation of which would result in the acquiring person becoming the beneficial owner of 20% or more of our outstanding common stock. The exercise of the preferred share purchase rights would cause substantial dilution to a person or group that attempts to acquire us on terms not approved by our Board of Directors.

There are possible adverse consequences of limits on ownership of our common stock. To maintain our qualification as a REIT for federal income tax purposes, not more than 50% in value of our outstanding shares of capital stock may be owned, directly or indirectly, by five or fewer individuals, as defined in the Internal Revenue Code to include some entities. In addition, a person who owns, directly or by attribution, 10% or more of an interest in a tenant of ours, or a tenant of any partnership in which we are a partner, cannot own, directly or by attribution, 10% or more of our shares without jeopardizing our qualification as a REIT. Primarily to facilitate maintenance of our qualification as a REIT for federal income tax purposes, the ownership limit under our charter prohibits ownership, directly or by virtue of the attribution provisions of the Internal Revenue Code, by any person or persons acting as a group, of more than 9.8% of the issued and outstanding shares of our common stock, subject to an exception for shares of our common stock held prior to our conversion into a REIT (referred to as the “REIT conversion”) so long as the holder would not own more than 9.9% in value of our outstanding shares after the REIT conversion, and prohibits ownership, directly or by virtue of the attribution provisions of the Internal Revenue Code, by any person, or persons acting as a group, of more than 9.8% of the issued and outstanding shares of any class or series of our preferred shares. Together, these limitations are referred to as the “ownership limit.”

Our Board of Directors, in its sole and absolute discretion, may waive or modify the ownership limit with respect to one or more persons who would not be treated as “individuals” for purposes of the Internal Revenue Code if the Board of Directors is satisfied, based upon information required to be provided by the party seeking the waiver and, if it determines necessary or advisable, upon an opinion of counsel satisfactory to our Board of Directors, that ownership in excess of this limit will not cause a person who is an individual to be treated as owning shares in excess of the ownership limit, applying the applicable constructive ownership rules, and will not otherwise jeopardize our status as a REIT for federal income tax purposes (for example, by causing any of our tenants to be considered a “related party tenant” for purposes of the REIT qualification rules). Common stock acquired or held in violation of the ownership limit will be transferred automatically to a trust for the benefit of a designated charitable beneficiary, and the person who acquired the common stock in violation of the ownership limit will not be entitled to any distributions thereon, to vote those shares of common stock or to receive any proceeds from the subsequent sale of the common stock in excess of the lesser of the price paid for the common stock or the amount realized from the sale. A transfer of shares of our common stock to a person who, as a result of the transfer, violates the ownership limit may be void under certain circumstances, and, in any event, would deny that person any of the economic benefits of owning shares of our common stock in excess of the ownership limit. The ownership limit may have the effect of delaying, deferring or preventing a change in control and, therefore, could adversely affect the stockholders' ability to realize a premium over the then-prevailing market price for our common stock in connection with such transaction.

Shares of our common stock that are or become available for sale could affect the price for shares of our common stock. Sales of a substantial number of shares of our common stock, or the perception that sales could occur, could adversely affect prevailing market prices for our common stock. In addition, holders of units of limited partnership interest in the operating partnership (referred to as "OP Units"), whose OP Units are redeemed by the operating partnership in exchange for common stock, will be able to sell those shares freely, unless the person is our affiliate and resale of the affiliate's shares is not covered by an effective registration statement. As of December 31, 2003, there are approximately 23.5 million OP Units outstanding, all of which are currently redeemable. Further, a substantial number of shares of our common stock have been and will be issued or reserved for issuance from time to time under our employee benefit plans, including shares of our common stock reserved for options, and these shares of common stock would be available for sale in the public markets from time to time pursuant to exemptions from registration or upon registration. Moreover, additional shares of our common stock issued by us would be available in the future for sale in the public markets. We can make no prediction about the effect that future sales of our common stock would have on the market price of our common stock.

Our earnings and cash distributions will affect the market price of shares of our common stock. 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 and its current and potential future cash distributions, whether from operations, sales, acquisitions, development or refinancings, and is secondarily based upon the value of the underlying assets. For that reason, shares of 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 rather than distributing the cash flow to stockholders, these retained funds, while increasing the value of our underlying assets, may negatively impact the market price of our common stock. Our failure to meet the market's expectation with regard to future earnings and cash distributions would likely adversely affect the market price of our common stock.

Market interest rates may affect the price of shares of our common stock. We believe that one of the factors that investors consider important in deciding whether to buy or sell shares of a REIT is the distribution rate on the shares, considered as a percentage of the price of the shares, relative to market interest rates. If market interest rates increase, prospective purchasers of REIT shares may expect a higher distribution rate. Thus, higher market interest rates could cause the market price of our shares to go down.

Federal Income Tax Risks

Recent changes in taxable of corporate dividends may adversely affect the value of our stock. While corporate dividends have traditionally been taxed at ordinary income rates, dividends received by individuals through December 31, 2008 from regular C corporations generally will be taxed at the maximum capital gains tax rate of 15% as opposed to the maximum ordinary income tax rate of 35%. REIT dividends are not eligible for the lower capital gains rates, except in certain circumstances where the dividends are attributable to income that has been subject to corporate-level tax. While the earnings of a REIT that are distributed to its stockholders generally will be subject to less federal income taxation than earnings of a non-REIT C corporation that are distributed to its stockholders net of corporate-level income tax, this difference in the taxation of dividends could cause individual investors to view the stock of regular C corporations as more attractive relative to the stock of REITs. Individual investors could hold this view because the dividends from regular C corporations will generally be taxed at a lower rate while dividends from REITs will generally be taxed at the same rate as the individual's other ordinary income. We cannot predict what effect, if any, this difference in the taxation of dividends may have on the value of the stock of REITs, either in terms of price or relative to other potential investments.

To qualify as a REIT, we are required to distribute at least 90% of our taxable income, irrespective of our available cash or outstanding obligations. To continue to qualify as a REIT, we currently are required to distribute to our stockholders with respect to each year at least 90% of our taxable income, excluding net capital gain. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions made by us with respect to the calendar year are less than the sum of 85% of our ordinary income and 95% of our capital gain net income for that year and any undistributed taxable income from prior periods less excess distributions from prior years. We intend to make distributions, subject to the availability of cash and in compliance with any debt covenants, to our stockholders to comply with the distribution requirement and to avoid the nondeductible excise tax and will rely for this purpose on distributions from the operating partnership. However, there are differences in timing between our recognition of taxable income and our receipt of cash available for distribution due to, among other things, the seasonality of the lodging industry and the fact that some taxable income will be "phantom" income, which is taxable income that is not matched by cash flow to us. Due to some transactions entered into in years prior to the REIT conversion, we could recognize substantial amounts of "phantom" income. It is possible that these timing differences could require us to borrow funds or to issue additional equity to enable us to meet the distribution requirement and, therefore, to maintain our REIT status, and to avoid the nondeductible excise tax. In addition, because the REIT distribution requirements prevent us from retaining earnings, we will generally be required to refinance debt that matures with additional debt or equity. We cannot assure you that any of the sources of funds, if available at all, would be sufficient to meet our distribution and tax obligations.

Adverse tax consequences would apply if we failed to qualify as a REIT. We believe that we have been organized and have operated in such a manner so as to qualify as a REIT under the Internal Revenue Code, commencing with our taxable year beginning January 1, 1999, and we currently intend to continue to operate as a REIT during future years. No assurance can be provided, however, that we qualify as a REIT or that new legislation, treasury regulations, administrative interpretations or court decisions will not significantly change the tax laws with respect to our qualification as a REIT or the federal income tax consequences of our REIT qualification. If we fail to qualify as a REIT, we will not be allowed to take a deduction for distributions to stockholders in computing our taxable income, and we will be subject to Federal and state income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates. In addition, unless entitled to statutory relief, we would not qualify as a REIT for the four taxable years following the year during which REIT qualification is lost. Any determination that we do not qualify as a REIT would have a materially adverse effect on our results of operations and could reduce the value of our common stock materially. The additional tax liability to us for the year or years in which we did not qualify would reduce our net earnings available for investment, debt service or distribution to our stockholders. Furthermore, we would no longer be required to make any distributions to stockholders as a condition to REIT qualification and all of our distributions to stockholders would be taxable as regular corporate dividends to the extent of our current and accumulated earnings and profits, or "E&P." This means that stockholders taxed as individuals currently would be taxes on those dividends at capital gains rates and corporate stockholders generally would be entitled to the dividends received deduction with respect to such dividends, subject in each case, to applicable limitations under the Internal Revenue Code. Our failure to qualify as a REIT also would cause an event of default under our credit facility that could lead to an acceleration of the amounts due under the credit facility, which, in turn, would constitute an event of default under our outstanding debt securities.

We will be disqualified as a REIT at least for taxable year 1999 if we failed to distribute all of our E&P attributable to our non-REIT taxable years. In order to qualify as a REIT, we cannot have at the end of any taxable year any undistributed E&P that is attributable to one of our non-REIT taxable years. A REIT has until the close of its first taxable year as a REIT in which it has non-REIT E&P to distribute its accumulated

E&P. We were required to have distributed this E&P prior to the end of 1999, the first taxable year for which our REIT election was effective. If we failed to do this, we will be disqualified as a REIT at least for taxable year 1999. We believe that distributions of non-REIT E&P that we made were sufficient to distribute all of the non-REIT E&P as of December 31, 1999, but we cannot provide assurance that we met this requirement.

If our leases are not respected as true leases for Federal income tax purposes, we would fail to qualify as a REIT. To qualify as a REIT, we must satisfy two gross income tests, under which specified percentages of our gross income must be passive income, like rent. For the rent paid pursuant to the leases, which constitutes substantially all of our gross income, to qualify for purposes of the gross income tests, the leases must be respected as true leases for Federal income tax purposes and not be treated as service contracts, joint ventures or some other type of arrangement. In addition, the lessees must not be regarded as related party tenants, as defined in the Internal Revenue Code. We believe that the leases will be respected as true leases for federal income tax purposes. There can be no assurance, however, that the IRS will agree with this view. We also believe that Crestline, the lessee of substantially all of our full service hotels prior to January 1, 2001, was not a related party tenant and, as a result of changes in the tax laws effective January 1, 2001, HMT Lessee, LLC, or HMT Lessee, will not be treated as a related party tenant so long as it qualifies as a taxable REIT subsidiary. If the leases were not respected as true leases for federal income tax purposes or if the lessees were regarded as related party tenants, we would not be able to satisfy either of the two gross income tests applicable to REITs and we would lose our REIT status. See “Risk Factors—Federal Income Tax Risks—Adverse tax consequences would apply if we failed to qualify as a REIT” above.

If HMT Lessee LLC fails to qualify as a taxable REIT subsidiary, we would fail to qualify as a REIT. For our taxable years beginning on and after January 1, 2001, as a result of REIT tax law changes under the specific provisions of the Ticket to Work and Work Incentives Improvement Act of 1999, which we refer to as the “REIT Modernization Act,” we are permitted to lease our hotels to a subsidiary of the operating partnership that is taxable as a corporation and that elects to be treated as a taxable REIT subsidiary. Accordingly, HMT Lessee has directly or indirectly acquired all of the full-service hotel leasehold interests from third parties. So long as HMT Lessee and other affiliated lessees qualify as taxable REIT subsidiaries of ours, they will not be treated as “related party tenants.” We believe that HMT Lessee qualifies to be treated as a taxable REIT subsidiary for federal income tax purposes. We cannot assure you, however, that the IRS will not challenge its status as a taxable REIT subsidiary for federal income tax purposes, or that a court would not sustain such a challenge. If the IRS were successful in disqualifying HMT Lessee from treatment as a taxable REIT subsidiary, we would fail to meet the asset tests applicable to REITs and substantially all of our income would fail to qualify for the gross income tests and, accordingly, we would cease to qualify as a REIT. See “Risk Factors—Federal Income Tax Risks—Adverse tax consequences would apply if we failed to qualify as a REIT” above.

Despite our REIT status, we remain subject to various taxes, including substantial deferred and contingent tax liabilities. Notwithstanding our status as a REIT, we are subject, through our ownership interest in the operating partnership, to certain Federal, state, local and foreign taxes on our income and property. In addition, we will be required to pay Federal income tax at the highest regular corporate rate upon our share of any “built-in gain” recognized as a result of any sale before January 1, 2009, by the operating partnership of assets, including the hotels, in which interests were acquired by the operating partnership from our predecessor and its subsidiaries as part of the REIT conversion. Built-in gain is the amount by which an asset’s fair market value exceeded our adjusted basis in the asset on January 1, 1999, the first day of our first taxable year as a REIT. The total amount of gain on which we would be subject to corporate income tax if the assets that we held at the time of the REIT conversion were sold in a taxable transaction prior to January 1, 2009 would be material to us. In addition, at the time of the REIT conversion, we expected that we or Rockledge Hotel Properties, Inc. or Fernwood Hotel Assets, Inc., or Rockledge and Fernwood, respectively (each of which is a taxable corporation in which the operating partnership owned a 95% nonvoting interest and, as of April, 2001, acquired 100% of the voting interests and each of which, elected to be a taxable REIT subsidiary effective January 1, 2001), likely would recognize substantial built-in gain and deferred tax liabilities in the next ten years without any corresponding receipt of cash by us or the operating partnership. We may have to pay certain state income taxes because not all states treat REITs the same as they are treated for federal income tax purposes. We may also have to pay certain foreign taxes to the extent we own assets or conduct operations in foreign jurisdictions. The operating partnership is obligated under its partnership agreement to pay all such taxes (and any related interest and penalties) incurred by us, as well as any liabilities that the IRS or the tax authorities successfully may assert against us for corporate income taxes for taxable years prior to the time we qualified as a REIT. Our taxable REIT subsidiaries, including Rockledge, Fernwood and HMT Lessee, are taxable as corporations and will pay federal, state and local income tax on their net income at the applicable corporate rates, and foreign taxes to the extent they own assets or conduct operations in foreign jurisdictions.

If the IRS were to challenge successfully the operating partnership's status as a partnership for federal income tax purposes, we would cease to qualify as a REIT and suffer other adverse consequences. We believe that the operating partnership qualifies to be treated as a partnership for federal income tax purposes. As a partnership, it is not subject to federal income tax on its income. Instead, each of its partners, including us, is required to pay tax on its allocable share of the operating partnership's income. No assurance can be provided, however, that the IRS will not challenge its status as a partnership for federal income tax purposes, or that a court would not sustain such a challenge. If the IRS were successful in treating the operating partnership as a corporation for tax purposes, we would fail to meet the income tests and certain of the asset tests applicable to REITs and, accordingly, cease to qualify as a REIT. If the operating partnership fails to qualify as a partnership for federal income tax purposes or we fail to qualify as a REIT, either failure would cause an event of default under our credit facility that, in turn, could constitute an event of default under our outstanding debt securities. Also, the failure of the operating partnership to qualify as a partnership would cause it to become subject to federal and state corporate income tax, which would reduce significantly the amount of cash available for debt service and for distribution to its partners, including us. Finally, the classification of the operating partnership as a corporation would cause us to recognize gain at least equal to our "negative capital account," if any.

As a REIT, we are subject to limitations on our ownership of debt and equity securities. Subject to the exceptions discussed in this paragraph, a REIT is prohibited from owning securities in any one issuer to the extent that the value of those securities exceeds 5% of the value of the REIT's total assets or the securities owned by the REIT represent more than 10% of the issuer's outstanding voting securities or more than 10% of the value of the issuer's outstanding securities. A REIT is permitted to own securities of a subsidiary in an amount that exceeds the 5% value test and the 10% vote or value test if the subsidiary elects to be a "taxable REIT subsidiary," which is taxable as a corporation. However, a REIT may not own securities of taxable REIT subsidiaries that represent in the aggregate more than 20% of the value of the REIT's total assets.

Our taxable REIT subsidiaries are subject to special rules that may result in increased taxes. Several Internal Revenue Code provisions ensure that a taxable REIT subsidiary is subject to an appropriate level of federal income taxation. For example, a taxable REIT subsidiary is limited in its ability to deduct interest payments made to an affiliated REIT. In addition, the REIT has to pay a 100% penalty tax on some payments that it receives if the economic arrangements between the REIT and the taxable REIT subsidiary are not comparable to similar arrangements between unrelated parties.

We may be required to pay a penalty tax upon the sale of a hotel. The Federal income tax provisions applicable to REITs provide that any gain realized by a REIT on the sale of property held as inventory or other property held primarily for sale to customers in the ordinary course of business is treated as income from a "prohibited transaction" that is subject to a 100% penalty tax. Under existing law, whether property, including hotels, is held as inventory or primarily for sale to customers in the ordinary course of business is a question of fact that depends upon all of the facts and circumstances with respect to the particular transaction. The operating partnership intends that it and its subsidiaries will hold the hotels for investment with a view to long-term appreciation, to engage in the business of acquiring and owning hotels and to make occasional sales of hotels as are consistent with the operating partnership's investment objectives. We cannot assure you, however, that the IRS might not contend that one or more of these sales is subject to the 100% penalty tax.

Item 8. Financial Statements and Supplementary Data

The following financial information is included on the pages indicated:

Host Marriott Corporation

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Consolidated Statements of Operations for the Years Ended December 31, 2003, 2002 and 2001	63
Consolidated Statements of Shareholders' Equity and Comprehensive Income for the Years Ended December 31, 2003, 2002 and 2001	64
Consolidated Statements of Cash Flows for the Years Ended December 31, 2003, 2002 and 2001	65
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Independent Auditors' Report

The Board of Directors and Shareholders
Host Marriott Corporation:

We have audited the accompanying consolidated balance sheets of Host Marriott Corporation and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2003. In connection with our audits of the consolidated financial statements, we have also audited the financial statement Schedule III as listed in the index as Item 15(a)(ii). These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The Company adopted Statement of Financial Accounting Standards No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets," in 2002*.

KPMG LLP

McLean, Virginia
February 23, 2004

HOST MARRIOTT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2003 and 2002
(in millions)

	2003	2002
ASSETS		
Property and equipment, net	$ 7,085	$ 7,031
Assets held for sale	73	—
Notes and other receivables	54	53
Due from managers	62	82
Investments in affiliates	74	133
Other assets	364	552
Restricted cash	116	104
Cash and cash equivalents	764	361
Total assets	$ 8,592	$ 8,316
LIABILITIES AND SHAREHOLDERS' EQUITY		
Debt		
Senior notes	$ 3,180	$ 3,247
Mortgage debt	2,205	2,289
Other	101	102
	5,486	5,638
Accounts payable and accrued expenses	108	118
Liabilities associated with assets held for sale	2	—
Other liabilities	166	252
Total liabilities	5,762	6,008
Interest of minority partners of Host LP	130	131
Interest of minority partners of other consolidated partnerships	89	92
Company-obligated mandatorily redeemable convertible preferred securities of a subsidiary whose sole assets are convertible subordinated debentures due 2026 ("Convertible Preferred Securities")	475	475
Shareholders' equity		
Cumulative redeemable preferred stock (liquidation preference $354 million), 50 million shares authorized; 14.1 million shares issued and outstanding	339	339
Common stock, par value $.01, 750 million shares authorized; 320.3 million shares and 263.7 million shares issued and outstanding, respectively	3	3
Additional paid-in capital	2,617	2,100
Accumulated other comprehensive income (loss)	28	(2)
Deficit	(851)	(830)
Total shareholders' equity	2,136	1,610
	$ 8,592	$ 8,316

See Notes to Consolidated Financial Statements.

HOST MARRIOTT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2003, 2002 and 2001
(in millions, except per common share amounts)

	2003	2002	2001
REVENUES			
Rooms	$ 2,014	$ 2,073	$ 2,085
Food and beverage	1,095	1,096	1,062
Other	227	246	273
Total hotel sales	3,336	3,415	3,420
Rental income	100	101	136
Other income	12	—	2
Total revenues	3,448	3,516	3,558
OPERATING COSTS AND EXPENSES			
Rooms	508	508	499
Food and beverage	823	811	792
Hotel departmental expenses	934	905	883
Management fees	138	156	171
Other property-level expenses	301	294	291
Depreciation and amortization	367	358	346
Corporate and other expenses	61	47	51
Lease repurchase expense	—	—	5
Total operating costs and expenses	3,132	3,079	3,038
OPERATING PROFIT	316	437	520
Interest income	11	20	36
Interest expense	(491)	(462)	(455)
Net gains on property transactions	5	5	6
Loss on foreign currency and derivative contracts	(19)	(2)	—
Minority interest expense	(5)	(7)	(23)
Equity in earnings (losses) of affiliates	(22)	(9)	3
Dividends on Convertible Preferred Securities	(32)	(32)	(32)
INCOME (LOSS) BEFORE INCOME TAXES	(237)	(50)	55
Benefit from (provision for) income taxes	12	(4)	(9)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(225)	(54)	46
Income from discontinued operations	239	38	5
NET INCOME (LOSS)	14	(16)	51
Less: Dividends on preferred stock	(35)	(35)	(32)
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	$ (21)	$ (51)	$ 19
BASIC EARNINGS (LOSS) PER COMMON SHARE:			
Continuing operations	$ (.92)	$ (.34)	$ .06
Discontinued operations	.85	.15	.02
BASIC EARNINGS (LOSS) PER COMMON SHARE	$ (.07)	$ (.19)	$ .08
DILUTED EARNINGS (LOSS) PER COMMON SHARE			
Continuing operations	$ (.92)	$ (.34)	$ .06
Discontinued operations	.85	.15	.02
DILUTED EARNINGS (LOSS) PER COMMON SHARE	$ (.07)	$ (.19)	$ .08

See Notes to Consolidated Financial Statements.

HOST MARRIOTT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
Years Ended December 31, 2003, 2002 and 2001
(in millions)

Shares Outstanding								
Preferred	Common		Preferred Stock	Common Stock	Additional Paid-in Capital	Deficit	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
8.1	218.8	Balance, December 31, 2000	$ 196	$ 2	$ 1,824	$ (600)	$ (1)	
—	—	Net income	—	—	—	51	—	$ 51
—	—	Other comprehensive income (loss):						
		Foreign currency translation adjustment	—	—	—	—	(5)	(5)
—	—	Foreign currency forward contracts	—	—	—	—	2	2
—	—	Unrealized gain on HM Services common stock to net income	—	—	—	—	(1)	(1)
—	—	Comprehensive income						$ 47
—	.5	Common stock issued for the comprehensive stock and employee stock purchase plans	—	—	5	—	—	
6.0	—	Issuance of preferred stock	143	—	—	—	—	
—	—	Dividends on common stock	—	—	—	(198)	—	
—	—	Dividends on preferred stock	—	—	—	(32)	—	
—	42.1	Redemptions of limited partner interests for common stock	—	1	222	—	—	
14.1	261.4	Balance, December 31, 2001	339	3	2,051	(779)	(5)	
—	—	Net loss	—	—	—	(16)	—	$ (16)
—	—	Other comprehensive income (loss):						
		Foreign currency translation adjustment	—	—	—	—	2	2
—	—	Foreign currency forward contracts	—	—	—	—	2	2
—	—	Unrealized gain on HM Services common stock to net income	—	—	—	—	(1)	(1)
—	—	Comprehensive income						$ (13)
—	.5	Common stock issued for the comprehensive stock and employee stock purchase plans	—	—	8	—	—	
—	—	Dividends on preferred stock	—	—	—	(35)	—	
—	1.8	Redemptions of limited partner interests for common stock	—	—	13	—	—	
—	—	Issuance of OP Units for limited partner interests	—	—	28	—	—	
14.1	263.7	Balance, December 31, 2002	339	3	2,100	(830)	(2)	
—	—	Net income	—	—	—	14	—	$ 14
—	—	Other comprehensive income (loss):						
		Foreign currency translation adjustment	—	—	—	—	34	34
—	—	Foreign currency forward contracts	—	—	—	—	(23)	(23)
—	—	Realized loss on foreign currency forward contracts	—	—	—	—	18	18
—	—	Unrealized gain on HM Services common stock to net income	—	—	—	—	1	1
—	—	Comprehensive income						$ 44
—	1.4	Common stock issued for the comprehensive stock and employee stock purchase plans	—	—	9	—	—	
—	—	Dividends on preferred stock	—	—	—	(35)	—	
—	4.2	Redemptions of limited partner interests for common stock	—	—	23	—	—	
—	51.0	Issuance of common stock	—	—	485	—	—	
14.1	320.3	Balance, December 31, 2003	$ 339	$ 3	$ 2,617	$ (851)	$ 28	

See Notes to Consolidated Financial Statements.

HOST MARRIOTT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2003, 2002 and 2001
(in millions)

	2003	2002	2001
OPERATING ACTIVITIES			
Net income (loss)	$ 14	$ (16)	$ 51
Adjustments to reconcile to cash provided by operations:			
Discontinued operations:			
(Gain) loss on dispositions	(65)	(13)	—
Depreciation	11	14	32
Depreciation and amortization	367	358	346
Amortization of deferred financing costs	17	16	22
Income taxes	(33)	4	(15)
Net gains on property transactions	(5)	(5)	(6)
Equity in (earnings) losses of affiliates	22	9	(3)
Purchase of leases	—	—	(208)
Minority interest expense	5	7	23
Return of working capital from Marriott International	—	50	—
Changes in other assets	59	22	47
Changes in other liabilities	(19)	(66)	—
Cash provided by operations	373	380	289
INVESTING ACTIVITIES			
Proceeds from sales of assets, net	184	—	60
Disposition of World Trade Center hotel	185	—	—
Acquisitions	(324)	(117)	(63)
Capital expenditures:			
Renewals and replacements	(181)	(146)	(206)
Development	(12)	(11)	(56)
Other investments	(8)	(23)	(24)
Return of escrow funds from Marriott International	—	75	—
Notes receivable collections, net	—	—	10
Cash used in investing activities	(156)	(222)	(279)
FINANCING ACTIVITIES			
Issuances of debt	813	—	980
Financing costs	(16)	(8)	(12)
Debt prepayments	(1,007)	(13)	(703)
Scheduled principal repayments	(52)	(63)	(55)
Issuances of common stock	501	1	3
Issuances of cumulative redeemable preferred stock, net	—	—	143
Dividends on common stock	—	—	(256)
Dividends on preferred stock	(35)	(35)	(28)
Distributions to minority interests	(6)	(18)	(59)
Purchase of interest rate cap	—	(3)	—
Change in restricted cash	(12)	(10)	16
Cash provided by (used in) financing activities	186	(149)	29
INCREASE IN CASH AND CASH EQUIVALENTS	403	9	39
CASH AND CASH EQUIVALENTS, beginning of year	361	352	313
CASH AND CASH EQUIVALENTS, end of year	$ 764	$ 361	$ 352

See Notes to Consolidated Financial Statements.

Supplemental schedule of noncash investing and financing activities:

During 2003, 2002 and 2001, we issued 56.6 million, 2.3 million and 42.6 million shares of common stock, respectively. Of the shares issued, approximately 4.2 million, 1.8 million and 42.1 million shares of common stock, respectively, were issued for 2003, 2002 and 2001 upon the conversion of operating partnership units, or OP Units, of Host Marriott, L.P. held by minority partners valued at $41 million, $21 million and $547 million, respectively.

Of the 2.3 million shares of common stock issued during 2002, 1.1 million shares were issued to acquire additional interests in the partnership owning the San Diego Marriott Hotel and Marina. This transaction resulted in an increase of $10.5 million to property and equipment and equity to reflect the fair value of the interests acquired. During April 2002, in a separate transaction, our ownership percentage in the San Diego partnership increased to 90% when the minority partners in the San Diego partnership exchanged their interests for approximately 6.9 million OP Units. The transaction resulted in an increase of $56.1 million in property and equipment and a corresponding increase in minority interest liability to reflect the fair value of the interests acquired.

During January 2002, we transferred the St. Louis Marriott Pavilion to the mortgage lender. We recorded the difference between the debt extinguished, the deferred incentive management fees forgiven and the fair value of the assets surrendered of $22 million, net of tax expense of $9 million, as discontinued operations.

On June 14, 2002, we acquired the Boston Marriott Copley Place in Boston, Massachusetts for a purchase price of $214 million, including the assumption of $97 million in mortgage debt.

During June 2003, we acquired the remaining general partner interest and the preferred equity interest held by outside partners in the JW Marriott in Washington, D.C. for approximately $3 million. We also became the sole limited partner after the partnership foreclosed on a note receivable from the other limited partner. As a result, we began consolidating the partnership and recorded $95 million of mortgage debt secured by the hotel and property and equipment of $131 million.

See Notes to Consolidated Financial Statements.

1. Summary of Significant Accounting Policies

Description of Business

Host Marriott Corporation, a Maryland corporation, operating through an umbrella partnership structure, is primarily the owner of hotel properties. We operate as a self-managed and self-administered real estate investment trust, or REIT, with our operations conducted solely through an operating partnership, Host Marriott, L.P., or Host LP, or the operating partnership, and its subsidiaries. We are the sole general partner of Host LP and as of December 31, 2003, own approximately 93% of the partnership interests, which are referred to as OP Units.

As of December 31, 2003, we owned, or had controlling interests in, 117 upper-upscale and luxury, full-service hotel lodging properties generally located throughout the United States, Canada and Mexico operated primarily under the Marriott, Ritz-Carlton, Four Seasons, Hyatt and Hilton brand names. Of these properties, 93 are managed or franchised by Marriott International, Inc. and its subsidiaries or Marriott International.

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries and controlled affiliates. We consolidate entities (in the absence of other factors determining control) when we own over 50% of the voting shares of another company or, in the case of partnership investments, when we own a majority of the general partnership interest. The control factors we consider include the ability of minority shareholders or other partners to participate in or block management decisions. Additionally, if we determine that we are an owner in a variable interest entity within the meaning of the Financial Accounting Standards Board, or FASB, revision to Interpretation No. 46, “Consolidation of Variable Interest Entities” and that our variable interest will absorb a majority of the entity’s expected losses if they occur, receive a majority of the entity’s expected residual returns if they occur, or both, then we will consolidate the entity. All material intercompany transactions and balances have been eliminated, including the dividends and related transactions for our Class D Cumulative Redeemable Preferred Stock held by one of our wholly-owned subsidiaries.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, 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.

Accounting for the Impact of the September 11, 2001 Terrorist Acts

On December 3, 2003, we settled all outstanding issues related to the terrorist attacks of September 11, 2001 with our insurer, Marriott International, Inc. and the Port Authority of New York and New Jersey for the New York Marriott World Trade Center and Financial Center hotels and received net proceeds of approximately $372 million, of which $65 million was used to repay the outstanding mortgage on the World Trade Center hotel. Prior to reaching this settlement, we were obligated under our ground lease to rebuild the hotel on the site and as such recorded insurance proceeds in continuing operations. We recorded business interruption proceeds, net of expenses, of $14 million and $11 million for the World Trade Center hotel in 2003 and 2002, respectively, and a gain on the settlement of approximately $212 million in 2003. We now consider the World Trade Center hotel to be abandoned and the gain on disposition and related business interruption income, net of expenses, for that hotel has been reclassified to discontinued operations for all periods presented in accordance with Statement of Financial Accounting Standards No. 144 (SFAS 144) “Accounting for the Impairment or Disposal of Long-Lived Assets.” As part of the settlement, we received a right of first offer through 2023 with respect to hotel development on the World Trade Center site.

The New York Financial Center hotel was also damaged in the attacks and, as a result, we recorded business interruption proceeds, net of expenses, of approximately $3 million and $6 million in room revenues in the consolidated statement of operations in 2003 and 2002, respectively.

Earnings (Loss) Per Common Share

Basic earnings (loss) per common share is computed by dividing net income (loss) available to common shareholders by the weighted average number of shares of common stock outstanding. Diluted earnings (loss) per common share is computed by dividing net income (loss) available to common shareholders as adjusted for potentially dilutive securities, by the weighted average number of shares of common stock outstanding plus other potentially dilutive securities. Dilutive securities may include shares granted under comprehensive stock plans, those preferred OP Units held by minority partners, other minority interests that have the option to convert their limited partnership interests to common OP Units and the Convertible Preferred Securities. No effect is shown for any securities that are anti-dilutive.

	Year ended December 31,								
	2003			2002			2001		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
	(in millions, except per share amounts)								
Net income (loss)	$ 14	281.0	$ .05	$ (16)	263.0	$ (.06)	$ 51	248.1	$ .21
Dividends on preferred stock	(35)	—	(.12)	(35)	—	(.13)	(32)	—	(.13)
Basic earnings (loss) available to common shareholders	(21)	281.0	(.07)	(51)	263.0	(.19)	19	248.1	.08
Assuming distribution of common shares granted under the comprehensive stock plan, less shares assumed purchased at average market price	—	—	—	—	—	—	—	5.1	—
Diluted earnings (loss)	$ (21)	281.0	$ (.07)	$ (51)	263.0	$ (.19)	$ 19	253.2	$ .08

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 and capital leases are capitalized, while repairs and maintenance are expensed as incurred. 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 GAAP. Deferred gains are recognized as income in subsequent periods as conditions requiring deferral are satisfied or expire without further cost to us.

We assess impairment of our real estate properties based on whether it is probable that estimated undiscounted future cash flows from each individual property are less than its net book value. If a property is impaired, a loss is recorded for the difference between the fair value and net book value of the hotel.

We will classify a hotel as held for sale in the period in which we have made the decision to dispose of the hotel, a binding agreement to purchase the property has been signed under which the buyer has committed a significant amount of nonrefundable cash and no significant financing contingencies exist which could cause the transaction not to be completed in a timely manner. If this criteria is met, we will record an impairment loss if the fair value less costs to sell is lower than the carrying amount of the hotel and will cease incurring depreciation. We will classify the loss, together with the related operating results, as discontinued operations on our statement of operations and classify the assets and related liabilities as held for sale on the balance sheet.

Cash and Cash Equivalents

We consider all highly liquid investments with a maturity of 90 days or less at the date of purchase to be cash equivalents.

Restricted Cash

Restricted cash includes reserves for debt service, real estate taxes, insurance, furniture and fixtures, as well as cash collateral and excess cash flow deposits due to mortgage debt agreement restrictions and provisions.

Minority Interest

The percentage of the operating partnership owned by third parties, which was 7% as of December 31, 2003 and 10% as of December 31, 2002, is presented as interest of minority partners of Host LP in the consolidated balance sheets and was $130 million and $131 million as of December 31, 2003 and 2002, respectively. Third party partnership interests in consolidated investments of the operating partnership that have finite lives are included in interest of minority partners of other consolidated partnerships in the consolidated balance sheets and totaled $86 million and $89 million at December 31, 2003 and 2002, respectively. Third party partnership interests in consolidated investments that have infinite lives are also included in interest of minority partners of other consolidated partnerships in the consolidated balance sheets and totaled $3 million at December 31, 2003 and 2002.

Income Taxes

We account for income taxes in accordance with SFAS 109, “Accounting for Income Taxes.” These deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in earnings in the period when the new rate is enacted.

We have elected to be treated as a REIT under the provisions of the Internal Revenue Code and, as such, are not subject to federal income tax, provided we distribute all of our taxable income annually to our shareholders and comply with certain other requirements. In addition to paying federal and state taxes on any retained income, we are subject to taxes on “built-in-gains” on sales of certain assets. Additionally, our consolidated taxable REIT subsidiaries are subject to Federal, state and foreign income tax. The consolidated income tax provision or benefit includes, primarily, the tax provision related to the operations of the taxable REIT subsidiaries, Federal and state taxes on undistributed taxable income, and foreign taxes at the operating partnership, as well as each of their respective subsidiaries.

Deferred Charges

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

Foreign Currency Translation

As of December 31, 2003, our foreign operations consist of four properties located in Canada and two properties located in Mexico, one of which was sold in January 2004. The operations of these properties are maintained in the local currency and then translated to U.S. dollars using the average exchange rates for the period. The assets and liabilities of the properties are translated to U.S. dollars using the exchange rate in effect at the balance sheet date. The resulting translation adjustments are reflected in accumulated other comprehensive income.

Other Comprehensive Income (Loss)

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

	2003	2002
Unrealized gain on HM Services common stock	$ 6	$ 5
Foreign currency forward contracts	(1)	4
Foreign currency translation	23	(11)
Total accumulated other comprehensive income (loss)	$28	$ (2)

Derivative Instruments

We have interest rate swaps and interest rate caps which are considered derivative instruments. If the requirements for hedge accounting are met, amounts paid or received under these agreements are recognized over the life of the agreements as adjustments to interest expense, and the fair value of the derivatives is recorded on the accompanying balance sheet, with offsetting adjustments or charges recorded to the underlying debt. Otherwise the instruments are marked to market, and the gains and losses from the changes in the market value of the contracts are recorded in other income or expense. Upon early termination of an interest rate swap or cap, gains or losses are deferred and amortized as adjustments to interest expense of the related debt over the remaining period covered by the terminated swap or cap.

We are also subject to exposure from fluctuations in foreign currencies relating to our properties located in Canada and two properties in Mexico, one of which was sold in January 2004. We have purchased currency forward contracts related to the Canadian properties, which are considered derivative instruments. Gains and losses on contracts that meet the requirements for hedge accounting are recorded on the balance sheet at fair value, with offsetting changes recorded to accumulated other comprehensive income. At December 31, 2003, these contracts do not meet the requirements for hedge accounting and are marked to market and included in other income each period. See Note 4 for further discussion of these contracts.

Concentrations of Credit Risk

Financial instruments that potentially subject us to significant concentrations of credit risk consist principally of cash and cash equivalents. We maintain cash and cash equivalents with various high credit-quality financial institutions. We perform periodic evaluations of the relative credit standing of these financial institutions and limit the amount of credit exposure with any one institution.

Accounting for Stock-Based Compensation

At December 31, 2003, we maintained two stock-based employee compensation plans, which are described more fully in Note 9. Prior to 2002, we accounted for those plans under the recognition and measurement provisions of APB Opinion No. 25, “Accounting for Stock Issued to Employees,” and related interpretations. No stock-based employee compensation cost relating to the employee stock option plan is reflected in 2001 net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. In addition, no stock-based employee compensation cost relating to the employee stock purchase plan is reflected in 2001 net income as the plan was considered non-compensatory under APB 25. Effective January 1, 2002, we adopted the fair value recognition provisions of SFAS No. 123, “Accounting for Stock-Based Compensation,” or SFAS 123, prospectively to all employee awards granted, modified or settled after January 1, 2002. Awards under our employee stock option plan generally vest over four years. Therefore, the cost related to stock-based employee compensation included in the determination of net income for 2003 and 2002 is less than that which would have been recognized if the fair value based method had been applied to these awards since the original effective date of SFAS 123. The adoption of SFAS 123 did not change the calculation of stock-based employee compensation costs for shares granted under our deferred stock and restricted stock plans. The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to all of our outstanding and unvested awards in each period.

	Year Ended December 31,		
	2003	2002	2001
	(in millions, except per share amounts)		
Net income (loss), as reported	$ 14	$ (16)	$ 51
Add: Total stock-based employee compensation expense included in reported net income (loss), net of related tax effects	16	5	7
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(16)	(6)	(8)
Pro forma net income (loss)	$ 14	$ (17)	$ 50
Earnings (loss) per share			
Basic and diluted—as reported	$ (.07)	$ (.19)	$ .08
Basic and diluted—pro forma	$ (.07)	$ (.20)	$ .07

Application of New Accounting Standards

The FASB recently issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity,” or SFAS 150. This statement requires issuers to classify as liabilities (or assets in some circumstances) three classes of freestanding financial instruments that embody obligations for the issuer. Previously, many such instruments had been classified as equity. A freestanding financial instrument is an instrument that is entered into separately and apart from any of the entity’s other financial instruments or equity transactions, or that is entered into in conjunction with some other transaction and is legally detachable and separately exercisable, such as certain put and call options. These provisions are effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. On October 8, 2003, the FASB issued guidance with respect to SFAS 150 that issuers whose financial statements include consolidated ventures with finite lives should reflect any minority interests in such consolidated ventures on the issuer’s financial statements as a liability on the issuer’s financial statements presented at its fair value as of the applicable balance sheet date. Under SFAS 150, any fluctuation in the fair value of the minority interest from period to period would be recorded on the issuers financial statements as interest expense for the change in the fair value of the liability.

As a result of applying SFAS 150 in accordance with this guidance from the FASB, in our third quarter 2003 Form 10-Q, we recorded a loss from a cumulative effect of a change in accounting principle of $24 million. Additionally, we included in our liabilities as of September 12, 2003, minority interests with a fair value of $112 million.

On November 7, 2003, the FASB issued a FASB Staff Position (FSP) 150-3 indefinitely deferring the application of a portion of SFAS 150 with respect to minority interests in consolidated ventures entered into prior to November 5, 2003, effectively reversing its guidance of October 8, 2003. In accordance with the FSP 150-3, we recorded a gain from a cumulative effect of a change in accounting principle of $24 million in the fourth quarter of 2003, reversing the impact of our adoption of SFAS 150 with respect to consolidated ventures with finite lives. While there is no financial statement impact, FSP 150-3 does require disclosure of the fair value of the minority interests. See Note 18 for further details.

In December 2003, the FASB issued a revision to FIN No. 46 “*Consolidation of Variable Interest Entities*” (“FIN 46R”). Under this guidance, our limited purpose trust subsidiary that was formed to issue trust-preferred securities (the “Convertible Preferred Securities Trust”) is considered to be a special purpose entity because its activities are so restricted that Host Marriott, the sole equity holder, lacks the ability to make decisions about the Convertible Preferred Securities Trust’s activities through voting or similar rights. The transition guidance set forth in FIN 46R allows us to apply the provisions of either FIN 46 or FIN 46R to special purpose entities in which we have a variable interest at December 31, 2003. We account for our Convertible Preferred Securities Trust on a consolidated basis as of December 31, 2003 since we are the primary beneficiary under FIN 46 based on our fixed price call option and the holders of the Convertible Preferred Securities are widely dispersed and unrelated.

We are required to apply the provisions of FIN 46R to the Convertible Preferred Securities Trust in our first quarter of 2004. Under FIN 46R we will not be the primary beneficiary and, accordingly, we are required to deconsolidate in the accounts of the Convertible Preferred Securities Trust. This will result in our recognizing the $492 million in debentures issued by Convertible Preferred Securities Trust as debt, eliminating the $475 million of Convertible Preferred Securities currently classified in the mezzanine section of our balance sheet and recognizing, as an equity investment, the $17 million invested in the Convertible Preferred Securities Trust. Additionally, we would classify the related dividend payments as interest expense.

Reclassifications

Certain prior year financial statement amounts have been reclassified to conform with the current year presentation.

2. Property and Equipment

Property and equipment consists of the following as of December 31:

	2003	2002
	(in millions)	
Land and land improvements	$ 786	$ 695
Buildings and leasehold improvements	7,608	7,440
Furniture and equipment	1,062	1,020
Construction in progress	55	38
	9,511	9,193
Less accumulated depreciation and amortization	(2,426)	(2,162)
	$ 7,085	$ 7,031

Interest cost capitalized in connection with our development and construction activities totaled $2 million in both 2003 and 2002, and $8 million in 2001.

On December 31, 2003, we classified five of our hotels as held for sale and recorded an impairment loss of $1.6 million in the fourth quarter of 2003. Three of these hotels were sold in January 2004. During 2001, we recorded impairment charges of $13 million related to three properties to reduce their carrying value to estimated fair value. One of the hotels was sold in December 2001 and the other two were sold in 2003. See Note 11.

3. Investments in Affiliates

We own investments in voting interest entities which we do not consolidate and, accordingly, are accounted for under the equity method of accounting. The debt of these affiliates is non-recourse to, and not guaranteed by, us. Investments in affiliates consists of the following:

	As of December 31, 2003			
	Ownership Interests	Our Investment	Debt	Assets
		(in millions)		
CBM Joint Venture LLC	50%	$ 54	$ 901	120 Courtyard hotels
Tiburon Golf Ventures, L.P.	49%	20	—	36-hole golf club
Other	1%	—	—	Various
Total		$ 74	$ 901	

	As of December 31, 2002			
	Ownership Interests	Our Investment	Debt	Assets
		(in millions)		
CBM Joint Venture LLC	50%	$ 76	$ 908	120 Courtyard hotels
JWDC Limited Partnership	55%	37	95	JW Marriott, Washington, D.C.
Tiburon Golf Ventures, L.P.	49%	20	—	36-hole golf club
Other	1%	—	—	Various
Total		$ 133	$ 1,003	

CBM Joint Venture LLC is a joint venture that was formed by Rockledge Hotel Properties, Inc. (“Rockledge”) and Marriott International, that collectively owns, through two limited partnerships, 120 limited service hotels. The joint venture has approximately $901 million of debt, which is comprised of first mortgage loans secured by the properties owned by each of the two partnerships, senior notes secured by the ownership interest in one partnership and mezzanine debt. The mezzanine debt is an obligation of a subsidiary of the joint venture and the lender is an affiliate of Marriott International. None of the debt is recourse to or guaranteed by us or any of our subsidiaries. Each of the joint venture’s 120 hotels is operated by Marriott International pursuant to long-term management agreements. Rockledge, currently a consolidated, wholly owned subsidiary of ours, owns a 50% non-controlling interest in the joint venture and records the investment using the equity method. We did not receive any distributions from this investment during 2003 or 2002.

We have a 49% limited partner interest in Tiburon Golf Ventures, L.P., which owns the golf club surrounding The Ritz-Carlton, Naples Golf Resort. Cash distributions from this investment were approximately $1 million in both 2003 and 2002.

During June 2003, we acquired the remaining general partner interest and preferred equity interest held by outside partners in the JWDC Limited Partnership, which owns the JW Marriott Hotel, a 772-room hotel in Washington, D.C. for approximately $3 million. We also became the sole limited partner after the partnership foreclosed on a note receivable from the other limited partner. As a result, effective June 20, 2003, we consolidated the partnership, and recorded property and equipment of $131 million and $95 million in mortgage debt.

We own minority interests in four partnerships that directly or indirectly own four hotels. The total carrying value of these partnerships is less than $500,000, and we do not have any guarantees or commitments in relation to these partnerships and all of the debt is non-recourse to us.

Our pre-tax income from affiliates for the years ended December 31 includes the following:

	2003	2002	2001
		(in millions)	
Interest income from loans to affiliates	$—	$—	$ 4
Equity in income (losses)	(22)	(9)	3
	$ (22)	$ (9)	$ 7

Interest income in 2001 relates to loans to Rockledge prior to the consolidation of Rockledge on March 24, 2001.

Combined summarized balance sheet information as of December 31 for our affiliates follows:

	2003	2002
	(in millions)	
Property and equipment, net	$ 1,021	$ 1,185
Other assets	131	138
Total assets	$ 1,152	$ 1,323
Debt	$ 901	$ 1,003
Other liabilities	86	69
Equity	165	251
Total liabilities and equity	$ 1,152	$ 1,323

Combined summarized operating results for our affiliates for the years ended December 31 follows:

	2003	2002	2001
		(in millions)	
Total revenues	$ 425	$ 525	$ 653
Operating expenses			
Expenses	(316)	(367)	(433)
Depreciation and amortization	(58)	(68)	(90)
Operating profit	51	90	130
Interest expense	(94)	(108)	(124)
Net income (loss)	$ (43)	(18)	$ 6

4. Debt

Debt consists of the following:

	December 31,	
	2003	2002
	(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	1,196	1,195
Series C senior notes, with a rate of 8.45% due December 2008	218	499
Series E senior notes, with a rate of 8 3/8% due February 2006	300	300
Series G senior notes, with a rate of 9 1/4% due October 2007	244	250
Series I senior notes, with a rate of 9 1/2% due January 2007	484	490
Series J senior notes, with a rate of 7 1/8% due November 2013	725	—
Senior notes, with an average rate of 9 3/4% maturing through 2012	13	13
Total senior notes	3,180	3,247
Mortgage debt (non-recourse) secured by $3.6 billion of real estate assets, with an average rate of 7.8% at December 31, 2003, maturing through February 2023	2,205	2,289
Credit facility, with a variable rate (4.6% at December 31, 2003)	—	—
Other notes, with an average rate of 7.4% at December 31, 2003, maturing through December 2017	89	89
Capital lease obligations	12	13
Total other	101	102
Total debt	$ 5,486	$ 5,638

Senior Notes

We have various series of senior notes outstanding, all of which, except for the Series J senior notes, have been issued under the same indenture. The indenture contains certain financial covenants that, in the event of a default, would prohibit us from incurring additional indebtedness. These covenants include a consolidated coverage ratio of EBITDA-to-interest expense of 2.0 to 1.0. As of December 31, 2003, we are not in compliance with the ratio which limits our ability to incur additional debt and make dividend payments except to the extent required to maintain our REIT status. The Series J indenture contains certain provisions that allow for additional flexibility to incur debt, utilize asset sale proceeds, make certain investments and pay dividends on our preferred stock. However, these provisions will only go into effect once all pre-Series J senior notes are repaid or the pre-Series J indenture has been amended to allow for these same provisions.

The outstanding senior notes balance as of December 31, 2003 and 2002 of $3,180 million and $3,247 million, respectively, include fair value adjustments for interest rate swap agreements of $36.8 million and $40.3 million, respectively, that are discussed in further detail below.

Issuances. In October 2003, we issued $725 million of 7 1/8% Series J senior notes due in 2013. The proceeds were used to redeem $429 million of our existing Series A senior notes and $282 million of our existing Series C senior notes. In February 2004, the Series J senior notes were exchanged for $725 million of 7 1/8% Series K senior notes. The terms of the Series K senior notes are substantially identical to the terms of the Series J notes, except that the Series K senior notes are registered under the Securities Act of 1933 and are, therefore, freely transferable.

Repayments. During 2003, we redeemed approximately $790 million of senior notes, $711 million which were redeemed with the proceeds from the Series J senior notes. The terms of our senior notes require the payment of a call premium to holders in exchange for the right to retire this debt in advance of its maturity date. We recorded a loss of approximately $30 million on the early extinguishment of debt, which includes the payment of the call premium and the acceleration of the related deferred financing fees. The loss is included in interest expense in the accompanying statements of operations.

On September 16, 2002, we redeemed the remaining $12.6 million of 9 1/2% senior secured notes due in May 2005 at approximately 101% of par. We recorded a minimal loss on the extinguishment related to the payment of a premium and acceleration of deferred financing fees. The loss is included in interest expense in the accompanying statement of operations.

Credit Facility

Effective June 6, 2002, we entered into a credit facility with an aggregate revolving loan commitment of $400 million ($300 million of which was available initially, with the balance becoming available to the extent that our leverage ratio met a specified level). The credit facility has an initial three-year term with an option to extend for an additional year if certain conditions are met. Interest on borrowings under the credit facility are calculated based on a spread over LIBOR ranging from 2.50% to 3.75%. The rate will vary based on our leverage ratio. We are required to pay a quarterly commitment fee that will vary based on the amount of unused capacity under the credit facility. Currently, the commitment fee is .55% on an annual basis for available capacity and .2% on additional capacity. In May 2003, we renegotiated the credit facility to provide more flexibility in meeting certain tests under the covenants. The new terms of the credit facility allow us to borrow $250 million. All other terms of the credit facility remained essentially the same. As of December 31, 2003, we have not drawn on the credit facility.

In addition to the customary affirmative and negative covenants and restrictions, the credit facility contains covenants that require us to maintain leverage ratios below specified levels as well as interest, fixed charges and unsecured interest coverage ratios above specified levels. We are currently in compliance with these covenants.

Under the terms of the senior notes indenture and the credit facility, our ability to incur indebtedness is subject to restrictions and the satisfaction of various conditions, including an EBITDA-to-interest coverage ratio (as defined in the senior notes indenture) of Host LP of at least 2.0 to 1.0. We have not met this interest coverage ratio since the third quarter of 2002. As a result, our ability to incur indebtedness is generally limited to indebtedness specifically permitted under the credit facility and the senior notes indenture, such as borrowings under the credit facility and borrowings in connection with the refinancing of existing debt. Our failure to meet the interest coverage ratio also restricts our ability to pay dividends on our common and preferred equity, except to the extent necessary to maintain our status as a REIT and other distributions permitted under the senior notes indenture.

Mortgage Debt

All of our mortgage debt is recourse solely to specific assets except for fraud, misapplication of funds and other customary recourse provisions. As of December 31, 2003, we have 30 assets that are secured by mortgage debt. Eleven of these assets are secured by mortgage debt that contains restrictive covenants that require the mortgage servicer or lender to retain and hold in escrow the cash flow after debt service when it declines below specified operating levels. The impact of these covenants is discussed below.

Eight of our hotel properties secure a $591 million mortgage loan that is the sole asset of a trust that issued commercial mortgage pass-through certificates, which we refer to as the CMBS Loan. These hotels securing the CMBS Loan are the New York Marriott Marquis, the San Francisco Airport Hyatt Regency, the Cambridge Hyatt

Regency, the Reston Hyatt Regency, the Boston Hyatt Regency, The Drake Hotel New York, the Westin Buckhead Atlanta, and the Swissôtel Chicago, which we refer to as the CMBS Portfolio. The CMBS Loan contains a provision that requires the mortgage servicer to retain certain excess cash flow from the CMBS Portfolio after payment of debt service (approximately $64 million) if net cash flow after payment of taxes, insurance, ground rent and reserves for furniture, fixtures and equipment for the trailing twelve months declines below $96 million. This provision was triggered beginning in the third quarter of 2002 and will remain in effect until the CMBS Portfolio generates the necessary minimum cash flow for two consecutive quarters, at which point, the cash that has been escrowed will be returned to us. As of December 31, 2003, approximately $15 million of cash has been escrowed. We do not expect cash flows from the CMBS Portfolio to be at the level required to trigger the release of the escrow until we have a significant improvement in operations. Additional amounts may also be escrowed, and these amounts may be significant.

On July 12, 2002, we modified the terms of the mortgage debt secured by our four Canadian properties. Under the terms of this modification, we agreed to escrow the excess cash flow from these hotels on a retroactive basis effective December 29, 2001. In April 2003, approximately $7 million of the cash escrowed in accordance with the loan was applied to the outstanding balance of the indebtedness and approximately $2 million was released to us. In July 2003, we entered into an agreement with the lenders to modify certain covenants so that we would not be required to make additional prepayments at that time. The terms of the modification required us to provide $10 million of cash collateral and pay an additional 25 basis points of interest on the loan. On December 29, 2003, we made an additional partial repayment of approximately $33 million. In conjunction with the prepayment, one of the hotels and the $10 million was released from the collateral. The remaining loan is still subject to the escrow provisions and additional amounts will be required to be escrowed in 2004.

On September 9, 2003, we refinanced the $95 million mortgage debt secured by the JW Marriott in Washington, D.C. with an $88 million floating-rate mortgage loan with an interest rate of one-month LIBOR plus 210 basis points (3.3% at December 31, 2003). Although the loan matures in 2005, we may extend the term of the loan for three one-year periods upon satisfaction of certain conditions (we must purchase an interest rate cap to obtain the first one-year extension and the two remaining extensions are subject to certain debt service coverage levels). The loan may be prepaid beginning in May 2004, and no prepayment penalty will be assessed for any prepayments made after March 2005. We also purchased an interest rate cap at the inception of the loan, as discussed below.

In January 2003, we prepaid $17 million of mortgage debt related to two of our Ritz-Carlton properties. We did not incur any prepayment penalties as a result of this debt extinguishment. The loss on the early extinguishment of debt related to the write-off of deferred financing fees, which was minimal, is included in interest expense in the accompanying statements of operations.

On June 14, 2002, in connection with our acquisition of the Boston Marriott Copley Place, we assumed $97 million of mortgage debt. The mortgage bears interest at a fixed rate of 8.39% and is due on June 1, 2006. Also, in January of 2002, we transferred the St. Louis Marriott Pavilion hotel to the mortgage lender. In the first quarter of 2002, we recorded the difference between the debt extinguished, the deferred incentive management fees forgiven and the fair value of the assets surrendered, net of tax, of $13 million as discontinued operations. See Note 11 for additional disclosure on the disposition.

Derivative Instruments

The mortgage loan on the Canadian properties is denominated in U.S. dollars and the functional currency of the Canadian subsidiaries is the Canadian dollar. At the time of the origination of the loan, each of the subsidiaries entered into 60 separate currency forward contracts to buy U.S. dollars at a fixed price. These forward contracts hedge the currency exposure of converting Canadian dollars to U.S. dollars on a monthly basis to cover debt service payments, including the final balloon payment. These contracts had been designated as cash flow hedges of the debt service and balloon payment and were recorded at fair value on the balance sheet with offsetting changes recorded in accumulated other comprehensive income. During 2003, we prepaid approximately $40 million of the loan and terminated a foreign currency contract equal to the prepayment. As a result, the forward currency contracts were deemed ineffective for accounting purposes, and we recorded a loss on the contracts of approximately $18 million, which is included in “Loss on foreign currency and derivative contracts” in the accompanying statement of operations. We will record the increase or decrease in the fair value of the outstanding forward currency contracts in net income (loss) each period. The fair value of the contracts on December 31, 2003 and 2002 was $(12.3) million and $3.8 million, respectively. We also purchased an interest rate cap for approximately $0.4 million which caps the floating interest rate at 10.75% based on a notional amount ($48.3 million). The cap is a derivative that is marked to market and the gains and losses from changes in the market value of the cap are recorded in other income or expense in the current period. The fair value of the interest rate cap was $0.1 million at December 31, 2003.

On August 21, 2003, we entered into two four-year interest rate swap agreements, which mature October 2007, effectively converting our Series G senior notes to floating rate debt. Under the swaps, we receive fixed-rate payments of 9.25% and we make floating-rate payments based on six-month LIBOR plus 590 basis points (7.08% at December 31, 2003) on a $242 million notional amount, which is equal to the current amount of outstanding Series G senior notes. We have designated the interest rate swaps as fair value hedges for both financial reporting and tax purposes and the amounts paid or received under the swap agreements will be recognized over the life of the agreements as an adjustment to interest expense. Changes in the fair value of the swaps and our Series G senior notes are reflected in the balance sheet as offsetting changes and have no income statement effect. The fair value of these interest rate swaps at December 31, 2003 was $2.3 million.

On December 20, 2001, we entered into a 5-year interest rate swap agreement, which was effective on January 15, 2002 and matures in January 2007, effectively converting our Series I senior notes to floating rate debt. Under the swap, we receive fixed-rate payments of 9.5% and pay floating-rate payments based on one-month LIBOR plus 450 basis points (5.66% at December 31, 2003) on a $450 million notional amount, which is equal to the current amount of outstanding Series I senior notes. We have designated the interest rate swap as a fair value hedge for both financial reporting and tax purposes and the amounts paid or received under the swap agreement will be recognized over the life of the agreement as an adjustment to interest expense. Changes in the fair value of the swap and the Series I senior notes are reflected in the balance sheet as offsetting changes and have no income statement effect. The fair value of this interest rate swap at December 31, 2003 and 2002 was $34.5 million and $40.3 million, respectively.

In connection with the refinancing of the mortgage debt secured by the JW Marriott, Washington, D.C. in September 2003, we purchased an interest rate cap with a notional amount of $88 million, which caps the floating interest rate at 8.1% for the first two years of the loan. The cap represents a derivative that is marked to market and the gains and losses from changes in the market value of the cap are recorded in other income or expense in the current period. The fair value of the interest rate cap was $38,000 at December 31, 2003.

Aggregate Debt Maturities

Aggregate debt maturities at December 31, 2003 are (in millions):

2004	$ 86
2005	152
2006	679
2007	860
2008	1,693
Thereafter	1,971
	5,441
Fair value adjustment for interest rate swaps	37
Discount on senior notes	(4)
Capital lease obligations	12
	$5,486

Cash paid for interest, net of amounts capitalized, was $468 million in 2003, $449 million in 2002 and $437 million in 2001.

Deferred financing costs, which are included in other assets, amounted to $82 million and $91 million, net of accumulated amortization, as of December 31, 2003 and 2002, respectively. Amortization of deferred financing costs totaled $17 million, $16 million, and $22 million in 2003, 2002 and 2001, respectively.

Amortization of property and equipment under capital leases totaled $3 million, $3 million and $4 million in the years ended December 31, 2003, 2002 and 2001, respectively, and is included in depreciation and amortization on the accompanying statements of operations.

5. 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, 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 us to the extent the Issuer has funds available therefor. This guarantee, when taken together with our obligations under the indenture pursuant to which the Debentures (defined below) were issued, the Debentures, our 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 us. 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 our guarantee described above; our 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 and the related debentures are 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). The Issuer will only convert Debentures pursuant to a notice of conversion by a holder of Convertible Preferred Securities. During 2003 and 2002, no shares were converted to common stock. During 2001, 400 shares were converted into common stock. The conversion ratio and price have been adjusted to reflect the impact of the distribution of shares of Crestline common stock and our common stock in connection with the REIT conversion.

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 Debentures. We 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, we will not be permitted to declare or pay any cash distributions with respect to our 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 us 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 underlying the Convertible Preferred Securities. 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 us, 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. There were no shares of Convertible Preferred Securities repurchased in 2003 and 2002.

6. Shareholders' Equity

Seven hundred fifty million shares of common stock, with a par value of $0.01 per share, are authorized, of which 320.3 million and 263.7 million, respectively, were outstanding as of December 31, 2003 and 2002. Fifty million shares of no par value preferred stock are authorized, with 14.1 million shares outstanding as of December 31, 2003 and 2002.

Dividend. Our policy on paying dividends is generally to distribute the minimum amount of taxable income necessary to maintain REIT status. Further, dividends on both common and preferred shares were restricted to the minimum amount of distributions required to maintain our REIT status as a result of restrictions under our senior notes indenture. Annual preferred dividends were $2.50 per share in 2003 and 2002, and there were no common dividends paid in 2003 or 2002.

Common Stock and OP Units. During October 2003 and August 2003, we sold 23.5 million and 27.5 million shares of our common stock, respectively, at a price to the public of $10.75 and $9.25 per share, respectively. The net proceeds from the sale were $250 million and $251 million, respectively, after payment of the underwriting discount and offering expenses.

During February 2002, we filed a shelf registration statement for 1.1 million shares of our common stock to be issued in exchange for partnership interests held by the minority partners in the partnership that owns the San Diego Marriott Hotel and Marina. On March 15, 2002, the minority partners sold the 1.1 million common shares to an underwriter for resale on the open market. We did not receive any proceeds as a result of these transactions. Concurrent with the issuance of the common shares, the operating partnership issued to us an equivalent number of OP Units. Also, in April 2002, we acquired an additional interest in the partnership through the issuance of 6.9 million OP Units to certain minority partners in exchange for their partnership interests in the San Diego Marriott Hotel and Marina.

Preferred Stock. We currently have three classes of publicly-traded preferred stock outstanding. There are 4,160,000 shares of 10% Class A preferred stock, which were sold in August 1999; 4,000,000 shares of 10% Class B preferred stock, which were sold in November 1999; and 5,980,000 shares of 10% Class C preferred stock, which were sold in March 2001. Holders of all classes of the preferred stock are entitled to receive cumulative cash dividends at a rate of 10% per annum of the $25.00 per share liquidation preference and are payable quarterly in arrears. After August 3, 2004, April 29, 2005 and March 27, 2006 we have the option to redeem the Class A preferred stock, Class B preferred stock and Class C preferred stock, respectively, for $25.00 per share, plus accrued and unpaid dividends to the date of redemption. The preferred stock classes rank senior to the common stock and the authorized Series A junior participating preferred stock (discussed below), and on a parity with each other. The preferred stockholders generally have no voting rights. Accrued preferred dividends at December 31, 2003 were $8.8 million.

Shareholders Rights Plan. 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 our 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 ours at an exercise price of $55 per share, subject to adjustment. The rights are 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 our common stock. Shares owned by a person or group on November 3, 1998 and held continuously thereafter are 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 us for $.005 each. If we were 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 our company or the acquiror having a value of twice the exercise price of the right.

7. Income Taxes

In December 1998, we restructured ourselves to enable us to qualify for treatment as a REIT effective January 1, 1999, pursuant to the U.S. Internal Revenue Code of 1986, as amended. In general, a corporation that elects REIT status and meets certain tax law requirements regarding distribution of its taxable income to its shareholders as prescribed by applicable tax laws 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 on its operating income to the extent it distributes at least 90% of its taxable income. In addition to paying Federal and state taxes on any retained income, we are subject to taxes on “built-in-gains” on sales of certain assets, if any. Additionally, our consolidated taxable REIT subsidiaries are subject to Federal, state and foreign income tax. The consolidated income tax provision or benefit includes, primarily, the tax provision related to the operations of the taxable REIT subsidiaries, Federal and state taxes on any undistributed taxable income, and international taxes at the operating partnership, as well as each of their respective subsidiaries.

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 future reversals of existing taxable temporary differences, future projected taxable income and tax planning strategies.

Total deferred tax assets and liabilities at December 31, 2003 and December 31, 2002 were as follows:

	2003	2002
	(in millions)	
Deferred tax assets	$ 99	$ 82
Less: Valuation allowance	(9)	—
Subtotal	90	82
Deferred tax liabilities	(78)	(85)
Net deferred income tax liability	$ 12	$ (3)

The valuation allowance required under SFAS 109 primarily represents a net operating loss carryforward of a foreign affiliate ("NOL") the benefit of which was not previously recorded, but which has been recorded under SFAS 109 as a deferred tax asset with an offsetting valuation allowance. Any subsequent reduction in the valuation allowance related to the NOL will be recorded as a reduction of income tax expense. 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, 2003 and December 31, 2002 were as follows:

	2003	2002
	(in millions)	
Investment in hotel leases	$ 42	$ 57
Safe harbor lease investments	(20)	(21)
Property and equipment	(3)	(3)
Investments in affiliates	(55)	(61)
Deferred gains	9	6
Other	5	6
Net operating loss carryforwards	32	9
Alternative minimum tax credit carryforwards	2	4
Net deferred income tax asset (liability)	$ 12	$ (3)

At December 31, 2003 we have net operating loss carryforwards of approximately $80 million which expire in 2023.

The (provision) benefit for income taxes for continuing operations consists of:

	2003	2002	2001
		(in millions)	
Current—Federal	$22	$ (14)	$ 10
—State	3	(5)	(3)
—Foreign	(5)	(6)	(4)
	20	(25)	3
Deferred—Federal	(9)	19	(9)
—State	(1)	2	(2)
—Foreign	2	—	(1)
	(8)	21	(12)
	$12	$ (4)	$ (9)

The (provision) benefit for income taxes including the amounts associated with discontinued operations were $9 million, $(6) million and $(8) million in 2003, 2002 and 2001, respectively.

On July 20, 2001, the United States Court of Appeals for the Fourth Circuit affirmed a lower court ruling that allowed us to carryback a 1991 specified liability loss to the tax years 1984 and 1985 resulting in a net income tax refund of $16 million. We recorded the refund as a benefit to the provision in 2001. In addition, we settled with the Internal Revenue Service ("IRS") all other outstanding Federal income tax issues for the tax years through 1998. We made net payments to the IRS of approximately $19 million in 2001 related to these settlements.

A reconciliation of the statutory Federal tax (provision) benefit to our income tax (provision) benefit for continuing operations follows:

	2003	2002	2001
		(in millions)	
Statutory Federal tax (provision) benefit	$ 83	$10	$ (23)
Nontaxable income (loss) of REIT	(70)	(2)	8
Built-in-gain tax	—	1	—
State income taxes, net of Federal tax benefit	2	(3)	(5)
Tax contingencies	—	(4)	16
Tax on foreign source income	(3)	(6)	(5)
Income tax (provision) benefit	$ 12	$ (4)	$ (9)

Cash paid for income taxes, including IRS settlements, net of refunds received, was $21 million, $2 million and $24 million, respectively, in 2003, 2002 and 2001.

8. Leases

Hotel Leases. During 1999, 2000 and part of 2001, we leased our hotels (the "Leases") to one or more third party lessees (the "Lessees"), primarily subsidiaries of Crestline, due to Federal income tax law restrictions on a REIT's ability to derive revenues directly from the operation of a hotel. Effective January 1, 2001, the REIT Modernization Act amended the tax laws to permit REITs to lease hotels to a subsidiary that qualifies as a taxable REIT subsidiary. Accordingly, a TRS acquired the Crestline lessee entities owning the leasehold interests with respect to 116 of our full-service hotels during January 2001 and acquired the lessee entities owning the leasehold interest with respect to four of our full-service hotels from Crestline (one lease) and Wyndham (three leases) during June of 2001. As a result, our revenues reflect hotel level sales instead of rental income.

Hospitality Properties Trust Relationship. In a series of related transactions in 1995 and 1996, we sold and leased back 53 Courtyard properties and 18 Residence Inns to Hospitality Properties Trust ("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 our option. Minimum rent payments are $54 million annually for the Courtyard properties and $18 million annually for the Residence Inn properties, and additional rent based upon sales levels are payable to HPT under the terms of the leases.

In connection with our conversion to a REIT, the operating partnership sublet the HPT hotels (the "Subleases") to separate sublessee subsidiaries of Crestline (the "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"), a wholly owned subsidiary of the operating partnership, 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 hotels and one for Residence Inn hotels). Rent payable by Crestline under the Sublease consists of the minimum rent payable under the HPT lease and an additional percentage rent payable to us. The percentage rent payable by the Sublessor is generally 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 is allocated between the two pools of HPT hotels.

Other Lease Information. A number of our hotels are subject to long-term ground leases, generally with multiple renewal options, all of which are accounted for as operating leases. Certain of these leases contain provisions for the payment of contingent rentals based on a percentage of sales in excess of stipulated amounts. We also have leases on facilities used in our former restaurant business, some of which we subsequently subleased. These leases and subleases contain one or more renewal options, generally for five or 10-year periods. Our lease activities also include leases entered into by our hotels for various types of equipment, such as computer equipment, vehicles and telephone systems. The restaurant and equipment leases are accounted for as either operating or capital leases, depending on the characteristics of the particular lease arrangement.

The following table presents the future minimum annual rental commitments required under non-cancelable leases for which we are the lessee as of December 31, 2003. Minimum payments for capital leases have not been reduced by aggregate minimum sublease rentals from restaurant subleases of $2 million, payable to us under non-cancelable subleases. Minimum payments for the operating leases have not been reduced by aggregate minimum sublease rentals from restaurants and HPT subleases of $27 million and $618 million, respectively, payable to us under non-cancelable subleases.

	Capital Leases	Operating Leases
	(in millions)	
2004	$ 5	$ 111
2005	5	106
2006	5	103
2007	—	100
2008	—	114
Thereafter	—	1,245
Total minimum lease payments	15	$ 1,779
Less amount representing interest	(3)	
Present value of minimum lease payments	$ 12	

The ground lease on the New York Marriott Marquis, which was renegotiated in 1999, provides for the payment of a percentage of the hotel sales (4% in 1999 and 5% thereafter) through 2007 and an equivalent of real estate taxes on the property from 2008 through 2017, which is to be used to amortize the 1999 deferred ground rent obligation of $116 million. We have the right to purchase the land under certain circumstances for approximately $25 million, of which $4 million has already been paid. The balance of the deferred ground rent obligation was $52 million and $63 million, respectively, at December 31, 2003 and 2002 and is included in other liabilities in the accompanying consolidated balance sheets.

We remain contingently liable on certain leases relating to divested non-lodging properties. Such contingent liabilities aggregated $40 million at December 31, 2003. However, management considers the likelihood of any material funding related to these leases to be remote.

Rent expense consists of:

	2003	2002	2001
		(in millions)	
Minimum rentals on operating leases	$127	$120	$117
Additional rentals based on sales	13	21	32
Less: sublease rentals	(79)	(81)	(88)
	$ 61	$ 60	$ 61

9. Employee Stock Plans

At December 31, 2003, we maintained two stock-based compensation plans, including the comprehensive stock plan (the “Comprehensive Plan”), whereby we may award to participating employees (i) options to purchase our common stock, (ii) deferred shares of our common stock and (iii) restricted shares of our common stock, and the employee stock purchase plan. At December 31, 2003, there were approximately 12 million shares of common stock reserved and available for issuance under the Comprehensive Plan.

Prior to 2002, we accounted for expense under these plans according to the provisions of Accounting Principles Board Opinion No. 25 and related interpretations. Consequently, no compensation expense was recognized for stock options issued under the Comprehensive Plan or stock issued under the employee stock purchase plan. In the third quarter of 2002, we implemented the expense recognition provisions of SFAS 123 with retroactive application to employee stock options granted on or after January 1, 2002 only. Options granted in fiscal years prior to 2002 will continue to be accounted for using the intrinsic value method as described in APB 25. As a result of the change in accounting method, we now record compensation expense for employee stock options based on the fair value of the options at the date of grant. We also record compensation expense for shares issued under our employee stock purchase plan. The implementation of SFAS 123 had no effect on the calculation of compensation expense for shares granted under deferred stock and restricted stock plans. For additional information on the effects of this change in accounting method, see Note 1.

Employee Stock Options. 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, we 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 our current and former employees were redenominated in both our 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 us and HM Services, we originally had 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. On August 27, 1999, Autogrill Acquisition Co., a wholly owned subsidiary of Autogrill SpA of Italy, acquired HM Services. Since HM Services is no longer publicly traded, all future payments to us will be made in cash, as HM Services has indicated that the receivable will not be settled in Autogrill SpA stock. As of December 31, 2003 and 2002, the receivable balance was approximately $6.1 million and $5.4 million, respectively, which is included in other assets in the accompanying consolidated balance sheets.

For purposes of the following disclosures required by SFAS 123, the fair value of each stock option granted has been estimated on the date of grant using an option-pricing model. There were no stock options granted in 2003.

The following weighted average assumptions were used for grants issued during 2002 and 2001, respectively: risk-free interest rates of 3.8% and 5.2%, volatility of 36% and 37%, expected lives of 15 and 12 years; and dividend yield of 6.0% and 9.1%. The weighted average fair value per option granted during the year was $1.41 in 2002 and $1.09 in 2001. As a result of the implementation of SFAS 123, we recorded compensation expense of $274,000 and $47,000, respectively, for 2003 and 2002, which represents the expense for stock options granted as of January 1, 2002 only.

A summary of the status of our stock option plans that have been approved by our stockholders for 2003, 2002 and 2001 follows. We do not have stock option plans that have not been approved by our stockholders.

	2003		2002		2001	
	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	5.4	$ 6	4.9	$ 6	4.2	$ 5
Granted	—	—	.9	8	1.4	8
Exercised	(.6)	6	(.2)	4	(.6)	4
Forfeited/expired	(.3)	9	(.2)	9	(.1)	8
Balance, at end of year	4.5	6	5.4	6	4.9	6
Options exercisable at year-end	3.2		3.3		2.9	

The following table summarizes information about stock options at December 31, 2003:

	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	1.6	3	$ 2	1.6	2
4 – 6	.2	5	6	.2	6
7 – 9	1.9	13	8	.9	8
10 – 12	.8	12	11	.5	11
13 – 19	—	9	18	—	18
	4.5			3.2	

Deferred Stock. 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. We accrue compensation expense for the fair market value of the shares on the date of grant, less estimated forfeitures. In 2003, 2002 and 2001, 45,000, 23,000 and 24,000 shares, respectively, were granted under this plan. The compensation cost that has been charged against income for deferred stock was not material for all periods presented. The weighted average fair value per share granted during each year was $8.00 in 2003, $9.95 in 2002 and $12.66 in 2001. The implementation of SFAS No. 123 had no impact on the calculation of compensation expense for the deferred stock incentive plan.

Restricted Stock. From time to time, we award restricted stock shares under the Comprehensive Plan to officers and key executives to be distributed over the next three years in annual installments based on continued employment and the attainment of certain performance criteria. We recognize 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 our common stock. In 2003, 2002 and 2001, 3,183,000, 906,000 and 167,000 shares, respectively, of restricted stock plan shares were granted to certain key employees under these terms and conditions. Approximately 1,069,000 and 623,000 shares, respectively, were forfeited in 2002 and 2001. No shares were forfeited in 2003. We recorded compensation expense of $15.0 million, $5.2 million and $7.6 million, respectively, in 2003, 2002 and 2001 related to these awards. The weighted average grant date fair value per share granted during each year was $8.82 in 2003, $10.49 in 2002 and $12.91 in 2001. Under these awards 3,475,000 shares were outstanding at December 31, 2003.

Employee Stock Purchase Plan. 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, which runs from February 1 through January 31. As a result of the implementation of SFAS 123 during 2002, we now record compensation expense for the employee stock purchase plan based on the fair value of the employees' purchase rights, which is estimated using an option-pricing model with the following assumptions for 2003 and 2002, respectively: Risk-free interest rate of 1.3% and 2.2%, volatility of 36% and 37%, expected life of one year, and dividend yield of 0% for both years. For the 2003 and 2002 plan years, approximately 21,000 and 48,000 shares, respectively, were issued. The weighted average fair value of those purchase rights granted in 2003 and 2002 was $2.20 and $2.35, respectively. The compensation expense reflected in net income was not material for all periods presented.

Stock Appreciation Rights. In 1998, 568,408 stock appreciation rights ("SARs") were issued under the Comprehensive Plan to certain directors 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 us upon conversion to a REIT. The SARs are fully vested and the grant prices range from $1.20 to $2.71. In 2003, 2002 and 2001, we recognized compensation (income) expense for outstanding SARs as a result of fluctuations in the market price of our common stock of $1.6 million, $.8 million and $(1.2) million, respectively. As of December 31, 2003, approximately 439,000 SARs were outstanding.

10. Profit Sharing and Postemployment Benefit Plans

We contribute to defined contribution plans for the benefit of employees meeting certain eligibility requirements and electing participation in the plans. The discretionary amount to be matched by us is determined annually by the Board of Directors. We provide medical benefits to a limited number of retired employees meeting restrictive eligibility requirements. Amounts for these items were not material for the three years ended December 31, 2003.

11. Discontinued Operations

Assets Held For Sale. During December 2003, we entered into a definitive, binding agreement to sell five hotels. We sold three of these properties in January 2004. We have reclassified the assets and liabilities relating to these hotels as held for sale in our consolidated balance sheet as of December 31, 2003. The following table sets forth the balance sheet detail of these hotels (in millions):

Property and equipment, net	$72
Other assets	1
Total assets	$73
Other liabilities	2
Total liabilities	$ 2

The operations of these hotels have been classified as discontinued operations on the statements of operations for all years presented. The following table summarizes the revenues and income (loss) before taxes of the hotels that have been classified as held for sale as of December 31, 2003 (in millions):

	2003	2002	2001
Revenues	$42	$44	$46
Income before taxes	1	4	7

Dispositions. We disposed of eight hotels and abandoned one hotel (World Trade Center hotel—see Note 1 for more detail) in 2003 and disposed of one hotel in 2002 that require their operations and the related gains (losses) to be reclassified to discontinued operations in the statements of operations for all years presented. The following table summarizes the revenues, income (loss) before taxes, and the gain (loss) on disposal, net of tax, of the hotels that have been sold as of December 31, 2003 (in millions).

	2003	2002	2001
Revenues (1)	$222	$120	$168
Income (loss) before taxes	176	23	(3)
Gain on disposal, net of tax	65	13	—

(1) Revenues in 2003 include business interruption proceeds of $173 million related to the World Trade Center hotel settlement. See Note 1 for additional information.

12. Acquisitions

On November 13, 2003, we acquired the 806-room Hyatt Regency Maui Resort and Spa for $321 million.

During June 2003, we acquired the remaining general partner interest and preferred equity interest held by outside partners in the 772-room JW Marriott, Washington, D.C. for approximately $3 million. We also became the sole limited partner after the partnership foreclosed on a note receivable from the other limited partner. As a result, we consolidated the partnership, and recorded property and equipment of $131 million and $95 million in mortgage debt on June 20, 2003.

During 2002, we acquired 80% of the outstanding minority interest in the partnership that owns the San Diego Marriott Marina and Hotel in exchange for 1.1 million shares of common stock and 6.9 million OP Units, which resulted in an increase to property and equipment of $66.6 million to reflect the fair value of the interest acquired. As a result of the acquisition, we now own approximately 90% of the interests in the partnership that owns the hotel. We did not receive any proceeds as a result of these transactions.

On June 14, 2002, we acquired the 1,139-room Boston Marriott Copley Place for $214 million, including the assumption of $97 million in mortgage debt.

13. Fair Value of Financial Instruments

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

	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Financial assets				
Notes receivable	$ 54	$ 54	$ 53	$ 53
Financial liabilities				
Senior notes (excluding fair value of swaps)	3,143	3,318	3,207	3,221
Mortgage debt and other, net of capital leases	2,294	2,225	2,378	2,492
Other financial instruments				
Convertible Preferred Securities	475	484	475	351

Notes receivable 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. Senior notes and the Convertible Preferred Securities are valued based on quoted market prices. The fair values of financial instruments not included in this table are estimated to be equal to their carrying amounts.

14. Marriott International Distribution and Relationship with Marriott International

We have entered into various agreements with Marriott International (formerly a wholly owned subsidiary, the common stock of which was distributed to our shareholders on October 8, 1993) including the management of the majority of our hotels including franchised properties; financing for joint ventures including the acquisition in 1996 of two full-service properties in Mexico City, Mexico for which Marriott International provided $29 million of debt financing and $28 million in preferred equity and the 2000 acquisition of two partnerships owning 120 limited-service hotels for a combined $372 million plus interest and legal fees (see Note 3) and certain limited administrative services.

On July 25, 2002, we completed negotiations with Marriott International in connection with changes to the management and other agreements for substantially all of our Marriott and Ritz-Carlton managed hotels. The changes were effective as of December 29, 2001. The management contract changes include providing us with additional approval rights over hotel operating budgets, capital budgets, shared service programs, and changes to certain system wide programs; reducing the amount of working capital requirements, and expanding an existing agreement that allows us to fund furniture, fixtures and equipment expenditures from one account controlled by us, which collectively increased cash available to us for general corporate purposes at that time by $125 million; reducing incentive management fees payable on certain Marriott managed hotels; reducing the amount we pay related to frequent guest programs; gradually reducing the amounts payable with respect to various centrally administered programs; and providing additional territorial restrictions for certain hotels in eight markets.

In addition to these modifications, we have expanded the pool of hotels subject to an existing agreement that allows us to sell assets unencumbered by a Marriott management agreement without the payment of termination fees. The revised pool includes 46 assets, 75% (measured by EBITDA) of which may be sold over approximately a ten year or greater period without the payment of a termination fee (22.5%, measured by EBITDA, of which may be sold unencumbered by the Marriott brand).

In connection with these negotiations, we have amended our distribution agreement and stockholder rights plan to terminate Marriott International's right to purchase up to 20% of each class of our outstanding voting shares upon certain changes of control and clarified existing provisions in the management agreements that limit our ability to sell a hotel or our entire company to a competitor of Marriott International.

In 2003, 2002 and 2001, we paid Marriott International $136 million, $144 million and $162 million, respectively, in hotel management fees and $4 million, $5 million and $6 million, respectively, in franchise fees. In 2002 and 2001, we paid Marriott International $1 million and $2 million, respectively, for certain administrative services and office space.

15. Hotel Management Agreements

Of our hotels, 87 are subject to management agreements under which Marriott International or one of their subsidiaries manages the 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 that are generally three 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 us, 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. We have the option to terminate certain management agreements if specified performance or extension thresholds are not satisfied. A single agreement may be canceled under certain conditions, although such cancellation will not trigger the cancellation of any other agreement. Certain consolidated partnerships with a total of eight properties operate under a single agreement, cancellation of which would affect all the properties in these partnerships.

Pursuant to the terms of the agreements, Marriott International furnishes the hotels with certain 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 required to be allocated among all domestic hotels managed, owned or leased by Marriott International or its subsidiaries on a fair and equitable basis. In addition, our hotels also participate in the Marriott Rewards program. The cost of this program is charged to all hotels in the Marriott hotel system.

We are obligated to provide the manager with sufficient funds, generally 5% of revenue, 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, we will be required to establish escrow accounts for such purposes under terms outlined in the agreements. To the extent we are not required to fund such amounts into escrow accounts, we remain liable to make such fundings in the future.

We have franchise agreements with Marriott International for two hotels. Pursuant to these franchise agreements, we generally pay 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 are approximately six percent of sales, while fees for food and beverage sales are approximately three percent of sales. The terms of the franchise agreements are from 15 to 30 years.

We hold management agreements with The Ritz-Carlton Hotel Company, LLC (“Ritz-Carlton”), a wholly-owned subsidiary of Marriott International, to manage ten of our 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, if any, are generally equal to 20% of available cash flow or operating profit, as defined in the agreements.

We also hold management agreements with hotel management companies other than Marriott International and Ritz-Carlton for 15 of our hotels. 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. Fourteen of the fifteen 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. Geographic and Business Segment Information

We consider each one of our full-service hotels to be an operating segment, none of which meets the threshold for a reportable segment. We also allocate resources and assess operating performance based on individual hotels. All of our non-full-service hotel activities (primarily our limited-service leased hotels and office buildings) are immaterial. Accordingly, we report one business segment, hotel ownership. Our foreign operations consist of four properties located in Canada and two properties located in Mexico, one of which was sold in January 2004. There were no intercompany sales between us and the foreign properties. The following table presents revenues and long-lived assets for each of the geographical areas in which we operate (in millions):

	2003		2002		2001	
	Revenues	Long-lived Assets	Revenues	Long-lived Assets	Revenues	Long-lived Assets
United States	$ 3,332	$ 6,907	$ 3,397	$ 6,857	$ 3,443	$ 6,812
Canada	70	107	71	96	74	102
Mexico	46	71	48	78	41	85
Total	$ 3,448	$ 7,085	$ 3,516	$ 7,031	$ 3,558	$ 6,999

17. Guarantees

We have certain guarantees which consist of commitments we have made to third parties for leases or debt that are not on our books due to various dispositions, spin-offs and contractual arrangements, but that we have agreed to pay in the event of certain circumstances including default by an unrelated party. We consider the likelihood of any material payments under these guarantees to be remote. The guarantees are listed below:

- We remain contingently liable for rental payments on certain divested non-lodging properties. These primarily represent divested restaurants that were sold subject to our guarantee of rental payments. The aggregate amount of these guaranteed payments is approximately $40 million as of December 31, 2003.
- In 1997, we owned Leisure Park Venture Limited Partnership, which owns and operates a senior living facility. We spun-off the partnership as part of Crestline in the REIT conversion, but we remain obligated under a guarantee of interest and principal with regard to $14.7 million of municipal bonds issued by the New Jersey Economic Development Authority through their maturity in 2027. However, to the extent we are required to make any payments under the guarantee, we have been indemnified by Crestline, who, in turn, is indemnified by the current owner of the facility.
- We are required to maintain a letter of credit for $2.9 million to guarantee payment of certain expenses related to the mortgage for Hanover Marriott which is owned by one of our wholly-owned subsidiaries. Our mortgage lender is the beneficiary under the letter of credit which expires in April 2004.
- On November 20, 2003, we sold the Jacksonville Marriott and the associated ground lease was assigned to the purchaser. We are contingently liable under the ground lease for amounts not to exceed $2.25 million. However, the purchaser of the hotel has indemnified us against any payment on the ground lease. Further, if we pay the maximum amount of $2.25 million, the landlord would be required to deed the land to us.

18. Mandatorily Redeemable Non-controlling Interests of All Entities

We consolidate five partnerships, the Philadelphia Market Street HMC Limited Partnership, or Market Street; the Pacific Gateway, Ltd, or San Diego; the Lauderdale Beach Association or LBA; the Marriott Mexico City Partnership, or Mexico; and the East Side Hotel Associates, L.P., or East Side, with minority interest holders that have finite lives. The partnerships have lives ranging from 77 to 100 years and terminate between 2061 and 2097.

As of December 31, 2003, the minority interest holders in Market Street and San Diego had settlement alternatives in which they could be issued 367,909 and 1,616,000 OP Units, respectively, based on their ownership percentages of 1.58% and 10.03%, respectively, as stipulated in their partnership agreements. At December 31, 2003, the OP Units were valued at $4.5 million and $19.9 million, respectively, for Market Street and San Diego. LBA, East Side and Mexico do not have any settlement alternatives. At December 31, 2003, the fair values of the minority interests in these partnerships were approximately $114 million.

19. Subsequent Events

In January 2004, we redeemed approximately $218 million of Series C senior notes and made a partial prepayment of approximately $44 million on a mortgage loan for two Ritz-Carlton properties. We recorded a loss of approximately $11 million related to the payment of the call premium and the acceleration of the related deferred financing fees in the first quarter of 2004.

In January 2004, we sold four hotels for total proceeds of approximately $80 million resulting in a minimal gain.

20. Quarterly Financial Data (unaudited)

	2003				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
	(in millions, except per share amounts)				
Revenues	$ 779	$ 840	$ 737	$ 1,092	$ 3,448
Income (loss) from continuing operations	(35)	(18)	(68)	(104)	(225)
Income from discontinued operations	1	4	4	230	239
Cumulative effect of a change in accounting principle (1)	—	—	(24)	24	—
Net income (loss)	(34)	(14)	(88)	150	14
Net income (loss) available to common shareholders	(43)	(23)	(97)	142	(21)
Basic earnings (loss) per common share:					
Continuing operations	(.16)	(.10)	(.28)	(.36)	(.92)
Discontinued operations	—	.01	.02	.74	.85
Cumulative effect of a change in accounting principle (1)	—	—	(.09)	.08	—
Net income (loss)	(.16)	(.09)	(.35)	.46	(.07)
Diluted earnings (loss) per common share:					
Continuing operations	(.16)	(.10)	(.28)	(.36)	(.92)
Discontinued operations	—	.01	.02	.74	.85
Cumulative effect of a change in accounting principle (1)	—	—	(.09)	.08	—
Net income (loss)	(.16)	(.09)	(.35)	.46	(.07)

(1) See the discussion of the cumulative effect of a change in accounting principle in Note 1, "*Application of New Accounting Standards.*"

	2002				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
	(in millions, except per share amounts)				
Revenues	$ 762	$ 881	$ 745	$ 1,128	$ 3,516
Income (loss) from continuing operations	(14)	19	(49)	(10)	(54)
Income from discontinued operations	15	5	11	7	38
Net income (loss)	1	24	(38)	(3)	(16)
Net income (loss) available to common shareholders	(8)	15	(47)	(11)	(51)
Basic earnings (loss) per common share:					
Continuing operations	(.09)	.04	(.22)	(.07)	(.34)
Discontinued operations	.06	.02	.04	.03	.15
Net income (loss)	(.03)	.06	(.18)	(.04)	(.19)
Diluted earnings (loss) per common share:					
Continuing operations	(.09)	.04	(.22)	(.07)	(.34)
Discontinued operations	.06	.02	.04	.03	.15
Net income (loss)	(.03)	.06	(.18)	(.04)	(.19)

The sum of the basic and diluted earnings (loss) per common share for the four quarters in all years presented 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.

Item 9A. *Controls and Procedures*

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-14(c). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, we have investments in certain unconsolidated entities. As we do not control or manage these entities, our disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those we maintain with respect to our consolidated subsidiaries.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

There have been no changes in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

Certain information called for by Items 10-14 is incorporated by reference from our 2004 Annual Meeting of Stockholders Notice and Proxy Statement (to be filed pursuant to Regulation 14A not later than 120 days after the close of our fiscal year).

Item 10. *Directors and Executive Officers of the Registrant*

The Company has adopted a Code of Business Conduct and Ethics that applies to all employees. In compliance with the applicable rules of the SEC, special ethics obligations of our Chief Executive Officer, Chief Financial Officer, Corporate Controller and other employees who perform financial or accounting functions are set forth in Section 8 of the Code of Business Conduct and Ethics, entitled *Special Ethics Obligations of Employees with Financial Reporting Obligations*. The Code is available at the Investor Information/Governance section of our website at www.hostmarriott.com. We intend to satisfy the disclosure requirements under the Securities and Exchange Act of 1934, as amended, regarding an amendment to or waiver from our Code of Business Conduct and Ethics by posting such information on our web site.

The information required by this item with respect to directors is incorporated by reference to the section of the Company's definitive Proxy Statement for its 2004 Annual Meeting of Stockholders entitled "Proposal No. 1: Election of Directors." See Part I of this Annual Report for information regarding the executive officers of the Company.

The information required by this item with respect to compliance with Section 16(a) of the Exchange Act is incorporated by reference to the section of the Company's definitive Proxy Statement for its 2004 Annual Meeting of Stockholders entitled "Section 16(a) Beneficial Ownership Reporting Compliance."

The information required by this item with respect to Audit Committee Financial Experts is incorporated by reference to the section of the Company's definitive Proxy Statement for its 2004 Annual Meeting of Stockholders entitled "The Board of Directors and Committees of the Board."

Item 11. ***Executive Compensation***

The information required by this item is incorporated by reference to the section of the Company's definitive Proxy Statement for its 2004 Annual Meeting of Stockholders entitled "Executive Officer Compensation," "Aggregated Stock Option/SAR Exercises and Year-end Value," "Compensation of Directors," "Employment Arrangements" and "Compensation Committee Interlocks and Insider Participation."

Item 12. ***Security Ownership of Certain Beneficial Owners and Management***

The Information required by this item is incorporated by reference to the section of the Company's definitive Proxy Statement for its 2004 Annual Meeting of Stockholders entitled "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information."

Item 13. ***Certain Relationships and Related Transactions***

The Information required by this item is incorporated by reference to the section of the Company's definitive Proxy Statement for its 2004 Annual Meeting of Stockholders entitled "Certain Relationships and Related Transactions."

Item 14. ***Principal Accountant Fees and Services***

The information required by this item is incorporated by reference to the section of the Company's definitive Proxy Statement for its 2004 Annual Meeting of Stockholders entitled "Auditor Fees."

PART IV

Item 15. ***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:

		Page
III.	Real Estate and Accumulated Depreciation.	S-1 to S-5

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

(b) REPORTS ON FORM 8-K

— On February 24, 2004 Host Marriott filed a current report on Form 8-K to file the balance sheet, statements of operations, and other financial data for the fourth quarter and year ended December 31, 2003.

— On February 5, 2004 Host Marriott filed a current report on Form 8-K to file an announcement that it has sold three hotels and signed an agreement to sell two additional hotels for total proceeds of $70 million and announced the sale of the Mexico City Airport Marriott hotel for total proceeds of $30 million.

— On January 27, 2004 Host Marriott filed an amendment to a current report on Form 8-K originally filed on November 25, 2003, to announce the acquisition of the Hyatt Regency Maui Resort and Spa and present pro forma and historical financial statements related to the acquisition.

— On December 10, 2003 Host Marriott filed a current report on Form 8-K to file restated consolidated financial statements for December 31, 2002 and 2001 and for the three years ended December 31, 2002.

— On November 25, 2003 Host Marriott filed a current report on Form 8-K to announce the acquisition of the Hyatt Regency Maui Resort and Spa.

— On October 28, 2003 Host Marriott filed a current report on Form 8-K to announce it has increased its offering in a private placement to $725 million in aggregate principal of 7 1/8% senior notes due 2013.

— On October 27, 2003 Host Marriott announced a proposed offering of $500 million in aggregate principal amount of senior notes due 2013.

— On October 21, 2003 Host Marriott announced it entered into an underwriting agreement in connection with the public offering of 23.5 million shares of its common stock.

(c) 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 Exhibit 2.1 of Host Marriott Corporation Registration Statement No. 333-64793).
3.1	Bylaws of Host Marriott Corporation, as amended, effective August 1, 2002. (incorporated by reference to Exhibit 3.1 of Host Marriott Corporation's Annual Report on Form 10-K for 2002, filed on March 31, 2003).
3.2	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).
3.3	Articles Supplementary of Host Marriott Corporation Classifying and Designating a Series of Preferred Stock as Series A Junior Participating Preferred Stock and Fixing Distribution and Other Preferences and Rights of Such Series (incorporated by reference to Exhibit 4.2 of Host Marriott Corporation Registration Statement on Form 8-A (Registration No. 001-14625) filed with the Commission on December 11, 1998).
3.4	Articles Supplementary of Host Marriott Corporation Classifying and Designating Preferred Stock of the Registrant as 10% Class A Cumulative Redeemable Preferred Stock (Incorporated by reference to Exhibit 4.1 of Host Marriott Corporation Registration Statement on Form 8-A (Registration No. 001-14625) filed with the Commission on July 30, 1999).
3.5	Articles Supplementary of Host Marriott Corporation Classifying and Designating Preferred Stock of the Registrant as 10% Class B Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 4.1 of Host Marriott Corporation Registration Statement on Form 8-A (Registration No. 001-14625) filed with the Commission on November 23, 1999).
3.6	Articles Supplementary of Host Marriott Corporation Classifying and Designating Preferred Stock of the Registrant as 10% Class C Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 4.1 of Host Marriott Corporation Registration Statement on Form 8-A (Registration No. 001-14625) filed with the Commission on March 23, 2001).
3.7	Articles Supplementary of Host Marriott Corporation Classifying and Designating Preferred Stock of the Registrant as 10% Class D Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 3.7 of Host Marriott Corporation's report on Form 10-Q, filed August 4, 2003).

Exhibit No.	Description
4.1	Form of Common Stock Certificate of Host Marriott Corporation (incorporated by reference to Exhibit 4.7 of Host Marriott Corporation Registration Statement No. 333-55807).
4.2	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's Registration Statement No. 333-19923).
4.3	First Supplemental Indenture, dated December 29, 1998, to Indenture, dated December 2, 1996, by and among Host Marriott Corporation, HMC Merger Corporation, Host Marriott, L.P., and IBJ Schroeder Bank & Trust Company (incorporated by reference to Exhibit 4.1 of Host Marriott Corporation Current Report on Form 8-K, dated December 30, 1998).
4.4	Amended and Restated Trust Agreement, dated December 29, 1998, among HMC Merger Corporation, as Depositor, IBJ Schroeder Bank & Trust Company, as Property Trustee, Delaware Trust Capital Management, Inc., as Delaware Trustee, and Robert E. Parsons, Jr., W. Edward Walter and Christopher G. Townsend, as Administrative Trustees (incorporated by reference to Exhibit 4.9 of Host Marriott Corporation's Report on Form 10-K for the year ended December 31, 1998).
4.5	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).
4.6	Amendment No. 1, dated December 29, 1998, to Guarantee Agreement, dated December 2, 1996 (incorporated by reference to Exhibit 4.2 of Host Marriott Corporation Current Report on Form 8-K, dated December 30, 1998).
4.7	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 Exhibit 4.1 of Host Marriott Corporation Current Report on Form 8-K dated November 23, 1998).
4.8	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 Exhibit 4.2 of Host Marriott Corporation Registration Statement No. 001-14625 dated December 24, 1998).
4.9	Amendment No. 2 to Rights Agreement between Host Marriott Corporation and The Bank of New York as Rights Agent dated as of August 21, 2002. (incorporated by reference to Host Marriott Corporation Report on Form 10-Q for the quarter ended September 6, 2002).
4.10	Form of Rights Certificate (incorporated by reference to Exhibit 4.3 of Host Marriott Corporation's Registration Statement on Form 8-A, filed on December 11, 1998).
4.11	First Supplemental Indenture to Amended and Restated Indenture dated as of August 5, 1998 among HMH Properties, Inc., the Guarantors and Subsidiary Guarantors named in the Amended and Restated Indenture, dated as of August 5, 1998, and Marine Midland Bank, as Trustee (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated August 6, 1998).
4.12	Third Supplemental Indenture, dated as of December 14, 1998, by and among HMH Properties Inc., Host Marriott, L.P., the entities identified therein as New Subsidiary Guarantors and Marine Midland Bank, as Trustee, to the Amended and Restated Indenture, dated as of August 5, 1998, among the Company, the Guarantors named therein, Subsidiary Guarantors named therein and the Trustee (incorporated by reference to Exhibit 4.3 of Host Marriott, L.P.'s Registration Statement No. 333-55807).
4.13	Fourth Supplemental Indenture, dated as of February 25, 1999, among Host Marriott, L.P., the Subsidiary Guarantors signatory thereto and Marine Midland Bank as Trustee to the Amended and Restated Indenture, dated as of August 5, 1998, as amended and supplemented through the date of the Fourth Supplemental Indenture (incorporated by reference to Exhibit 4.2 of Host Marriott, L.P.'s Registration Statement No. 333-79275).

Exhibit No.	Description
4.14	Sixth Supplemental Indenture, dated as of October 6, 2000, among Host Marriott, L.P., the Subsidiary Guarantors signatory thereto and HSBC Bank USA (formerly Marine Midland Bank, as Trustee to the Amended and Restated Indenture, dated as of August 5, 1998, as amended and supplemented through the date of the Sixth Supplemental Indenture (incorporated by reference to Exhibit 4.2 of Host Marriott, L.P.'s Registration Statement No. 333-51944).
4.15	Ninth Supplemental Indenture, dated as of December 14, 2001, among Host Marriott, L.P. the Subsidiary Guarantors signatory thereto and HSBC Bank USA (formerly Marine Midland Bank, as Trustee to the Amended and Restated Indenture, dated as of August 5, 1998, as amended and supplemented through the date of the Ninth Supplemental Indenture (incorporated by reference to Exhibit 4.2 of Host Marriott, L.P.'s Registration Statement No ..333-76550).
4.16	Twelfth Supplemental Indenture, dated November 6, 2003, by and among Host Marriott, L.P., the Subsidiary Guarantors signatures thereto and The Bank of New York, as successor to HSBC Bank USA (formerly, Marine Midland Bank), as trustee (incorporated by reference to Exhibit 4.13 of Host Marriott, L.P.'s Registration Statement on Form S-4 filed December 9, 2003).
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, L.P.'s Registration Statement on Form S-4/A No. 333-55807, filed October 8, 1998).
10.2	Eleventh Amendment to Second Amended and Restated Agreement of Limited Partnership of Host Marriott, L.P., dated as of August 3, 1999, establishing an additional class of units entitled the Class A Preferred Units (incorporated by reference to Exhibit 3.2 of Host Marriott, L.P.'s Report on Form 10-K for the year ended December 31, 2001).
10.3	Sixteenth Amendment to Second Amended and Restated Agreement of Limited Partnership of Host Marriott, L.P., dated as of November 29, 1999, establishing an additional class of units entitled the Class B Preferred Units (incorporated by reference to Exhibit 3.3 of Host Marriott, L.P.'s Report on Form 10-K for the year ended December 31, 2001).
10.4	Twenty-fifth Amendment to Second Amended and Restated Agreement of Limited Partnership of Host Marriott, L.P., dated as of March 27, 2001, establishing an additional class of units entitled the Class C Preferred Units (incorporated by reference to Exhibit 3.4 of Host Marriott, L.P.'s Report on Form 10-K for the year ended December 31, 2001).
10.5*	Thirty-sixth Amendment to Second Amended and Restated Agreement of Limited Partnership of Host Marriott, L.P., dated as of June 19, 2003, establishing an additional class of units entitled the Class D Preferred Units.
10.6	Host Marriott L.P. Executive Deferred Compensation Plan as amended and restated effective January 1, 1999 (formerly the Host Marriott Corporation Executive Deferred Compensation Plan) (incorporated by reference to Exhibit 10.7 of Host Marriott Corporation's Report on Form 10-K for the year ended December 31, 1998).
10.7*	Host Marriott Corporation 1997 Comprehensive Stock and Cash Incentive Plan, as amended and restated December 29, 1998, as amended January 2004.
10.8	Distribution Agreement dated as of September 15, 1993 between Host Marriott Corporation and Marriott International, Inc. (incorporated by reference from Host Marriott Corporation Current Report on Form 8-K dated October 25, 1993).
10.9	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).

Exhibit No.	Description
10.10	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 Exhibit 10.8 of Host Marriott Corporation Registration Statement No. 333-64793).
10.11	Amendment No. 3 to the Distribution Agreement dated March 3, 1998 by and among Host Marriott Corporation, Host Marriott Services Corporation, Marriott International, Inc. and Sodexho Marriott Services, Inc. (incorporated by reference to Exhibit 10.9 of Host Marriott Corporation Registration Statement No. 333-64793).
10.12	Amendment No. 4 to the Distribution Agreement by and among Host Marriott Corporation and Marriott International Inc. (incorporated by reference to Exhibit 10.10 of Host Marriott Corporation Registration Statement No. 333-64793).
10.13	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. (incorporated by reference to Exhibit 10.14 of Host Marriott Corporation's Form 10-K for the year ended December 31, 1998).
10.14*	Amendment No. 6, dated as of January 10, 2001, to the Distribution Agreement dated as of September 15, 1993 between Host Marriott Corporation and Marriott International, Inc.
10.15	Amendment No. 7, dated as of December 29, 2001, to the Distribution Agreement dated as of December 15, 1993 between Host Marriott Corporation and Marriott International, Inc. (incorporated by reference to Exhibit 10.38 of Host Marriott Corporation's Report on Form 10-Q for the quarter ended September 6, 2002).
10.16	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).
10.17	Amendment to Distribution Agreement dated December 22, 1995 by and between Host Marriott Corporation and Host Marriott Services Corporation (incorporated by reference to Exhibit 10.16 of Host Marriott Corporation's Form Report on 10-K for the year ended December 31, 1998).
10.18	Tax Sharing Agreement dated as of October 5, 1993 by and between Host Marriott Corporation and Marriott International, Inc. (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated October 25, 1993).
10.19	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 (incorporated by reference to Exhibit 10.18 of Host Marriott Corporation's Report on Form 10-K for the year ended December 31, 1998).
10.20	Tax Administration Agreement dated as of October 8, 1993 by and between Host Marriott Corporation and Marriott International, Inc. (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated October 25, 1993).
10.21	Restated Noncompetition Agreement by and among Host Marriott Corporation, Marriott International, Inc. and Sodexho Marriott Services, Inc. (incorporated by reference to Exhibit 10.17 of 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 Exhibit 10.18 of Host Marriott Corporation Registration Statement No. 333-64793).
10.23	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).

Exhibit No.	Description
10.24	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).
10.25*	Host Marriott, L.P. Retirement and Savings Plan, as amended and effective January 1, 2004.
10.26	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).
10.27	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).
10.28	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).
10.29	Employee Benefits and Other Employment Matters Allocation Agreement between Host Marriott Corporation, Host Marriott, L.P. and Crestline Capital Corporation (incorporated by reference to Exhibit 10.25 of Host Marriott Corporation Registration Statement No. 333-64793).
10.30	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, Inc., Sodexho Marriott Services, Inc., Crestline Capital Corporation and Host Marriott, L.P. (incorporated by reference to Exhibit 10.34 of Host Marriott Corporation’s Report on Form 10-K for the year ended December 31, 1998).
10.31	Amended and Restated Noncompetition Agreement among Host Marriott Corporation, Host Marriott, L.P. and Crestline Capital Corporation, dated December 28, 1998 (incorporated by reference to Exhibit 10.19 of Host Marriott Corporation’s Annual Report on Form 10-K dated December 31, 1998).
10.32*	First Amendment, dated as of December 28, 1998, to the Restated Noncompetition Agreement dated March 3, 1998 by and among Host Marriott Corporation, Marriott International, Inc. and Crestline Capital Corporation.
10.33	Credit Agreement, dated as of June 6, 2002, among Host Marriott, L.P., Certain Canadian Subsidiaries of Host Marriott, L.P., Deutsche Bank Trust Company Americas, Bank of America, N.A., Citicorp Real Estate, Inc., Credit Lyonnais New York Branch, Wells Fargo Bank, N.A. and various lenders (incorporated by reference to Exhibit 10.37 of Host Marriott, L.P.’s report on Form 8-K filed on June 14, 2002).
10.34	Pledge and Security Agreement, dated as of June 6, 2002, among Host Marriott, L.P. and the other Pledgors named therein and Deutsche Bank Trust Company Americas, as Pledgee (incorporated by reference to Exhibit 10.38 of Host Marriott, L.P.’s report on Form 8-K filed on June 14, 2002).
10.35	Subsidiaries Guaranty, dated as of June 6, 2002, by the subsidiaries of Host Marriott, L.P. named as Guarantors therein (incorporated by reference to Exhibit 10.39 of Host Marriott, L.P.’s report on Form 8-K filed on June 14, 2002).
10.36	Amendment No. 1 to the Credit Agreement, dated as of May 14, 2003, among Host Marriott, L.P., Calgary Charlotte Partnership, HMC Toronto Air Company, HMC Toronto EC Company, HMC AP Canada Company, and Deutsche Bank Trust Company Americas, as Administrative Agent, and various lenders (incorporated by reference to Exhibit 10.41 of Host Marriott Corporation’s report on Form 8-K filed on May 19, 2003).

Exhibit No.	Description
10.37	Acquisition and Exchange Agreement dated November 13, 2000 by Host Marriott, L.P. and Crestline Capital Corporation (incorporated by reference to Exhibit 99.2 of Host Marriott, L.P.'s Form 8-K/A filed December 14, 2000).
10.38	Host Marriott Corporation's Non-Employee Director's Deferred Stock Compensation Plan. (incorporated by reference to Exhibit 10.7 of Host Marriott Corporation's Report on Form 10-K for the year ended December 31, 1998).
10.40	Separation and Retire Agreement dated as of May 30, 2003 (incorporated by reference to Exhibit 10.38 of Host Marriott Corporation's Report on Form 10-Q, filed August 4, 2003).
10.41	Host Marriott Severance Plan for members of senior management adopted as of March 6, 2003 (incorporated by reference to Exhibit 10.39 of Host Marriott Corporation's Report on Form 10-Q, filed August 4, 2003).
12*	Computation of Ratios of Earnings to Fixed Charges and Preferred Stock Dividends.
21*	List of Subsidiaries of Host Marriott Corporation.
23*	Consent of KPMG LLP.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002.†

* Filed herewith.

† This certificate is being furnished solely to accompany the report pursuant to 18 U.S.C. 1350 and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Bethesda, State of Maryland, on March 2, 2004.

HOST MARRIOTT CORPORATION

By: /s/ W. EDWARD WALTER

W. Edward Walter
Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange 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/ RICHARD E. MARRIOTT **Richard E. Marriott**	Chairman of the Board of Directors	March 2, 2004
/s/ CHRISTOPHER J. NASSETTA **Christopher J. Nassetta**	President, Chief Executive Officer and Director (Principal Executive Officer)	March 2, 2004
/s/ W. EDWARD WALTER **W. Edward Walter**	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 2, 2004
/s/ LARRY K. HARVEY **Larry K. Harvey**	Senior Vice President and Corporate Controller (Principal Accounting Officer)	March 2, 2004
/s/ ROBERT M. BAYLIS **Robert M. Baylis**	Director	March 2, 2004
/s/ TERENCE C. GOLDEN **Terence C. Golden**	Director	March 2, 2004
/s/ ANN MCLAUGHLIN KOROLOGOS **Ann McLaughlin Korologos**	Director	March 2, 2004
/s/ JUDITH A. MCHALE **Judith A. McHale**	Director	March 2, 2004
/s/ JOHN B. MORSE, JR. **John B. Morse, Jr.**	Director	March 2, 2004

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2003
(in millions)

		Initial Costs			Gross Amount at December 31, 2003						
Description(1)	**Debt**	**Land**	**Buildings & Improvements**	**Subsequent Costs Capitalized**	**Land**	**Buildings & Improvements**	**Total**	**Accumulated Depreciation**	**Date of Completion of Construction**	**Date Acquired**	**Depreciation Life**
Full-service hotels:											
Albany, New York	$ —	$ 6	$ 31	$ (1)	$ 6	$ 30	$ 36	$ (5)	—	1998	40
The Ritz-Carlton, Amelia Island, Georgia	—	25	115	6	25	121	146	(15)	—	1998	40
Four Seasons, Atlanta, Georgia	37	5	48	13	6	60	66	(8)	—	1998	40
Grand Hyatt, Atlanta, Georgia	—	8	89	10	8	99	107	(13)	—	1998	40
Atlanta Marquis, Georgia	149	12	184	36	16	216	232	(29)	—	1998	40
Atlanta Midtown Suites, Georgia	—	—	26	2	—	28	28	(5)	—	1996	40
Westin, Buckhead, Georgia	33	5	84	17	6	100	106	(14)	—	1998	40
Bethesda, Maryland	—	—	10	20	—	30	30	(18)	—	1979	40
Miami Biscayne Bay, Florida	—	—	32	(3)	—	29	29	(6)	—	1998	40
Boston Marriott Copley Place, Massachusetts	92	—	203	12	—	215	215	(10)	—	2002	40
Boston/Newton, Massachusetts	—	3	31	9	3	40	43	(20)	—	1997	40
Hyatt, Boston, Massachusetts	35	15	69	17	17	84	101	(11)	—	1998	40
Hyatt Regency, Burlingame, California	68	16	119	32	20	147	167	(19)	—	1998	40
Calgary, Canada	13	6	17	6	5	24	29	(6)	—	1996	40
Hyatt Regency, Cambridge, Massachusetts	48	19	83	9	19	92	111	(12)	—	1998	40
Chicago/Downtown Courtyard, Illinois	—	7	27	3	7	30	37	(9)	—	1992	40
Chicago O'Hare, Illinois	—	4	26	29	4	55	59	(19)	—	1997	40
Chicago O'Hare Suites, Illinois	—	—	36	1	—	27	37	(5)	—	1998	40
Chicago/Deerfield Suites, Illinois	—	4	19	1	4	20	24	(7)	—	1990	40
Swissôtel, Chicago, Illinois	57	30	131	10	30	141	171	(19)	—	1998	40
Coronado Island Resort, California	—	—	53	4	—	57	57	(10)	—	1997	40
Costa Mesa Suites, California	—	3	18	1	3	19	22	(4)	—	1996	40
Dallas/Fort Worth Airport, Texas	—	6	37	7	6	44	50	(12)	—	1995	40
Dallas Quorum, Texas	—	—	27	5	—	32	32	(9)	—	1994	40
Dayton, Ohio	—	2	30	1	2	31	33	(4)	—	1998	40
The Ritz-Carlton, Dearborn, Michigan	—	8	51	3	8	54	62	(8)	—	1998	40
Denver Tech Center, Colorado	—	6	26	13	6	39	45	(9)	—	1994	40
Desert Springs Resort and Spa, California	93	13	143	64	13	207	220	(32)	—	1997	40
Fairview Park, Virginia	—	9	39	2	9	41	50	(6)	—	1998	40
Fort Lauderdale Marina, Florida	—	6	30	10	6	40	46	(12)	—	1994	40
Gaithersburg/Washingtonian Center, Maryland	—	7	22	1	7	23	30	(6)	—	1993	40
Hanover, New Jersey	27	6	29	9	6	38	44	(9)	—	1997	40
Harbor Beach Resort, Florida	93	—	62	45	—	107	107	(21)	—	1997	40
Hartford/Farmington, Connecticut	20	8	21	8	8	29	37	(5)	—	1997	40

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2003
(in millions)

		Initial Costs			Gross Amount at December 31, 2003						
Description(1)	Debt	Land	Buildings & Improvements	Subsequent Costs Capitalized	Land	Buildings & Improvements	Total	Accumulated Depreciation	Date of Completion of Construction	Date Acquired	Depreciation Life
Houston Airport, Texas	—	—	10	28	—	38	38	(15)	—	1984	40
JW Marriott Hotel at Lenox, Georgia	—	—	21	10	—	31	31	(11)	—	1990	40
JW Marriott Houston, Texas	—	4	26	10	8	32	40	(9)	—	1994	40
JWDC, Washington, D.C.	88	26	99	4	26	103	129	(10)	—	2003	40
Kansas City Airport, Missouri	—	—	8	15	—	23	23	(19)	—	1974	40
Key Bridge, Virginia	—	—	38	3	—	41	41	(21)	—	1997	40
Manhattan Beach, California	—	—	36	5	—	41	41	(8)	—	1997	40
Marina Beach, California	—	—	13	15	—	28	28	(5)	—	1995	40
Maui Hyatt, Hawaii	—	93	213	—	93	213	306	(1)	—	2003	40
Memphis, Tennessee	—	—	16	10	—	26	26	(6)	—	1998	40
Mexico City Airport, Mexico	9	9	29	1	9	30	39	(12)	—	1996	40
JW Marriott, Mexico City, Mexico	12	11	35	3	11	38	49	(10)	—	1996	40
Miami Airport, Florida	—	—	7	42	—	49	49	(30)	—	1972	40
Minneapolis City Center, Minnesota	—	—	27	15	—	42	42	(25)	—	1986	40
Minneapolis Southwest, Minnesota	—	5	23	1	5	24	29	(4)	—	1998	40
New Orleans, Louisiana	93	16	96	56	16	152	168	(29)	—	1996	40
New York Financial Center, New York	—	19	79	13	19	92	111	(18)	—	1997	40
New York Marquis, New York	240	—	552	77	—	629	629	(240)	—	1986	40
Newark Airport, New Jersey	—	—	30	23	—	53	53	(28)	—	1984	40
Newport Beach, California	—	11	13	45	11	58	69	(34)	—	1975	40
Orlando World Center Resort, Florida	225	18	157	178	29	324	353	(51)	—	1997	40
Pentagon City Residence Inn, Virginia	—	6	29	3	6	32	38	(6)	—	1996	40
Philadelphia Airport, Pennsylvania	—	—	42	2	—	44	44	(9)	—	1995	40
Philadelphia Convention Center, Pennsylvania	104	3	143	52	11	187	198	(38)	—	1995	40
Four Seasons, Philadelphia, Pennsylvania	—	27	59	9	27	68	95	(9)	—	1998	40
Portland, Oregon	—	6	40	8	6	48	54	(12)	—	1994	40
Hyatt Regency, Reston, Virginia	44	11	78	8	11	86	97	(11)	—	1998	40
The Ritz-Carlton, Phoenix, Arizona	—	10	63	1	10	64	74	(10)	—	1998	40
The Ritz-Carlton, Tysons Corner, Virginia	—	—	89	5	—	94	94	(14)	—	1998	40
The Ritz-Carlton, San Francisco, California	—	31	123	5	31	128	159	(18)	—	1998	40
Salt Lake City, Utah	—	—	48	9	—	57	57	(10)	—	1996	40
San Antonio Rivercenter, Texas	76	—	86	44	—	130	130	(23)	—	1996	40
San Antonio Riverwalk, Texas	—	—	45	3	—	48	48	(11)	—	1995	40
San Diego Hotel and Marina, California	188	—	203	92	—	295	295	(54)	—	1996	40

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2003
(in millions)

		Initial Costs			Gross Amount at December 31, 2003						
Description(1)	**Debt**	**Land**	**Buildings & Improvements**	**Subsequent Costs Capitalized**	**Land**	**Buildings & Improvements**	**Total**	**Accumulated Depreciation**	**Date of Completion of Construction**	**Date Acquired**	**Depreciation Life**
San Diego Mission Valley, California	—	4	22	—	4	22	26	(4)	—	1998	40
San Francisco Airport, California	—	11	48	16	12	63	75	(16)	—	1994	40
San Francisco Fisherman's Wharf, California	—	6	20	7	6	27	33	(9)	—	1994	40
San Francisco Moscone Center, California	—	—	278	31	—	309	309	(91)	—	1989	40
San Ramon, California	21	—	22	9	—	31	31	(6)	—	1996	40
Santa Clara, California	37	—	39	32	—	71	71	(36)	—	1989	40
Scottsdale Suites, Arizona	—	3	20	—	3	20	23	(4)	—	1996	40
Seattle SeaTac Airport, Washington	—	4	48	(6)	4	42	46	(9)	—	1998	40
Tampa Waterside, Florida	—	—	—	98	11	87	98	(9)	2000		40
Swissôtel, The Drake, New York	66	29	130	39	34	164	198	(22)	—	1998	40
The Ritz-Carlton, Atlanta, Georgia	—	13	41	9	13	50	63	(12)	—	1996	40
The Ritz-Carlton, Buckhead, Georgia	78	15	79	21	15	100	115	(19)	—	1996	40
The Ritz-Carlton, Marina del Rey, California	—	—	52	8	—	60	60	(12)	—	1997	40
The Ritz-Carlton, Naples, Florida	117	19	126	58	21	182	203	(36)	—	1996	40
The Ritz-Carlton, Naples Golf Lodge, Florida	—	6	—	63	6	63	69	(3)	2002	—	40
Toronto Airport, Canada	15	5	24	3	5	27	32	(6)	—	1996	40
Toronto Eaton Center, Canada	27	—	27	3	—	30	30	(6)	—	1995	40
Toronto Delta Meadowvale, Canada	—	4	20	8	4	28	32	(8)	—	1996	40
Torrance, California	—	9	39	4	9	43	52	(6)	—	1998	40
Dulles Airport, Virginia	—	—	3	25	—	28	28	(21)	—	1970	40
Washington Dulles Suites, Virginia	—	3	24	1	3	25	28	(5)	—	1996	40
Washington Metro Center, Washington D.C.	—	20	24	3	20	27	47	(7)	—	1994	40
Westfields, Virginia	—	7	32	3	7	35	42	(9)	—	1994	40
Sub total full-service hotels:	2,205	703	5,662	1,632	756	7,241	7,997	(1,564)			
Sub total—other full-service properties less than 5% of total:	—	30	297	57	30	354	384	(120)		various	40
Total full-service properties:	2,205	733	5,959	1,689	786	7,595	8,381	(1,684)			
Other properties, each less than 5% of total	—	36	15	(38)	—	13	13	(13)		various	various
Total properties	—	769	5,974	1,651	786	7,608	8,394	(1,697)			
Held for sale properties	—	12	64	12	12	76	88	(20)		various	—
TOTAL	$ 2,205	$ 781	$ 6,038	$ 1,663	$ 798	$ 7,684	$ 8,482	$ (1,717)			

(1) Each hotel is operated as a Marriott-brand hotel unless otherwise indicated by its name.

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2003
(in millions)

Notes:

(A) The change in total cost of properties for the fiscal years ended December 31, 2003, 2002 and 2001 is as follows:

Balance at December 31, 2000	$7,671
Additions:	
Capital expenditures and transfers from construction-in-progress	278
Deductions:	
Impairment charges	(13)
Dispositions and other	(201)
Balance at December 31, 2001	7,735
Additions:	
Acquisitions	284
Capital expenditures and transfers from construction-in-progress	158
Deductions:	
Dispositions and other	(42)
Balance at December 31, 2002	8,135
Additions:	
Acquisitions	448
Capital expenditures and transfers from construction-in-progress	94
Deductions:	
Dispositions and other	(195)
Assets held for sale	(88)
Balance at December 31, 2003	$8,394

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2003
(in millions)

(B) The change in accumulated depreciation and amortization of real estate assets for the fiscal years ended December 31, 2003, 2002 and 2001 is as follows:

Balance at December 31, 2000	$1,066
Depreciation and amortization	281
Dispositions and other	(66)
Balance at December 31, 2001	1,281
Depreciation and amortization	237
Dispositions and other	(17)
Balance at December 31, 2002	1,501
Depreciation and amortization	257
Dispositions and other	(41)
Depreciation on assets held for sale	(20)
Balance at December 31, 2003	$1,697

(C) The aggregate cost of properties for Federal income tax purposes is approximately $5,695 million at December 31, 2003.

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

Exhibit 10.5

**THIRTY-SIXTH AMENDMENT TO
SECOND AMENDED AND RESTATED
AGREEMENT OF LIMITED PARTNERSHIP
OF
HOST MARRIOTT, L.P.**

This THIRTY-SIXTH AMENDMENT TO SECOND AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP OF HOST MARRIOTT, L.P. (this "Thirty-Sixth Amendment"), dated as of June 19, 2003, is entered into by Host Marriott Corporation, a Maryland corporation, as general partner (the "General Partner") of Host Marriott, L.P., a Delaware limited partnership (the "Partnership"), for itself and on behalf of the limited partners of the Partnership (the "Limited Partners").

WHEREAS, the General Partner has issued on the date hereof 33,182 shares of 10% Class D Cumulative Redeemable Preferred Stock (the "Class D Preferred Stock") pursuant to an exemption from the securities registration laws provided by Section 4(2) of the Securities Act of 1933, as amended, and the General Partner has contributed the net proceeds from the sale of such shares of Class D Preferred Stock to the Partnership in exchange for 100% of a new class of Units entitled the Class D Preferred Units, which will have rights and preferences substantially identical to those of the Class D Preferred Stock (it being understood that, if the General Partner issues additional shares of Class D Preferred Stock after the date hereof, the General Partner will contribute the net proceeds from the sale of such additional shares to the Partnership in exchange for an equal number of additional Class D Preferred Units).

WHEREAS, pursuant to the authority granted to the General Partner pursuant to Section 4.2 of the Second Amended and Restated Agreement of Limited Partnership of the Partnership, dated as of December 30, 1998 (the "Partnership Agreement"), the General Partner desires to amend the Partnership Agreement (i) to establish the Class D Preferred Units as a new class of Units, (ii) to set forth the designations, preferences, rights, powers, restrictions and limitations of the Class D Preferred Units and (iii) to issue to the General Partner 33,182 Class D Preferred Units.

NOW THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the General Partner hereby amends the Partnership Agreement, as follows:

1. Amendment to Partnership Agreement.

(a) Article I of the Partnership Agreement is hereby amended by adding the following defined term:

"Class D Preferred Capital" means an amount, with respect to the General Partner, equal to the product of (i) the number of Class D Preferred Units then issued and outstanding multiplied by (ii) the sum of $25.00 and any accumulated, accrued and unpaid distributions on each Class D Preferred Unit.

(b) Section 4.2 of the Partnership Agreement is hereby amended by adding the following after Section 4.2.I:

J. Class D Preferred Units. Under the authority granted to it pursuant to Section 4.2.A hereof, the General Partner hereby establishes an additional Class of Units entitled "Class D Preferred Units" (the "Class D Preferred Units"). Class D Preferred Units shall have the designation, preferences, rights, powers, restrictions and limitations set forth in Exhibit K hereto.

(c) Section 6.1.B of the Partnership Agreement is hereby amended by deleting Section 6.1.B of the Partnership Agreement and adding the following after Section 6.1.A:

B. Net Losses. After giving effect to the special allocations set forth in Section 1 of Exhibit C, Net Losses shall be allocated:

(i) first, to each Partner who holds Units not entitled to any preference in distributions, pro rata to each such class in accordance with the terms of such class as set forth in this Agreement or otherwise established by the General Partner pursuant to Section 4.2 (and within such class, pro rata to each Partner in proportion to the respective Percentage Interests held by such Partner in such class as of the last day of the period for which the allocation is being made) until the Adjusted Capital Account (ignoring for this purpose any amounts a Partner is obligated to contribute to the capital of the Partnership under state law as described in Regulation Section 1.704-1(b)(2)(ii)(c)(2) and reduced by the Partner's Series AM Preferred Capital, the Partner's Class A Preferred Capital, the Partner's Class B Preferred Capital, the Partner's Class C Preferred Capital and the Partner's Class D Preferred Capital) of each such Partner is zero;

(ii) second, to each Limited Partner who holds Series AM Preferred Units, pro rata in proportion to the respective

Percentage Interest in such series of Units as of the last day of the period for which the allocation is being made, until the Adjusted Capital Account of such Limited Partner is zero;

(iii) third, to the General Partner as holder of the Class A Preferred Units, as holder of the Class B Preferred Units, as holder of the Class C Preferred Units and as holder of the Class D Preferred Units until the Adjusted Capital Account (ignoring for this purpose any amounts the General Partner is obligated to contribute to the capital of the Partnership under state law as described in Regulation Section 1.704-1(b)(2)(ii)(c)(2)) of the General Partner is zero; and

(iv) fourth, to the General Partner.

(d) Section 6.1.E of the Partnership Agreement is hereby amended by deleting Section 6.1.E of the Partnership Agreement and adding the following after Section 6.1.D:

E. Gross Income Allocation. Notwithstanding Section 6.1.A and Section 6.1.B, but subject to the special allocations set forth in Section 1 of Exhibit C, to the extent the General Partner's Adjusted Capital Account does not equal at least the sum of the Class A Preferred Capital, the Class B Preferred Capital, the Class C Preferred Capital and the Class D Preferred Capital after taking into account the allocations set forth in Section 6.1.A and Section 6.1.B, then the General Partner shall be specially allocated items of gross income in an amount that causes the General Partner's Capital Account to be equal to the sum of the Class A Preferred Capital, the Class B Preferred Capital, the Class C Preferred Capital and the Class D Preferred Capital.

2. The Partnership Agreement is hereby amended by attaching thereto as Exhibit K the Exhibit K attached hereto.

3. Pursuant to Section 7.1.A of the Partnership Agreement, the General Partner hereby amends and restates Exhibit A to the Partnership Agreement as set forth in Exhibit A attached hereto to reflect the issuance of 33,182 Class D Preferred Units to the General Partner effective as of June 19, 2003.

4. Certain Capitalized Terms. All capitalized terms used herein and not otherwise defined shall have the meanings assigned in the Partnership Agreement. Except as modified herein, all covenants, terms and conditions of the

Partnership Agreement shall remain in full force and effect, which covenants, terms and conditions the General Partner hereby ratifies and affirms.

[SIGNATURE PAGE APPEARS ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the undersigned has executed this Thirty-Sixth Amendment as of the 19th day of June, 2003.

HOST MARRIOTT CORPORATION,
As General Partner of Host Marriott, L.P.

By: /s/ JOHN A. CARNELLA

Name: John A. Carnella
Title: Senior Vice President

EXHIBIT K

DESIGNATION OF THE PREFERENCES, CONVERSION AND OTHER RIGHTS, VOTING POWERS, RESTRICTIONS AND LIMITATIONS AS TO CLASS D PREFERRED UNITS

The Class D Preferred Units ("Class D Preferred Units") shall have the following designations, preferences, rights, powers, restrictions and limitations:

(1) Certain Defined Terms. Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Partnership Agreement. The following capitalized terms used in this Designation of Class D Preferred Units shall have the respective meanings set forth below:

"Business Day" means any day, other than Saturday or Sunday, that is not a day on which banking institutions in The City of New York are authorized or required by law, regulation or executive order to be closed.

"Class D Preferred Stock" means the 10% Class D Cumulative Redeemable Preferred Stock, par value $.01 per share, liquidation preference $25.00 per share of the General Partner.

"Distribution Junior Units" means Class A Units, Class B Units, the Series AM Preferred Units, the Series A Junior Participating Preferred Units and any other class or series of Units now or hereafter issued and outstanding the terms of which do not expressly provide that such class or series of Units ranks senior to or on a parity with the Class D Preferred Units in the distribution of assets on any liquidation, dissolution or winding up of the Partnership.

"Distribution Parity Units" means the Class A Preferred Units, the Class B Preferred Units, the Class C Preferred Units and any other class or series of Units hereafter issued and outstanding which by its express terms ranks on a parity with the Class D Preferred Units in the distribution of assets on any liquidation, dissolution or winding up of the Partnership.

"Distribution Payment Date" means the last day of each Distribution Period.

"Distribution Period" means a quarterly period of each calendar year that ends on January 15, April 15, July 15 and October 15 in which any Class D Preferred Units are outstanding, commencing with the Original Issue Date, except that the Distribution Period during which any Class D Preferred Units shall be redeemed pursuant to Section 4 shall end on and include such date of redemption.

“Dividend Junior Units” means the Class A Units, Class B Units, the Series AM Preferred Units, the Series A Junior Participating Preferred Units, and any other class or series of Units now or hereafter issued and outstanding the terms of which do not expressly provide that such class or series of Units ranks senior to or on a parity with the Class D Preferred Units in the payment of distributions.

“Dividend Parity Units” means the Class A Preferred Units, the Class B Preferred Units, the Class C Preferred Units and any other class or series of Units hereafter issued and outstanding which by its express terms ranks on a parity with the Class D Preferred Units in the payment of distributions.

“Fully Junior Units” means the Class A Units, the Class B Units, the Series AM Preferred Units, the Series A Junior Participating Preferred Units and any other class or series of Units now or hereafter issued and outstanding which are both Distribution Junior Units and Dividend Junior Units.

“Junior Units” means the Class A Units, Class B Units, the Series AM Preferred Units, the Series A Junior Participating Preferred Units and any other class or series of Units now or hereafter issued and outstanding which are either Distribution Junior Units or Dividend Junior Units or both. All references to “Junior Units” shall include, without limitation, all Fully Junior Units.

“Original Issue Date” means June 19, 2003.

“Parity Units” means the Class A Preferred Units, the Class B Preferred Units, the Class C Preferred Units and any other Units hereafter issued and outstanding which are either Distribution Parity Units or Dividend Parity Units or both.

“set apart for payment” shall be deemed to include, without any action other than the following, the recording by the Partnership in its accounting ledgers of any accounting or bookkeeping entry which indicates, pursuant to a declaration of distribution by the Partnership, the allocation of funds to be so paid on any class or series of Units; *provided, however,* that if any funds for any class or series of Junior Units or any class or series of Parity Units are placed in a separate account of the Partnership or delivered to a disbursing, paying or other similar agent, then “set apart for payment” with respect to the Class D Preferred Units shall mean placing such funds in a separate account for the Class D Preferred Units or delivering such funds to a disbursing, paying or other similar agent for the Class D Preferred Units.

“Subject Date” means (a) any date on which any distributions are authorized, declared or paid or set apart for payment or made upon on any Junior

Units or Parity Units and (b) any date on which any Junior Units or Parity Units are redeemed, purchased or otherwise acquired for any consideration or any money paid to or made available for a sinking fund for the redemption of any such Units by the Partnership.

(2) Distributions.

(A) Each holder of Class D Preferred Units shall be entitled to receive out of Available Cash, when, as and if declared by the General Partner, cumulative cash distributions of $2.50 per Class D Preferred Unit per annum, payable quarterly in the amount of $0.625 per quarter on the Distribution Payment Date, commencing on July 15, 2003. If a Distribution Payment Date is not a Business Day, the payment of such distribution on the next succeeding Business Day shall have the same force and effect as if made on the Distribution Payment Date and no interest or additional dividends or other sum will accrue on the amount so payable for the period from and including a Distribution Payment Date to such next succeeding Distribution Payment Date. Accrued and unpaid distributions for any past Distribution Period may be declared and paid at any time and for such interim periods, without reference to any regular distribution date, to the holder of the Class D Preferred Units on such date as may be fixed by the General Partner. Any distribution made on the Class D Preferred Units shall first be credited against the earliest accrued but unpaid distribution due with respect to the Class D Preferred Units which remain payable.

(B) The amount of any distribution payable for any Distribution Period is fixed and shall not be adjusted based on the number of days during such Distribution Period that the Class D Preferred Units are outstanding. No interest, or sum of money in lieu of interest, shall be payable in respect of any distribution payment or payments on the Class D Preferred Units that may be in arrears, in excess of the full cumulative distributions described above in Section 2(A).

(C) So long as any Class D Preferred Units are outstanding, no full distributions shall be authorized, declared or paid or set apart for payment on any class or series of Dividend Parity Units or Dividend Junior Units for any period unless full cumulative distributions have been or contemporaneously are authorized, declared and paid or authorized, declared and a sum sufficient for the payment thereof set apart for such payment on the Class D Preferred Units for all past Distribution Periods (including, without limitation, any Distribution Period that terminates on a Subject Date). When such cumulative distributions are not paid in full or a sum sufficient for such full payment is not set apart on the Class D Preferred Units and any class or series of Dividend Parity Units, all distributions authorized and declared upon the Class D Preferred Units and any other class or series of Dividend Parity Units will be authorized and declared pro rata so that the amount of distributions authorized and declared with respect to the Class D

Preferred Units and such other class or series of Dividend Parity Units will in all cases bear to each other the same ratio that accrued and unpaid distributions on the Class D Preferred Units and such other class or series of Dividend Parity Units bear to each other.

(D) Except as provided in the immediately preceding paragraph, so long as any Class D Preferred Units are outstanding, unless full cumulative distributions on all outstanding Class D Preferred Units have been or contemporaneously are authorized, declared and paid or authorized, declared and a sum sufficient for the payment thereof set apart for such payment on the Class D Preferred Units for all past Distribution Periods (including without limitation, any Distribution Period that terminates on a Subject Date), no distributions (other than distributions paid solely in Fully Junior Units) shall be authorized, declared or paid or set apart for payment on any Junior Units or Parity Units, nor shall any Junior Units or any Parity Units be redeemed, purchased or otherwise acquired for any consideration or any monies paid to or made available for a sinking fund for the redemption of any such Junior Units or Parity Units by the Partnership except (i) by redemption or exchange of such Units for Fully Junior Units, (ii) by redemption or exchange of such Units by the General Partner for Shares ranking junior to the Shares of Class D Preferred Stock as to dividends and as to distributions of assets upon the General Partner's liquidation, dissolution and winding up and (iii) to preserve the General Partner's status as a REIT or to preserve the Partnership's status as a "partnership" for federal income tax purposes.

(E) No distributions on the Class D Preferred Units shall be authorized or declared by the General Partner or paid or set apart for payment by the Partnership at such time as the terms and provisions of any agreement of the General Partner or the Partnership, including any organizational document or agreement relating to indebtedness of either of them, prohibits such authorization, declaration, payment or setting apart for payment or provides that such authorization, declaration, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such authorization, declaration or payment shall be restricted or prohibited by law. Notwithstanding the foregoing, distributions on the Class D Preferred Units will accrue and be cumulative whether or not the terms and provisions of any agreement of the Partnership or the General Partner prohibits the payment of distributions, whether or not the Partnership has earnings, whether or not there is Available Cash or funds legally available for the payment of such distributions and whether or not such distributions are authorized.

(F) All references to "accrued" or "accrued and unpaid" distributions on the Class D Preferred Units (and all references of like import) include, unless otherwise expressly stated or the context otherwise requires, accumulated distributions, if any, on the Class D Preferred Units; provided that for purposes of

Class D Preferred Units, "accrued" or "accrued and unpaid" distributions shall mean fixed distributions accumulated and unpaid with respect to past Distribution Payment Dates. All references to "accrued" or "accrued and unpaid" distributions on any class or series of Units include, if, and only if, such other class or series of Units other than the Class D Preferred Units provides for cumulative distributions and unless otherwise expressly stated or the context otherwise requires, accumulated distributions, if any, thereon.

(3) Liquidation Preference.

(A) In the event of any liquidation, dissolution or winding up of the Partnership, whether voluntary or involuntary, before any payment or distribution of the assets of the Partnership shall be made to or set apart for the holders of any Distribution Junior Units, the holders of the Class D Preferred Units shall be entitled to receive $25.00 per Class D Preferred Unit, plus an amount equal to all distributions (whether or not earned or declared) accumulated, accrued and unpaid thereon (such aggregate amount the "Class D Liquidation Preference"). Until the holders of the Class D Preferred Units have been paid the Class D Liquidation Preference in full, no payment or distribution will be made to any holder of any Distribution Junior Units upon the liquidation, dissolution or winding up of the Partnership. If, upon any such liquidation, dissolution or winding up of the Partnership, the assets of the Partnership, or the proceeds thereof, distributable to the holders of the Class D Preferred Units shall be insufficient to pay in full the Class D Liquidation Preference and liquidating payments on any other class or series of Distribution Parity Units, then such assets, or the proceeds thereof, shall be distributed among the holders of the Class D Preferred Units and the holders of such Distribution Parity Units ratably in proportion to the full liquidating distributions (including, if applicable, accumulated, accrued and unpaid distributions) to which they would otherwise respectively be entitled.

(B) Subject to the rights of the holders of Distribution Parity Units upon any liquidation, dissolution or winding up, whether voluntary or involuntary, of the Partnership, after payment in full of the Class D Liquidation Preference for all outstanding Class D Preferred Units shall have been made to the holders of the Class D Preferred Units, as provided in Section 3(A), any class or series of Distribution Junior Units shall, subject to any respective terms and provisions applying thereto, be entitled to receive any and all assets, or the proceeds thereof, remaining to be paid or distributed, and the holders of the Class D Preferred Units, as such, shall not be entitled to share therewith. After payment of the full amount of the Class D Liquidation Preference for each outstanding Class D Preferred Unit, the holders of the Class D Preferred Units, as such, will have no right or claim to any of the remaining assets of the Partnership. The preceding two sentences shall not affect the right of the General Partner or any other holder of Class D Preferred Units to share in any distribution or payment of the assets of the Partnership upon any liquidation, dissolution or winding up, whether voluntary or involuntary, of the Partnership as a result of its holding another class or series of Units.

(C) None of a consolidation or merger of the Partnership with or into another entity, or a sale, lease, transfer or conveyance of all or substantially all of the Partnership's property or business, shall be considered a liquidation, dissolution or winding up of the Partnership.

(4) Redemption. If, and only if, shares of Class D Preferred Stock are redeemed (whether automatically or at the option of the General Partner or otherwise), the Partnership shall, on the date set for redemption of such shares of Class D Preferred Stock, redeem an equal number of Class D Preferred Units at a redemption price equal to the product of (i) the number of Class D Preferred Units being redeemed and (ii) the sum of $25.00 per Unit and all distributions (whether or not earned or declared) accumulated, accrued and unpaid thereon. Any date fixed for the redemption of shares of Class D Preferred Stock is hereinafter called a "Redemption Date".

(5) Ranking. Any class or series of Units shall be deemed to rank:

(A) prior to the Class D Preferred Units, as to the payment of distributions and as to distributions of assets upon liquidation, dissolution or winding up of the Partnership, if the express terms of such class or series of Units provides that the holders of such class or series of Units shall be entitled to the payment of distributions or the distribution of assets upon liquidation, dissolution or winding up, as the case may be, in preference or priority to the holders of the Class D Preferred Units;

(B) on a parity with the Class D Preferred Units as to the payment of distributions and as to distributions of assets upon liquidation, dissolution or winding up of the Partnership, whether or not the distribution rates, distribution payment dates or redemption or liquidation prices per Unit are different from those of the Class D Preferred Units, if such Units are Class A Preferred Units, Class B Preferred Units or Class C Preferred Units (it being understood that the Class A Preferred Units, the Class B Preferred Units, the Class C Preferred Units and the Class D Preferred Units are entitled to the payment of distributions and the distribution of assets upon liquidation, dissolution or winding up in proportion to their respective amounts of accrued, accumulated (if applicable) and unpaid distributions per Unit or liquidation preferences, as the case may be, without preference or priority one over the other) or if the express terms of such class or series of Units provide that the holders of such class or series of Units and the Class D Preferred Units shall be entitled to the payment of distributions and the distribution of assets upon liquidation, dissolution or winding up in proportion to their respective amounts of accrued, accumulated (if applicable) and unpaid distributions per Unit or liquidation preferences, as the case may be, without preference or priority one over the other;

(C) junior to the Class D Preferred Units, as to the payment of distributions or as to the distributions of assets upon liquidation, dissolution and winding up of the Partnership, as the case may be, if such class or series of Units shall be Junior Units; and

(D) junior to the Class D Preferred Units, as to the payment of distributions and as to the distributions of assets upon liquidation, dissolution and winding up of the Partnership if such class or series of Units shall be Fully Junior Units.

(6) Allocations. For purposes of maintaining the Capital Accounts and in determining the rights of the General Partner, as holder of the Class D Preferred Units, the Partnership's items of income, gain, loss and deduction shall be allocated to the General Partner, as holder of the Class D Preferred Units, and the other Partners in each taxable year (or portion thereof) in accordance with Article VI of the Partnership Agreement as amended by this Thirty-Sixth Amendment.

(7) Voting Rights. The holders of the Class D Preferred Units shall not have any voting or consent rights in respect of their partnership interest represented by the Class D Preferred Units.

(8) Transfer Restrictions. Except as set forth in Section 11.2 of the Partnership Agreement, the Class D Preferred Units shall not be transferable.

Exhibit 10.7

HOST MARRIOTT CORPORATION
AND
HOST MARRIOTT, L.P.

1997 COMPREHENSIVE STOCK AND CASH INCENTIVE PLAN

(AS AMENDED IN 1999 AND IN 2004)

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HOST MARRIOTT CORPORATION
AND
HOST MARRIOTT, L.P.
COMPREHENSIVE STOCK AND CASH INCENTIVE PLAN

PREAMBLE

WHEREAS, Host Marriott Corporation sponsors the Host Marriott Corporation 1997 Comprehensive Stock Incentive Plan (the “Plan”); and

WHEREAS, Host Marriott Corporation entered into certain transactions pursuant to a plan to reorganize its business operations so that qualifies as a real estate investment trust as of January 1, 1999 (“Host REIT Conversion”) and

WHEREAS, as part of the Host REIT Conversion, (i) Host Marriott Corporation transferred its liabilities, including but not limited to liabilities relating to employee benefits to Host Marriott, L.P., (ii) Host Marriott Corporation merged with and into HMC Merger Corporation (renamed Host Marriott Corporation), and (iii) holders of Host Marriott Corporation common stock received a dividend of outstanding common shares of Crestline Capital Corporation (“Crestline”); and

WHEREAS, in connection with the Host REIT Conversion, Host Marriott Corporation and Crestline entered into a Distribution Agreement (the “Distribution Agreement”), and Host Marriott Corporation and Host Marriott, L.P. entered into a Contribution Agreement (the “Contribution Agreement”); and

WHEREAS, pursuant to the Distribution Agreement, Host Marriott Corporation and Crestline 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 Contribution Agreement, Host Marriott Corporation and Host Marriott, L.P. 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 Allocation Agreement; and

WHEREAS, pursuant to the Allocation Agreement, (a) Host Marriott Corporation continues to reserve those shares already reserved under the Plan, (b) all future awards under the Plan after the Host REIT Conversion are denominated in Host Marriott Corporation common stock, and (c) the effect of the Distribution and the Host REIT Conversion on Existing HMC Stock Awards (as such term is defined in the Allocation Agreement) made under the Plan prior to the Distribution Date were determined as provided in the Allocation Agreement; and

WHEREAS, Host Marriott Corporation desires to make certain administrative amendments to the Plan.

NOW, THEREFORE, this Host Marriott Corporation and Host Marriott, L.P. Comprehensive Stock and Cash Incentive Plan (the "Plan) amends and restates in its entirety the Host Marriott Corporation 1997 Comprehensive Stock Incentive Plan. Set forth herein are all of the terms of the three plans comprising the Plan, one for the benefit of the employees of Host Marriott Corporation (the Host REIT Plan), one for the benefit of the employees of Host Marriott, L.P., (the Operating Partnership Plan), and one for the benefit of the employees of any Subsidiary of Host Marriott Corporation or Host Marriott, L.P. (the Subsidiary Company's Plan). The Committee shall administer all three plans.

ARTICLE I.
ESTABLISHMENT, PURPOSE AND DURATION

.1 Establishment of the Plan. Host Marriott Corporation, a Maryland corporation (Host Marriott Corporation) and Host Marriott, L.P., a Delaware Limited Partnership (Operating Partnership) (collectively referred to herein as the Company), hereby amend and restate the 1997 Comprehensive Stock Incentive Plan known as the Host Marriott Corporation and Host Marriott, L.P. Comprehensive Stock and Cash Incentive Plan (hereinafter referred to as the Plan), as set forth in this document, effective as of the Contribution Date (as such term is defined in the Allocation Agreement), comprising the Host REIT Plan, the Operating Partnership Plan and the Subsidiary Companies Plan. The Plan shall also include the Host Marriott Corporation 1993 Comprehensive Stock Incentive Plan. The Plan permits the grant of Nonqualified Stock Options, Incentive Stock Options, Restricted Stock, Bonus Awards, Deferred Stock Agreements, Stock Appreciation Rights, Special Recognition Awards and other stock-based Awards.

.2 Purpose of the Plan. The purpose of the Plan is to promote and enhance the long-term growth, development and financial success of the Host Marriott Corporation, the Operating Partnership and any Subsidiary by aligning the personal interests of key management employees to those of Host Marriott Corporation shareholders and allowing such employees to participate in the growth, development and financial success of the Host Marriott Corporation. Awards under the Plan may be, but need not be, Performance-Based Awards.

The Plan is further intended to provide flexibility to Host Marriott Corporation, the Operating Partnership and the Subsidiaries in their ability to motivate, attract and retain the services of key employees who have been or will be given management responsibilities.

.3 Duration of the Plan. This amendment and restatement of the Plan shall become effective on the Contribution Date, and shall remain in effect, subject to the right of the Board of Directors of the Host Marriott Corporation to terminate the Plan at any time pursuant to Article XVII hereof, until all Shares subject to it shall have been purchased or acquired according to the Plan’s provisions.

ARTICLE II.
DEFINITIONS AND CONSTRUCTION

.1 Definitions. Whenever used in the Plan, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized:

"Allocation Agreement" means the Employee Benefits Allocation and Other Employment Matters Agreement between the Host Marriott Corporation, Host Marriott, L.P. and Crestline Capital Corporation.

"Award" means, individually or collectively, a grant under this Plan of Nonqualified Stock Options, Incentive Stock Options, Restricted Stock, Deferred Stock, Special Recognition Stock Awards, 1998 Conversion Awards, Other Share-Based Awards, Other Cash Performance-Based Awards.

"Award Agreement" means an agreement entered into by the Company and each Participant setting forth the terms and provisions applicable to Awards granted under this Plan.

"Beneficial Owner" or "Beneficial Ownership" shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.

"Beneficiary" means the person or persons designated pursuant to Article XIII hereof.

"Board" or "Board of Directors" means the Board of Directors of Host Marriott Corporation.

"Chief Executive Officer" means the chief executive officer of the Company however such person may be titled.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Committee" means the Compensation Policy Committee of the Board, as specified in Article III herein, or such other Committee appointed by the Board to administer the Plan with respect to grants of Awards.

"Company" means Host Marriott Corporation, as to the Host REIT Plan, the Operating Company as to the Operating Partnership Plan, and any Subsidiary of Host Marriott Corporation or the Operating Partnership as to any Subsidiary Companies' Plan.

"Contribution Date" means the Contribution Date as defined in the Allocation Agreement.

"Covered Employee" means a Participant who, as of the date of grant, vesting and/or payout of an Award, as applicable, is one of the group of covered employees, as defined in the regulations promulgated under Section 162(m) of the Code, or any successor statute.

“Current Award” means a Deferred Stock Bonus Award granted under the terms and conditions described in Section 8.2(c) hereof.

“Deferred Award” means a Deferred Stock Bonus Award granted under the terms and conditions described in Section 8.2(b) hereof.

“Deferred Stock” means an Award granted to a Participant as described in Article VIII herein.

“Deferred Stock Bonus Award” means a grant of a right to receive Shares on a deferred basis, pursuant to Section 8.2 hereof.

“Deferred Stock Agreement” means an Award granted to a Participant as described in Section 8.3 herein.

“Director” means any member of the Board.

“Disability” means a permanent and total disability, within the meaning of Code Section 22(e)(3), as determined by the Committee in good faith, upon receipt of sufficient competent medical advice from one or more individuals, selected by or satisfactory to the Committee, who are qualified to give professional medical advice.

“Distribution Agreement” means the Distribution Agreement as defined in the Allocation Agreement.

“Domestic Relations Order” or “DRO” means a domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended or the rules thereunder.

“Effective Date” has the meaning set forth in Section 1.1 hereof.

“Employee” means any individual who is classified by the Company as a full-time, active non-union employee of the Company. An individual who is not classified by the Company as a full-time, active non-union employee will not be an Employee for purposes of this plan, regardless of whether the Internal Revenue Service or other governmental agency deems such individual to be a common law employee.

“Engaging in Competition” means (a) engaging, individually or as an employee, consultant or owner (more than 5%) of any entity, in any business engaged in significant competition with any business operated by the Company, (b) soliciting and hiring a key employee of the Company in another business, whether or not in significant competition with any business operated by the Company; or (c) using or disclosing confidential Company information, in each case, without the approval of the Company.

“Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time, or any successor Act thereto.

“Fair Market Value” means the average of the highest and lowest quoted selling prices for the Shares on the relevant date, or (if there were no sales on such date) the average so computed on the nearest day before and the nearest day after the relevant date, as reported in the *Wall Street Journal* or a similar publication selected by the Committee.

“Host Marriott Corporation” means 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 and after the Contribution Date.

“Incentive Stock Option” or “ISO” means an Award of an option to purchase Shares, granted under Article VI hereof, which is designated as an Incentive Stock Option and is intended to meet the requirements of Section 422 of the Code.

“Insider” shall mean an individual who is, on the relevant date, an officer, Director or more than ten percent (10%) beneficial owner of any class of the Company’s equity securities that is registered pursuant to Section 12 of the Exchange Act, all as defined under Section 16 of the Exchange Act.

“1998 Conversion Award” means an Award pursuant to Article XII to reflect the effect of the Distribution on outstanding awards, which were held by the grantee immediately before the Distribution.

“Non-Employee Director” means a Director who is not an Employee of the Company.

“Nonqualified Stock Option” or “NQSO” means an Award of an option to purchase Shares, granted under Article VI herein and which is not intended to meet the requirements of Code Section 422.

“Operating Partnership” means Host Marriott, L.P., a Delaware limited partnership.

“Option” means an Award of an Incentive Stock Option or of a Nonqualified Stock Option.

“Option Price” means the price at which a Share may be purchased by a Participant pursuant to an Option.

“Other Cash Performance-Based Awards” means an Other Cash Performance-Based Award as described in Article X herein.

“Other Share-Based Award” means an Other Share-Based Award as described in Article X herein.

“Participant” means an Employee or former Employee of Host Marriott Corporation, the Operating Partnership or any Subsidiary to whom an Award granted under the Plan is outstanding, or any other individual to whom a 1998 Conversion Award granted under the Plan is outstanding.

"Performance-Based Exception" means the performance-based exception from the tax deductibility limitations of Code Section 162(m).

"Period of Restriction" means the period during which the transfer of Shares of Restricted Stock is limited (based on the passage of time, the achievement of performance objectives, or upon the occurrence of other events as determined by the Committee, in its discretion, and the Shares are subject to a substantial risk of forfeiture, as provided in Article VII hereof.

"Person" has the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a group as defined in Section 13(d) thereof.

"Plan" has the meaning set forth in the Preamble herein.

"Restricted Stock" means an Award granted to a Participant pursuant to Article VII hereof.

"Shares" means shares of Host Marriott Corporation, par value $1.00 per share, for the period before the Contribution Date, and shares of Host Marriott Corporation, par value $0.01 per share, for the period beginning on or after the Contribution Date.

"Special Recognition Stock Award" means an award granted to a Participant pursuant to Article IX hereof.

"Subsidiary" means any corporation, partnership, joint venture or other entity other than the Operating Partnership in which the Company owns a majority of the equity interest by vote or by value or in which the Company has a majority capital or profits interest.

"Year of Service" means a period of twelve (12) consecutive calendar months during which an Employee was paid for 1200 or more hours of work for the Company.

ARTICLE III.
ADMINISTRATION

.1 The Committee. The Plan shall be administered by the Compensation Policy Committee of the Board, or by any other Committee appointed by the Board, the members of which shall consist solely of two (2) or more Non-Employee Directors within the meaning of Rule 16b-3 under the Exchange Act and an “outside director” for purposes of Section 162(m) of the Code, or any successor provision. The members of the Committee shall be appointed from time to time by, and shall serve at the discretion of, the Board. Committee members may resign at any time by delivering written notice to the Board. Vacancies in the Committee may be filled by the Board.

.2 Authority of the Committee. Except as limited by law or by the Articles of Incorporation or Bylaws of Host Marriott Corporation, and subject to the provisions herein, the Committee shall have the power and authority to conduct the general administration of the Plan in accordance with its provisions. The Committee shall have full power to select Employees who shall participate in the Plan, determine the sizes and types of Awards, determine the terms and conditions of Awards in a manner consistent with the Plan, construe and interpret the Plan and any agreement or instrument entered into under the Plan, establish, amend, or waive rules and regulations for the Plan’s administration, and (subject to the provisions of Article XVII herein) amend the terms and conditions of any outstanding Award to the extent a Participant’s rights are not affected adversely, except that Deferred Stock Bonus Awards authorized by Article VIII hereof shall be granted and administered by the Chief Executive Officer in the case of any recipients who are not Officers or Covered Employees. Further, the Committee shall make all other determinations, which may be necessary or advisable for the administration of the Plan. The Committee’s determinations under the Plan (including without limitation, determinations of the persons to receive Awards, the form, amount and timing of such Awards, the terms and provisions of such Awards and the Award Agreements evidencing such Awards) need not be uniform and may be made by the Committee selectively among persons who receive, or are eligible to receive, Awards under the Plan, whether or not such persons are similarly situated. Interpretations and rules with respect to Incentive Stock Options shall be consistent with the provisions of Code Section 422. As permitted by law, the Committee may delegate its authority under the Plan to a Director or Employee.

.3 Decisions Binding. All determinations and decisions made by the Committee or its designee pursuant to the provisions of the Plan and all related orders or resolutions of the Board shall be final, conclusive and binding on all parties.

.4 Unanimous Consent in Lieu of Meeting. Except as otherwise required by law, a memorandum signed by all members of the Committee members shall constitute the act of the Committee without the necessity in such event to hold a meeting.

.5 Compensation; Professional Assistance; Good Faith Actions. Members of the Committee shall receive such compensation, if any, for their services as members as may be determined by the Board. All expenses and liabilities which members of the Committee incur in connection with the administration of the Plan shall be borne by the Company. The Committee may, with the approval of the Board, employ attorneys, consultants, accountants, appraisers, brokers or other persons. The Committee, the Company and the Company’s officers and Directors shall be entitled to rely upon the advice, opinions or valuations of any such persons. All actions taken and all interpretations and determinations may by the Committee or the Board in good faith shall be final and binding upon all Holders, the Company and all other interested persons.

ARTICLE IV.
SHARES SUBJECT TO THE PLAN AND MAXIMUM AWARDS

.1 Number of Shares. Subject to Sections 4.2 and 4.3 herein, (a) in the aggregate, no more than 44,442,911 shares of the Common Stock of the Host Marriott Corporation may be issued pursuant to Awards granted under the Plan, and (b) the maximum aggregate number of Shares that may be subject to any Awards (other than 1998 Conversion Awards) granted in any one fiscal year to any single Employee shall be two million (2,000,000). No more than 30% of the Shares available for Awards will be issued with respect to Awards other than Options.

.2 Lapsed Awards. If any Award granted under this Plan is canceled, terminates, expires, or lapses without having been fully exercised, or is exercised in whole or in part for cash as permitted by the Plan, for any reason, any Shares subject to such Award shall again be available for the grant of an Award under the Plan. If any shares of Restricted Stock are surrendered by a Participant, such Shares may again be optioned, granted or awarded hereunder, subject to the limitations of Section 4.1. Notwithstanding the provisions of this Section 4.2, no Shares may again be optioned, granted or awarded if such action would cause an Incentive Stock Option to fail to qualify as an incentive stock option under Code Section 422. To the extent required by 162(m) of the Code, shares subject to Options which are canceled continue to be counted against the limits on Awards set forth in Section 4.1 of the Plan.

.3 Adjustments in Authorized Shares. In the event of any change in corporate capitalization, such as a stock split, or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of the Company, any reorganization (whether or not such reorganization comes within the definition of such term in Code Section 368) or any partial or complete liquidation of the Company, (a) such adjustment may be made in the number and class of Shares which may be delivered under Section 4.1 and the Award limits set forth in Section 4.1 as may be determined to be appropriate and equitable by the Committee, in its sole discretion, to prevent dilution or enlargement of rights; and (b) the Committee or the Board of Directors, Compensation Policy Committee or similar body of any other legal entity assuming the obligations of the Company hereunder, may either (i) make appropriate provision for the protection of outstanding Awards by the substitution on an equitable basis of appropriate equity interest or awards similar to the Awards, provided that the substitution neither enlarges nor diminishes the value and rights under the Awards; or (ii) upon written notice to the Participants, provide that Awards will be exercised, distributed, purchased, canceled or exchanged for value or provide that, for a specified period of time prior to such event, the restrictions imposed under an Award Agreement upon some or all of the Shares covered by a stock Award may be terminated or, in the case of Restricted Stock, cease to be subject to repurchase or forfeiture pursuant to such terms and conditions (including the waiver of any existing terms or conditions) as shall be specified in the notice. Any adjustments of an ISO under this paragraph shall be made in such a manner so as not to constitute a modification within the meaning of Section 424(h)(3) of the Code. With respect to Awards which are granted to Covered Employees and are intended to qualify as performance based compensation under Section 162(m)(4)(c), no adjustment or action described in this Section 4.3 or in any other provision of the Plan shall be authorized to the extent that such adjustment or action would cause such Award to fail to qualify under Section 162(m)(4)(C), or any successor provisions thereto. No adjustment or action described in this Section 4.3 or in any other provision of the Plan shall be authorized to the extent that such adjustment or action would result in short-swing profits liability under Section 16 or violate the exemptive conditions of Rule 16b-3 unless the Administrator determines the Award is not to comply with such exemptive conditions.

.4 Limitation on Participation. Notwithstanding any other provision to the contrary, effective as of the Contribution Date, an Employee shall not be eligible to participate in the Plan and shall cease to be a Participant, to the extent such Employee was a Participant immediately before the application of this Section 4.4 to such Employee, if the participation of such Employee would violate the ownership limits set forth in Article VIII of Host Marriott Corporation's Articles of Amendment and Restatement of Articles of Incorporation.

ARTICLE V.
ELIGIBILITY AND PARTICIPATION

.1 Eligibility. Employees shall be eligible to participate in this Plan with respect to Awards specified in Articles VI through X. Persons eligible to receive 1998 Conversion Awards under the Allocation Agreement shall be eligible to participate in the Plan with respect to Awards specified in Article XII and shall be considered a Participant to the extent such Awards are outstanding.

.2 Actual Participation by Employees. Subject to the provisions of the Plan, and with the exception that Bonus Awards (other than those to Officers and Covered Employees) shall be approved by the Chief Executive Officer, the Committee in its sole and absolute discretion may, from time to time, select from all eligible Employees, those to whom Awards shall be granted and shall determine the nature and amount of each Award. No Employee otherwise eligible under Section 5.1 shall have any right to be granted an Award under this Plan.

.3 Award Agreement. Each Award shall be evidenced by an Award Agreement. Award Agreements evidencing Awards intended to qualify as performance-based compensation pursuant to the Performance-Based Exception shall contain such terms and conditions as may be necessary to meet the applicable provisions of Section 162(m) of the Code.

.4 Provisions Applicable to Section 162(m) Participants.

(a) The Committee, in its discretion, may determine whether an Award is to qualify as performance-based compensation pursuant to the Performance-Based Exception.

(b) Notwithstanding anything in the Plan to the contrary, the Committee may grant any Award to a Covered Employee, including Restricted Stock the restrictions with respect to which lapse upon the attainment of performance goals which are related to one or more of the performance criteria and any performance or incentive award described in the Plan that vests or becomes exercisable or payable upon the attainment of performance goals which are related to one or more of the performance criteria.

(c) To the extent necessary to comply with the Performance-Based Exception, with respect to any Award granted under the Plan which may be granted to one or more Covered Employees, no later than ninety (90) days following the commencement of any fiscal year in question or any other designated fiscal period or period of service (or such other time as may be required or permitted by Section 162(m) of the Code), the Committee shall, in writing, (i) designate one or more Covered Employees, (ii) select the performance criteria applicable to the fiscal year or other designated fiscal period or period of service, (iii) establish the various performance targets, in terms of an objective formula or standard, and amounts of such Awards, as applicable, which may be earned for such fiscal year or other designated fiscal period or period of service, and (iv) specify the relationship between performance criteria and the performance targets and the amounts of such Awards, as applicable, to be earned by each Covered Employee for such fiscal year or other designated fiscal period or period of service. Following the completion of each fiscal year or other designated fiscal period or period of service, the Committee shall certify in writing whether the applicable performance targets have been achieved for such fiscal year or other designated fiscal period or period of service. In determining the amount earned by a Covered Employee, the Committee shall have the right to reduce (but not to increase) the amount payable at a given level of performance to take into account additional factors that the Committee may deem relevant to the assessment of individual or corporate performance for the fiscal year or other designated fiscal period or period of service.

(d) Furthermore, notwithstanding any other provision of the Plan or any Award which is granted to a Covered Employee and is intended to qualify for the Performance-Based Exception shall be subject to any additional limitations set forth in Section 162(m) of the Code (including any amendment to Section 162(m) of the Code) or any regulations or rulings issued thereunder that are requirements for the Performance-Based Exception, and the Plan shall be deemed amended to the extent necessary to conform to such requirements.

.5 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan, the Plan, and any Award granted or awarded to any individual who is then subject to Section 16 of the Exchange Act, shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

.6 At-Will Employment. Nothing in the Plan or in any Award Agreement hereunder shall confer upon any Holder any right to continue in the employ of, or as a Consultant for, the Company or any Subsidiary, or as a director of the Company, or shall interfere with or restrict in any way the rights of the Company and any Subsidiary, which are hereby expressly reserved, to discharge any Holder at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in a written employment agreement between the Holder and the Company and any Subsidiary.

ARTICLE VI.
STOCK OPTIONS

.1 Grant of Options. Subject to the terms and provisions of the Plan, Options may be granted to Employees selected by the Committee in such number, and upon such terms, and at any time and from time to time as shall be determined by the Committee. Options may include provisions for reload of Options exercised by the tender of Shares or the withholding of Shares with respect to the exercise of the Options. No person may be granted an ISO if such person, at the time the ISO is granted, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or then existing Subsidiary or parent corporation (within the meaning of Code Section 424(e) unless such ISO conforms to the applicable provisions of Code Section 422.

.2 Award Agreement. Each Option grant shall be evidenced by an Award Agreement that shall specify the Option Price, the duration of the Option, the number of Shares to which the Option pertains, and such other provisions as the Committee shall determine. The Award Agreement shall also specify whether the Option is intended to be an ISO or an NQSO. Award Agreements evidencing Incentive Stock Options shall contain such terms and conditions as may be necessary to meet the applicable provisions of Section 422 of the Code. Any ISO granted under the Plan may be modified by the Committee, with the consent of the Participant, to disqualify such Option for treatment as an ISO.

***.3 Option Price*.** The Option Price for each grant of an Option (other than an Option covered by a 1998 Conversion Award) under this Article VI shall be at least equal to one hundred percent (100%) of the Fair Market Value of a Share on the date the Option is granted. In the case of an ISO granted to a Participant then owning (within the meaning of Code Section 424(d)) more than ten percent (10%) of the combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation thereof (within the meaning of Code Section 424(e)), such price shall not be less than one hundred and ten percent (110%) of the Fair Market Value of a Share on the date the Option is granted (or the date the Option is modified, extended or renewed for purposes of Code Section 424(h)).

.4 Duration of Options. Each Option granted under this Article VI shall expire at such time as the Committee shall determine at the time of grant; provided, however, that no NQSO shall be exercisable later than the fifteenth (15^{th}) anniversary date of its grant and no ISO shall be exercisable later than the tenth (10^{th}) anniversary date of its grant or the fifth (5^{th}) anniversary date of the grant of an ISO if the ISO is granted to a Participant then owning (within the meaning of Code Section 424(d)) more than ten percent (10%) of the combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation thereof (within the meaning of Code Section 424(e)). Except as limited by the requirements of Code Section 422 and the regulations and rulings thereunder applicable to ISOs, the Committee may extend the term of any outstanding Option in connection with any termination of employment, or amend any other term or condition of such Option relating to such termination.

.5 Exercise of Options**.** Options granted under this Article VI shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which need not be the same for each grant or for each Employee.

The ability of an Employee to exercise an Option is conditioned upon the Employee not committing any criminal offense or malicious tort relating to or against the Company. Unless the Committee otherwise provides in the terms of the Award Agreement or otherwise, no Option shall be exercisable by any Participant who is then subject to Section 16 of the Exchange Act within the period ending six-months and one day after the date the Option is granted.

(a) No portion of an Option granted to a Participant which is unexercisable at a termination of employment shall thereafter become exercisable, except as may otherwise be provided by the Committee either in the Award Agreement or by action of the Committee following the grant of an Option.

(b) To the extent that the aggregate Fair Market Value of stock with respect to which "incentive stock options" (within the meaning of Section 422 of the Code, but without regard to Section 422(d) of the Code) are exercisable for the first time by a Holder during any calendar year (under the Plan and all other incentive stock option plans of the Company and any parent or subsidiary corporation, within the meaning of Section 422 of the Code) of the Company, exceeds $100,000, such Options shall be treated as Non-Qualified Stock Options to the extent required by Section 422 of the Code. The rule set forth in the preceding sentence shall be applied by taking Options into account in the order in which they were granted. For purposes of this Section 6.5(b), the Fair Market Value of stock shall be determined as of the time the Option with respect to such stock is granted.

(c) An exercisable Option may be exercised in whole or in part. However, an Option shall not be exercisable with respect to fractional shares and the Committee may require that, by the terms of the Option, a partial exercise be with respect to a minimum number of shares.

.6 Payment**.** Options granted under this Article VI shall be exercised by the delivery of a written notice of exercise to the Company, setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares.

The Option Price upon exercise of any Option shall be payable to the Company in full either (a) in cash or its equivalent, or (b) if permitted in the governing Award Agreement, by tendering previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the total Option Price (provided that the Shares which are tendered must have been held by the Participant for at least six (6) months prior to their tender to satisfy the Option Price), or (c) if permitted in the governing Award Agreement, by a combination of (a) and (b).

The Committee also may allow cashless exercise as permitted under the Federal Reserve Board's Regulation T, subject to applicable securities law restrictions, or by any other means which the Committee determines to be consistent with the Plan's purpose and applicable law.

.7 Restrictions on Share Transferability. The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of an Option granted under this Article VI as it may deem advisable, including, without limitation, restrictions under applicable Federal securities laws, under the requirements of any stock exchange or market upon which such Shares are then listed or traded, and under any blue sky or state securities laws applicable to such Shares.

.8 Termination of Employment or Leave of Absence. In the event that an Employee, during the Employee's lifetime has been on leave of absence for a period of greater than twelve (12) months (except a leave of absence approved by the Board or the Committee, as the case may be), or ceases to be an Employee of the Company or of any Subsidiary for any reason, including retirement, the portion of any Option which is not exercisable on the date on which the Employee ceased to be an Employee or has been on leave for over twelve (12) months (except a leave of absence approved by the Board or the Committee, as the case may be) shall expire on such date and any unexercised portion thereof which was otherwise exercisable on such date shall expire unless exercised within a period of three (3) months (one year in the case of a Participant who is Disabled) from such date, but in no event after the expiration of the term for which the Option was granted; provided, however, that in the case of an optionee of an NQSO who is an Approved Retiree (as herein defined), said optionee may exercise such Option until the sooner to occur of (i) the expiration of such Option in accordance with its original term, or (ii) the expiration of five years from the date of retirement. For purposes of the proviso to the preceding sentence:

(a) An Approved Retiree is any optionee who (1) retires from employment with the Company with the specific approval of the Committee on or after such date on which the optionee has completed twenty (20) Years of Service or has attained age Fifty-Five (55) and completed Ten (10) Years of Service, and (2) has entered into and has not breached an agreement to refrain from Engaging in Competition in form and substance satisfactory to the Committee.

(b) Any time period during which an optionee may continue to exercise an Option within clause (ii) of said proviso shall count in determining compliance with any schedule established pursuant to Section 6.5 herein; and

(c) If an Approved Retiree is subsequently found by the Committee to have violated the provisions of the agreement to refrain from Engaging in Competition referred to in clause 6.8(a)(2) of this section, such Approved Retiree shall have ninety (90) days from the date of such finding within which to exercise any Options or portions thereof which are exercisable on such date, any Options or portions thereof which are not exercised within such ninety (90) day period shall expire and any Options or portion thereof which are not exercisable on such date shall be canceled on such date.

In the event of the death of an optionee during the three (3) month period described above for exercise of an Option by a terminated optionee or one on leave for over twelve (12) months (except a leave of absence approved by the Board or the Committee, as the case may be), the Option shall be exercisable by the optionee's personal representatives, heirs or legatees to the same extent and during the same period that the optionee could have exercised the Option if the optionee had not died.

Notwithstanding anything in Section 6.5 to the contrary, in the event of the death of an optionee while an Employee or Approved Retiree of the Company or any Subsidiary, an outstanding Option held by such optionee upon death shall become fully vested upon death and shall be exercisable by the optionee's personal representatives, heirs or legatees at any time prior to the expiration of one (1) year from the date of death of the optionee, but in no event after the expiration of the term for which the Option was granted.

.9 Non-transferability of Options.

(a) Incentive Stock Options. No ISO granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, all ISOs granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant.

(b) Nonqualified Stock Options. Except as otherwise provided in a Participant's Award Agreement or Article XIV, no NQSO granted under this Article VI may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided in a Participant's Award Agreement, all NQSOs granted to a Participant under this Article VI shall be exercisable during his or her lifetime only by such Participant.

.10 Rights as a Shareholder. The Participant shall have no rights as a shareholder with respect to any Shares covered by an Option until the date of issuance of a stock certificate or confirmation for such Shares. Except as otherwise expressly provided by the Board or the Committee, no adjustment shall be made for dividends or other rights for which the record date is prior to the date of issuance of a stock certificate or confirmation for such Shares.

ARTICLE VII.
RESTRICTED STOCK

.1 Grant of Restricted Stock. Subject to the terms and conditions of the Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock to Employees selected by the Committee in such amounts as the Committee shall determine.

.2 Restricted Stock Agreement. Each Restricted Stock grant shall be evidenced by a Restricted Stock Award Agreement that shall specify the Period(s) of Restriction, the number of Shares of Restricted Stock granted, and such other provisions as the Committee shall determine.

.3 Transferability Restriction. Except as provided in this Article VII, the Shares of Restricted Stock granted herein may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction established by the Committee and specified in the Restricted Stock Award Agreement, or upon earlier satisfaction of any other conditions, as specified by the Committee in its sole discretion and set forth in the Restricted Stock Award Agreement. All rights with respect to the Restricted Stock granted to a Participant under the Plan shall be available during his or her lifetime only to such Participant.

.4 Other Restrictions. The Committee shall impose such conditions and/or restrictions on any Shares of Restricted Stock granted pursuant to the Plan as it may deem advisable, including, without limitation, a requirement that Participants pay a stipulated purchase price for each Share of Restricted Stock, restrictions based upon the achievement of specific performance objectives (Company-wide, business unit, and/or individual), continued employment with the Company over a prescribed period of time, time-based restrictions on vesting following the attainment of the performance objectives, and/or restrictions under applicable Federal or state securities laws.

(a) The Company shall retain the certificates representing Shares of Restricted Stock in the Company's possession until such time as all conditions and/or restrictions applicable to such Shares have been satisfied.

(b) Except as otherwise provided in this Article VII, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan shall become freely transferable by the Participant after the last day of the applicable Period of Restriction.

(c) Distribution of Shares of Restricted Stock is conditioned upon the Participant not committing any criminal offense or malicious tort relating to or against the Company.

(d) Unless the Committee otherwise provides in the terms of the Award Agreement or otherwise, no share of Restricted Stock granted to a person subject to Section 16 of the Exchange Act shall be sold, assigned or otherwise transferred until at least six months and one day have elapsed from the date on which the Restricted Stock was issued, and provided, further, that, except with respect to shares of Restricted Stock granted to Covered Employees, by action taken after the Restricted Stock is issued, the Committee may, on such terms and conditions as it may determine to be appropriate, remove any or all of the restrictions imposed by the terms of the Award Agreement. Restricted Stock may not be sold or encumbered until all restrictions are terminated or expire. If no consideration was paid by the Participant upon issuance, a Participant's rights in unvested Restricted Stock shall lapse, and such Restricted Stock shall be surrendered to the Company without consideration, upon a termination of employment with the Company; provided, however, except with respect to shares of Restricted Stock granted to Covered Employees, the Committee in its sole and absolute discretion may provide that no such lapse or surrender shall occur in the event of a termination of employment, without cause or following any change in control of the Company or because of the Participant's retirement, or otherwise.

.5 Voting Rights. During the Period of Restriction, Participants holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares.

.6 Dividends and Other Distributions. If determined by the Committee in its absolute discretion, during the Period of Restriction, Participants holding Shares of Restricted Stock granted hereunder may be credited with regular cash dividends paid with respect to the underlying Shares while they are so held. Such dividends may be paid currently, accrued as contingent cash obligations, or converted into additional shares of Restricted Stock, upon such terms as the Committee establishes.

The Committee may apply any restrictions to the dividends that the Committee deems appropriate. Without limiting the generality of the preceding sentence, if the grant or vesting of Restricted Stock granted to a Covered Employee is designed to comply with the requirements of the Performance-Based Exception, the Committee may apply any restrictions it deems appropriate to the payment of dividends declared with respect to such Restricted Stock, such that the dividends and/or the Restricted Stock maintain eligibility for the Performance-Based Exception.

.7 Termination of Employment. In the event a Participant's employment with the Company is terminated because of the Participant's Disability or death during the Period of Restriction, the Period of Restriction shall end and the Participant's rights thereunder shall inure to the benefit or his or her Beneficiary.

In the event that the Participant's employment with the Company is terminated for any reason other than death or Disability during the Period of Restriction, such Participant's outstanding Restricted Shares shall be forfeited to the Company without payment, unless the Committee, in its sole discretion, determines otherwise.

.8 Legend. In order to enforce the restrictions imposed upon shares of Restricted Stock hereunder, the Committee shall cause a legend or legends to be placed on certificates representing all shares of Restricted Stock that are still subject to restrictions under award agreements, which legends shall make appropriate reference to the conditions imposed thereby.

.9 Section 83(b) Election. If a Participant makes an election under Section 83(b) of the Code, or any successor section thereto, to be taxed with respect to the Restricted Stock as of the date of transfer of the Restricted Stock rather than as of the date or dates upon which the Participant would otherwise be taxable under Section 83(a) of the Code, the Participant shall deliver a copy of such election to the Company immediately after filing such election with the Internal Revenue Service.

ARTICLE VIII.
DEFERRED STOCK

.1 Award of Deferred Stock. Subject to the terms and provisions of the Plan, at any time and from time to time, (a) the Chief Executive Officer may grant Deferred Stock Bonus Awards or Deferred Stock Agreements to Employees who are not Officers or Covered Employees and (b) the Committee may grant Deferred Stock Bonus Awards or Deferred Stock Agreements to Officers or Covered Employees. The Chief Executive Officer or the Committee shall have complete discretion in determining to whom such Deferred Stock Bonus Award or Deferred Stock Agreement shall be awarded, the amount of Deferred Stock granted to each Employee (subject to Article IV herein) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such Awards of Deferred Stock.

.2 Deferred Stock Bonus Awards. Deferred Stock Bonus Awards may be granted as part of a management incentive program under which part of the annual performance bonus awarded to managers and other key employees is made in Deferred Stock. Subject to the terms of the Plan, Deferred Stock Bonus Awards shall have such terms and conditions as determined by (a) the Chief Executive Officer with respect to Employees who are not Officers or Covered Employees and (b) the Committee with respect to Officers or Covered Employees. As determined in the discretion of (a) the Chief Executive Officer with respect to Employees who are not Officers or Covered Employees and (b) the Committee with respect to Officers or Covered Employees, and subject to the terms of the Plan, Participants may elect to receive their Deferred Stock Bonus Award in the form of either a Current Award or a Deferred Award.

(a) Method of Election. Each Participant who is granted a Deferred Stock Bonus Award and selected by (i) the Chief Executive Officer with respect to Employees who are not Officers or Covered Employees and (ii) the Committee with respect to Officers or Covered Employees, in their respective discretion, may elect, in writing, on a form to be furnished by the Company, to receive a Current Award or a Deferred Award. Notwithstanding the foregoing, any eligible Participant who does not elect to receive a Deferred Award within the time designated by the Committee shall be granted a Current Award.

(b) Deferred Award.

(i) ***Vesting***. Deferred Stock granted in connection with a Deferred Award shall contingently vest, pro rata, in annual installments commencing one (1) year after the date of the Deferred Stock Bonus Award and continuing on each January 2 thereafter until the expiration of a ten (10) year period from such commencement date. Notwithstanding the foregoing, all unvested Deferred Stock subject to a Deferred Award shall vest upon the Participant's (1) termination of employment following attainment of age Fifty-Five (55) with ten (10) Years of Service, (2) termination of employment with retirement approval from the Committee and with twenty (20) Years of Service; (3) Disability; or (4) death. Subject to Section 4.3 herein, unvested Deferred Stock shall not continue to vest following termination of employment for any other reason.

(ii) ***Distribution of Shares***. Vested Shares shall be distributed to the Participant in two (2) to ten (10) approximately equal annual installments, as elected by the Participant, or over such shorter period as determined by the Committee. Such distribution shall commence in the month of January following the date the Participant terminates employment; provided, however, that the Participant may elect to receive his or her vested Shares in a single distribution which shall take place in the month of January following his or her termination of employment.

All such elections made pursuant to this Section 8.2(b)(ii) shall be made at the time the Deferred Stock Bonus Award is granted, and shall be made, in writing, on a form prescribed by the Committee. Upon a Participant's death, all undistributed vested Deferred Stock will be distributed in one distribution as provided in Article XIII herein.

(c) Current Award.

(i) ***Distribution of Shares***. Shares subject to a Current Award will be distributed in ten (10) consecutive, approximately equal, annual installments, commencing one (1) year after the date of the Deferred Stock Bonus Award. If the Participant dies prior to distribution of all Shares to which he or she is entitled, the remaining Shares will be distributed in one distribution as provided in Article XIII herein.

(ii) ***Forfeiture of Shares***. Any undistributed Shares subject to a Current Award will be forfeited and the Deferred Stock Bonus Award relating thereto terminated, without payment, if the Participant's employment with the Company is terminated for any reason other than the Participant's (1) termination of employment at or beyond age Fifty-Five (55) with Ten (10) Years of Service, (2) retirement after Twenty (20) Years of Service with approval from the Committee, (3) Disability, or (4) death. Any undistributed Shares not subject to forfeiture shall continue to be distributed to the Participant under the distribution schedule which would have applied to those Shares if the Participant had not terminated employment, or over such shorter period as may be determined by the Committee.

(d) ***Conditions.*** Distribution of Shares under Current Awards and Deferred Awards is conditioned upon:

(i) the Participant not committing any criminal offense or malicious tort relating to or against the Company;

(ii) the Participant not Engaging in Competition; and

(iii) the Participant having provided the Committee with a current address where the Deferred Stock Bonus Award may be distributed.

If said conditions are not met, all undistributed Shares will be forfeited and the Deferred Stock Bonus Award terminated, without payment.

.3 Deferred Stock Agreements. Deferred Stock Agreements represent Deferred Stock granted to a Participant subject to the following conditions:

(a) Vesting. Deferred Stock granted pursuant to this Section 8.3 shall contingently vest over a specified number of years, as determined by (i) the Chief Executive Officer with respect to Employees who are not Officers or Covered Employees or (ii) the Committee with respect to Officers or Covered Employees. Notwithstanding the foregoing, all unvested Deferred Stock subject to a Deferred Stock Agreement shall immediately vest upon the Participant's: (1) termination of employment following attainment of age Fifty-Five (55) with Ten (10) Years of Service, (2) termination of employment with retirement approval from the Committee and with Twenty (20) Years of Service, (3) termination of employment as a result of Disability, or (4) termination of employment as a result of death. Subject to Section 4.3 herein, unless otherwise provided in the Deferred Stock Agreement, if the Participant's employment with the Company shall be terminated for any other reason, all Deferred Stock, which is not vested before such termination of employment shall be forfeited and the Deferred Stock Agreement terminated without payment.

(b) Distribution of Shares. Vested Deferred Stock granted pursuant to this Section 8.3 shall be distributed to the Participant in the form of Shares in the manner specified in the Deferred Stock Agreement, or over such shorter period as the Committee may direct. Such distribution shall commence on January 2 following the first to occur of the date the Participant (i) retires, (ii) becomes Disabled, or (iii) attains at least age Sixty-Five (65) and is no longer employed by the Company. Upon the Participant's death or as soon as practicable thereafter, all unpaid vested Deferred Stock shall be distributed in the form of Shares, in one distribution, as provided in Article XIII.

(c) Conditions. Distribution of Shares subject to Deferred Stock Agreements is conditioned upon:

(i) the Participant not engaging in Competition;

(ii) the Participant not committing any criminal offense or malicious tort relating to or against the Company; and

(iii) the Participant having provided the Committee with a current address where the Deferred Stock may be distributed.

If such conditions are not met, all undistributed Deferred Stock will be forfeited and the Deferred Stock Agreement terminated without payment.

.4 Assignment. A Participant's rights under a Deferred Stock Agreement or Deferred Stock Bonus Award may not, without the written consent of the Company, be assigned or otherwise transferred, nor shall they be subject to any right or claim of a Participant's creditors, provided that the Company may offset any amounts owing to or guaranteed by the Company, or owing to any credit union related to the Company against the value of Deferred Stock and underlying Shares to be distributed under Deferred Stock Agreements and Deferred Stock Bonus Awards.

.5 Lump Sum Payments. Notwithstanding anything in the Plan to the contrary, any Participant entitled upon termination of employment to receive a distribution pursuant to this Article VIII, the amount of which distribution has a total Fair Market Value at the time of such termination of Three Thousand Dollars ($3,000.00) or less, shall receive such distribution in one lump sum as soon as possible following termination of employment.

.6 Rights as a Shareholder. The Participant shall have no rights as a shareholder with respect to Deferred Stock until the date of issuance of a stock certificate or confirmation for such Shares. Except as otherwise expressly provided by the Board or the Committee, no adjustment shall be made for dividends or other rights for which the record date is prior to the date of issuance of a stock certificate or confirmation for such Shares.

ARTICLE IX.
SPECIAL RECOGNITION STOCK AWARDS

Subject to the terms and provisions of the Plan, the Committee or its designee, at any time and from time to time, may grant Special Recognition Stock Awards to Employees in such amounts and upon such conditions as the Committee or its designee shall determine.

ARTICLE X.
OTHER AWARDS

.1 Grant of Other Share-Based Awards. The Committee may grant other Share-Based Awards to Participants in such number, and upon such terms, and at any time and from time to time, as shall be determined by the Committee.

.2 Terms of Other Share-Based Awards. Other Share-Based Awards shall contain such terms and conditions as the Committee may from time to time specify and may be denominated in cash, in Shares, in Share-equivalent units, in Share appreciation units, in securities or debentures convertible into Shares or in a combination of the foregoing and may be paid in cash or in Shares, all as determined by the Committee. Other Share-Based Awards may be issued alone or in tandem with other Awards granted to Employees.

.3 Other Share-Based Award Agreement. Each Other Share-Based Award shall be evidenced by an Award Agreement that shall specify such terms and conditions as the Committee may determine.

.4 Other Cash Performance-Based Awards. The Committee may grant Other Cash Performance-Based Awards based on performance measures set forth in Article XI not based on Shares upon such terms and at any time and from time to time as shall be determined by the Committee. Each such Other Cash Performance-Based Award shall be evidenced by an award agreement that shall specify such terms and conditions as the Committee shall determine. An Other Cash Performance-Based Award not based upon Shares shall not decrease the number of Shares under Article IV, which may be issued pursuant to other Awards. No individual shall be eligible to receive a payment with respect to cash performance-based awards in excess of Four Million Dollars ($4,000,000.00) in any calendar year. Other Cash Performance-Based Awards may relate to annual bonus or long-term performance awards.

ARTICLE XI.
PERFORMANCE MEASURES FOR AWARDS

.1 Performance Measures. Unless and until the Committee proposes for shareholder vote and shareholders approve a change in the general performance measures set forth in this Article XI, the attainment of which may determine the degree of payout and/or vesting with respect to Awards which are designed to qualify for the Performance-Based Exception, the performance measure(s) to be used for purposes of such Awards shall be chosen by the Committee from among the following alternatives:

(a) Consolidated cash flows,

(b) Consolidated financial reported earnings,

(c) Consolidated economic earnings,

(d) Earnings per share,

(e) Earnings as a percentage of average capital,

(f) Earnings as a multiple of interest expense,

(g) Business unit financial reported earnings,

(h) Business unit economic earnings,

(i) Business unit cash flows,

(j) Appreciation in the Fair Market Value of Shares either alone or as measured against the performance of the stocks of a group of companies approved by the Committee,

(k) Total capital invested in assets, and

(l) Capital invested in assets subject to the strategic alliance with Marriott International, Inc.

.2 Adjustments. The Committee shall have the discretion to adjust the determinations of the degree of attainment of pre-established performance objectives, provided, however, that Awards which are designed to qualify for the Performance-Based Exception, and which are held by Covered Employees, may not be adjusted upward (the Committee shall retain the discretion to adjust such Awards downward).

.3 Committee Discretion. In the event that applicable tax and/or securities laws change to permit Committee discretion to alter the governing performance measures without obtaining shareholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining shareholder approval. In addition, in the event that the Committee determines that it is advisable to grant Awards, which do not qualify for the Performance-Based Awards, or to make modifications that would not satisfy the requirements to qualify for the Performance-Based Exception, the Committee may make such grants without satisfying the requirements of Section 162(m) of the Code.

ARTICLE XII.
CONVERSION AWARDS

All 1998 Conversion Awards, which, under the Allocation Agreement, are to be denominated in shares of Host Marriott Corporation, shall be issued under the Host REIT Plan as provided in the Allocation Agreement. The Committee shall administer all such 1998 Conversion Awards under the Host REIT Plan, giving service credit to the grantee of each such 1998 Conversion Award to the extent required under the Allocation Agreement. All 1998 Conversion Awards shall be subject to substantially similar terms and conditions as provided in the holder's outstanding awards prior to the Contribution Date.

ARTICLE XIII.
BENEFICIARY DESIGNATION

Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of the Participant's death before the Participant has received any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Company, and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

ARTICLE XIV.
MISCELLANEOUS PROVISIONS

.1 Not Transferable.

(a) No Award under the Plan may be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution or, subject to the consent of the Committee, pursuant to a DRO, unless and until such Award has been exercised, or the shares underlying such Award have been issued, and all restrictions applicable to such shares have lapsed. No Award or interest or right therein shall be liable for the debts, contracts or engagements of the Participant or his or her successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect, except to the extent that such disposition is permitted by the preceding sentence.

(b) During the lifetime of the Participant, only he or she may exercise an Option or other Award (or any portion thereof) granted to him or her under the Plan, unless it has been disposed of with the consent of the Committee pursuant to a DRO. After the death of the Participant, any exercisable portion of an Option or other Award may, prior to the time when such portion becomes unexercisable under the Plan or the applicable Award Agreement, be exercised by his or her personal representative or by any person empowered to do so under the deceased Participant’s will or under the then applicable laws of descent and distribution.

ARTICLE XV.
DEFERRALS

The Committee may permit or require a Participant to defer such Participant's receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant by virtue of an exercise of an Option, or the payment of or the lapse or waiver of restrictions with respect to any other Award. If any such deferral election is required or permitted, the Committee shall, in its sole discretion, establish rules and procedures for such payment deferrals.

ARTICLE XVI.
RIGHTS OF PARTICIPANTS

.1 Employment or Service. Nothing in this Plan shall interfere with or limit in any way the right of the Company to terminate any Participant's employment or service at any time, nor confer upon any Participant any right to continue in the employ or service of the Company.

.2 Participation. No Employee shall have the right to be selected to receive an Award under this Plan, or, having been so selected, to be selected to receive a future Award.

ARTICLE XVII.
AMENDMENT, MODIFICATION AND TERMINATION

.1 Amendment, Modification, and Termination. The Committee may terminate, amend or modify the Plan. Termination, amendment or modification of the Plan may be in response to changes in the Code, the Exchange Act or national securities exchange regulations, or for other reasons deemed appropriate by the Committee. However, without the requisite approval of the shareholders of the Company, no such termination, amendment or modification may:

(a) Materially increase the total number of Shares which may be issued under this Plan, or the total number of Shares for which Options may be granted under this Plan, except as provided in Section 4.3 hereof; or

(b) Materially modify the requirements as to eligibility for participation in the Plan; or

(c) Extend the maximum period after the date of grant during which Options may be exercised; or

(d) Change the provisions of the Plan regarding Option Price or the exercise of Options, except as provided in Section 4.3 or Article VI hereof or modify the Plan in a manner inconsistent with Rule 16b-3 under the Exchange Act, Sections 422-424 of the Code or Section 162(m) of the Code.

The termination or any modification or amendment of the Plan shall not, without the consent of the Participant, affect a Participant's rights under an Award previously granted to the Participant; provided, however, that in the event of a transaction described in Section 4.3 hereof, the authority of the Committee (or, if another legal entity assumes the obligations of the Company hereunder, of the board of directors, compensation committee or similar body of such other legal entity, as applicable) in taking the actions permitted or required by Section 4.3 hereof shall not be eliminated or diminished in any way by this sentence. With the consent of the affected Participant, the Committee may amend an outstanding Award agreement in a manner consistent with the Plan.

.2 Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. Subject to the restriction set forth in Article XI herein on the exercise of discretion to adjust upward the determinations of the degree of attainment of pre-established performance objectives with respect to Awards which have been designed to comply with the Performance-Based Exception, the Committee may make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 4.3 hereof) affecting the Company or the financial statements of the Company or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

.3 Awards Previously Granted. No termination, amendment, or modification of the Plan or any Award shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant holding such Award.

.4 Compliance with Code Section 162(m). At all times when Code Section 162(m) is applicable, all Awards granted under this Plan shall comply with the requirements of Code Section 162(m), provided, however, that in the event the Committee determines that such compliance is not desired with respect to any Award or Awards available for grant under the Plan, then compliance with Code Section 162(m) will not be required. In addition, in the event that changes are made to Code Section 162(m) to permit greater flexibility with respect to any Award or Awards available under the Plan, the Committee may, subject to this Article XVII, make any adjustments it deems appropriate.

.5 Substitution of Awards in Mergers and Acquisitions. Awards may be granted under the Plan from time to time in substitution for awards held by employees or directors of entities who become or are about to become employees or directors of the Company or a Subsidiary as a result of a merger, consolidation or other acquisition of the employing entity or the acquisition by the Company or a Subsidiary of the assets or stock of the employing entity. The terms and conditions of any substitute awards so granted may vary from the terms and conditions set forth herein to the extent that the Committee deems appropriate at the time of grant to conform the substitute awards to the provisions of the awards for which they are substituted.

ARTICLE XVIII.
WITHHOLDING

.1 Tax Withholding. The Company shall have the power and the right to deduct from any amount otherwise due to the Participant, or to withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy Federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Plan. Any adverse consequences to the Optionee arising in connection with the share withholding procedure set forth in the preceding sentence shall be the sole responsibility of the Optionee.

.2 Share Withholding. With respect to withholding required in connection with any Award, the Company may require, or the Committee may permit a Participant to elect, that the withholding requirement be satisfied, in whole or in part, by having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax which could be withheld on the transaction. Any election by a Participant shall be irrevocable, made in writing, signed by the Participant, and shall be subject to any restrictions or limitations that the Committee, in its sole discretion, deems appropriate.

ARTICLE XIX.
INDEMNIFICATION

Each Person who is or shall have been a member of the Committee, or of the Board, shall be indemnified and held harmless by Host Marriott Corporation, the Operating Partnership or any Subsidiary against and from any loss, cost, liability or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the approval of Host Marriott Corporation, the Operating Partnership or any Subsidiary, or paid by him or her in satisfaction of any judgment in any such action, suit or proceeding against him or her, provided he or she shall give Host Marriott Corporation, the Operating Partnership or any Subsidiary an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend the same on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such Persons may be entitled under Host Marriott Corporation’s Articles of Amendment and Restatement of Articles of Incorporation, as a matter of law or otherwise, or any power that Host Marriott Corporation, the Operating Partnership or any Subsidiary may have to indemnify them or hold them harmless.

ARTICLE XX.
SUCCESSORS

All obligations of Host Marriott Corporation, the Operating Partnership or any Subsidiary, respectively, under the Plan, with respect to Awards granted hereunder, shall be binding on any successors to Host Marriott Corporation, the Operating Partnership or any Subsidiary, respectively, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business and/or assets of Host Marriott Corporation, the Operating Partnership or any Subsidiary, respectively.

ARTICLE XXI.
LEGAL CONSTRUCTION

.1 Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

.2 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

.3 Requirements of Law. The granting of Awards and the issuance of Shares under this Plan shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

.4 Securities Law Compliance. With respect to Insiders, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the Exchange Act. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void to the extent permitted by law and deemed advisable by the Committee.

.5 Governing Law. To the extent not preempted or otherwise governed by Federal law, the Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of Maryland without regard to the State of Maryland's choice of law rules.

CERTIFICATE OF SECRETARY

I, the undersigned secretary of Host Marriott Corporation, do hereby certify that the attached copy of the Host Marriott Corporation and Host Marriott, L.P. 1997 Comprehensive Stock Incentive 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 January, 2004.

Elizabeth A. Abdoo
Secretary

Exhibit 10.14

AMENDMENT NO. 6, DATED AS OF JANUARY 10, 2001, TO DISTRIBUTION AGREEMENT DATED AS OF SEPTEMBER 15, 1993 BETWEEN HOST MARRIOTT CORPORATION AND MARRIOTT INTERNATIONAL, INC.

Host Marriott Corporation, a Maryland corporation and the successor by merger to Host Marriott Corporation, a Delaware corporation f/k/a Marriott Corporation, (“Host Marriott”), and Marriott International, Inc. (“MII”) desire to adopt this Amendment No. 6 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, that certain Amendment No. 4 to the Original Agreement dated as of December 28, 1998, and that certain Amendment No. 5 to the Original Agreement dated as of December 18, 1998 (the “Distribution Agreement”)).

WHEREAS, on or about December 29, 1998, (i) Host Marriott Corporation, a Delaware corporation (“Old Host”) distributed approximately 93.6% of the outstanding common stock of Crestline Capital Corporation, a Maryland corporation (“CCC”), to the shareholders of Old Host and contributed the remaining 6.4% of such CCC common stock to Host Marriott, L.P. for delivery to Blackstone Real Estate Advisors L.P. and certain affiliated entities thereto (or for return to CCC if not delivered to Blackstone Real Estate Advisors L.P. and its affiliated entities) and (ii) thereafter Old Host merged (the “Merger”) into Host Marriott, with Host Marriott electing to be treated as a “real estate investment trust” under the applicable provisions of the United States Internal Revenue Code effective as of January 1, 1999;

WHEREAS, since the date of the Merger certain changes have occurred in the law affecting the requirements for qualification as a “real estate investment trust” under the United States Internal Revenue Code and the regulations and interpretations thereof; and

WHEREAS, as a result of such changes and in accordance with the undertakings of the parties in Section 6.07(k) of the Distribution Agreement as currently in effect, the parties hereto now desire to amend the Distribution Agreement.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the parties hereto hereby agree as follows:

1. Subsection (j) of Section 6.07 of the Distribution Agreement shall be deleted in its entirety and replaced by the following:

"(j) Notwithstanding anything to the contrary in this Agreement or otherwise (other than the provisions of subsection (n) of this Section 6.07), MII's Right will be limited to the purchase and subsequent ownership of only such number of shares, if any, as would not (i) cause MII, or any Person in which MII owns a direct or indirect interest, to own or be deemed (taking into account the attribution rules of Code Section 318(a), as modified by Code Section 856(d)(5)) to own more than 9.9% (the "Disqualification Threshold") of Host Marriott if MII, or any such other Person in which MII owns a direct or indirect interest, also owns or would be deemed to own (taking into account the attribution rules of Code Section 318(a), as modified by Code Section 856(d)(5)), more than 9.9% of any tenant of real property leased by Host Marriott or any Subsidiary of Host Marriott (other than any such lease with MII or any of its Affiliates or Subsidiaries which was in effect at the time of the effectiveness of the Merger or any such lease with a direct or indirect Subsidiary of Host Marriott) (a "Disqualified Entity"), including CCC (or any subsidiary of CCC) if and for so long as it shall be a Disqualified Entity, (ii) cause any Person that owns (or is deemed to own (taking into account the attribution rules of Code Section 318(a), as modified by Code Section 856(d)(5))) a direct or indirect interest in MII to exceed the Disqualification Threshold with respect to Host Marriott if such Person owns or would be deemed to own (taking into account the attribution rules of Code Section 318(a), as modified by Code Section 856(d)(5)) more than 9.9% of a Disqualified Entity (including CCC (or any Subsidiary of CCC) if and for so long as it shall be a Disqualified Entity), or (iii) in the event that Host Marriott L.P. is or could be considered a "publicly traded partnership" within the meaning of Code Section 7704, cause Host Marriott, L.P. to own more than 9.9% of CCC, if and for so long as it shall be a Disqualified Entity (determined by taking into account (A) the attribution rules of Code Section 318(a), as modified by Code Sections 856(d)(5) and 7704(d)(3)(B), and (B) any stock of CCC, if and for so long as it shall be a Disqualified Entity, that Host Marriott, L.P. is deemed to own under these rules by reason of the ownership of an interest in Host Marriott, L.P. by Blackstone Real Estate Advisors L.P. or any of its affiliated entities or any other Person or such other Person's affiliated entities)."

2. Section 6.07 is amended by adding the following subsections (k), (l), (m) and (n) and by relettering the existing subsections (k) and (l) as (o) and (p), respectively:

"(k) Notwithstanding anything to the contrary in this Agreement or otherwise (other than the provisions of subsection (n) of this Section 6.07), effective as of the date hereof, MII's Right will be limited to the purchase and subsequent ownership of only such number of shares, if any, as would not (i) cause MII, or any Person in which MII owns a direct or indirect interest, to own or be deemed (taking into account the attribution rules of Code Section 318(a), as modified by Code Section 856(d)(5) and the flush language of Code Section 856(d)(3)(B)) to own more than thirty five percent (35%) of the shares of Host Marriott (as determined for purposes of Code Section 856(d)(3)(A)), or (ii) cause any one or more Persons that own (or are deemed to own (taking into account the attribution rules of Code Section 318(a), as modified by Code Section 856(d)(5) and the flush language of Code Section 856(d)(3))) more than thirty five percent (35%) of either the total combined voting power of MII or the total shares of all classes of stock of MII to own (or to be deemed to own (taking into account the attribution rules of Code Section 318(a), as modified by Code Section 856(d)(5) and the flush language of Code Section 856(d)(3))) thirty five percent (35%) or more of the shares of Host Marriott (as determined for purposes of Code Section 856(d)(3)(B) and determined taking into account all other shares of Host Marriott that such Persons own or are deemed to own without regard to MII's Right).

(l) (i) Notwithstanding anything to the contrary in this Agreement or otherwise (other than the provisions of subsection (n) of this Section 6.07), effective as of the date hereof, if at any time MII has exercised any portion of MII's Right and MII thereafter owns any shares of Host Marriott and if any of the "Disqualification Events" defined in Section 6.07(l)(ii) below occurs, MII shall be considered to have automatically and irrevocably transferred to the Charitable Trust (as defined in the Articles of Amendment and Restatement of Article of Incorporation of Host Marriott (the "Host Marriott Charter")), for the benefit of the Charitable Beneficiary (as defined in the Host Marriott Charter), on the date immediately prior to the occurrence of the event, fact or circumstance that first resulted in the Disqualification Event (the "Deemed Transfer Date"), the lesser of the total number of shares of Host Marriott owned by MII or such number of shares of Host Marriott that, if owned by the Charitable Trust (as defined in the Host Marriott Charter) on the Deemed Transfer Date, would have prevented the occurrence of the Disqualification Event (the "Transferred Shares"). All of the provisions of Section 8.3 of the Host Marriott Charter relating to the Charitable Trust, the Charitable Trustee, the Charitable Beneficiary and the ownership and disposition of shares of stock deemed transferred to the Charitable Trustee pursuant thereto (including, without limitation, Section 8.3.6 thereof) shall apply with respect to the Transferred Shares as if this subsection (l) were part of Article VIII of the Host Marriott Charter. Without limiting the foregoing, within 20 days of receiving notice from Host Marriott or MII that a Deemed Transfer Date has occurred and Transferred Shares have been transferred to the Charitable Trust, the Charitable Trustee shall sell the Transferred Shares to one or more persons designated by it whose ownership of the Transferred Shares would not result in a Disqualification Event or otherwise violate Article VIII of the Host Marriott Charter. Upon such sale, the interest of the Charitable Beneficiary in the Transferred Shares shall terminate, and the Charitable Trustee shall distribute the net proceeds of such sale as follows: (i) to MII, the lesser of the net proceeds of the sale of the Transferred Shares or an amount equal to the Closing Price (as defined in the Host Marriott Charter) of the Transferred Shares on the Deemed Transfer Date, and (ii) to the Charitable Beneficiary, the balance, if any, of the net proceeds of such sale. Any dividends and other distributions paid by Host Marriott with respect to the Transferred Shares that have a record date after the Deemed Transfer Date and prior to the date of the sale of such shares by the Charitable Trustee shall be for the exclusive benefit of the Charitable Beneficiary (and in the event that MII shall have received any such dividend or other distributions prior to the discovery of the occurrence of a Deemed Transfer Date, it shall pay the full amount thereof over to the Charitable Trustee for the benefit of the Charitable Beneficiary upon demand). Host Marriott and MII intend that the Charitable Trust shall be considered the legal and beneficial owner of any Transferred Shares for the exclusive benefit of the Charitable Beneficiary at all times from and after the Deemed Transfer Date and that MII shall not have any legal or equitable interest therein at any time thereafter (other than the right to be paid the purchase price for such shares as set forth above).

(ii) For purposes of this Distribution Agreement, a “Disqualification Event” shall mean any one of the following:

(A) MII, or any Person in which MII owns a direct or indirect interest, would be considered to own or be deemed (taking into account the attribution rules of Code Section 318(a), as modified by Code Section 856(d)(5) and the flush language of Code Section 856(d)(3)(B)) to own more than thirty five percent (35%) of the shares of Host Marriott (as determined for purposes of Code Section 856(d)(3)(A));

(B) Any one or more Persons that own (or are deemed to own (taking into account the attribution rules of Code Section 318(a), as modified by Code Section 856(d)(5) and the flush language of Code Section 856(d)(3))) more than thirty five percent (35%) of either the total combined voting power of MII or the total shares of all classes of stock of MII would be considered to own (or be deemed to own (taking into account the attribution rules of Code Section 318(a), as modified by Code Section 856(d)(5) and the flush language of Code Section 856(d)(3))) thirty five percent (35%) or more of the shares of Host Marriott (as determined for purposes of Code Section 856(d)(3)(B) and determined taking into account all other shares of Host Marriott that such Persons own or are deemed to own without regard to MII’s Right);

(C) MII, or any Person in which MII owns a direct or indirect interest, would be considered to own or be deemed (taking into account the attribution rules of Code Section 318(a), as modified by Code Section 856(d)(5)) to own more than the Disqualification Threshold of Host Marriott at such time that MII, or any such other Person in which MII owns a direct or indirect interest, also owns or would be deemed to own (taking into account the attribution rules of Code Section 318(a), as modified by Code Section 856(d)(5)), more than 9.9% of any Disqualified Entity (including CCC or any subsidiary of CCC if and for so long as it shall be a Disqualified Entity);

(D) If any Person that owns (or is deemed to own (taking into account the attribution rules of Code Section 318(a), as modified by Code Section 856(d)(5))) a direct or indirect interest in MII would, by reason of MII's ownership of shares of Host Marriott (determined taking into account the attribution rules of Code Section 318(a), as modified by Code Section 856(d)(5)), exceed the Disqualification Threshold with respect to Host Marriott at such time that such Person owns or would be deemed to own (taking into account the attribution rules of Code Section 318(a), as modified by Code Section 856(d)(5)) more than 9.9% of a Disqualified Entity (including CCC (or any Subsidiary of CCC) if and for so long as it shall be a Disqualified Entity);

(E) If at any time that Host Marriott L.P. is or could be considered a "publicly traded partnership" within the meaning of Code Section 7704, MII's ownership of shares of Host Marriott (determined taking into account the attribution rules of Code Section 318(a), as modified by Code Section 856(d)(5)) would cause Host Marriott, L.P. to be considered to own more than 9.9% of CCC, if and for so long as it shall be a Disqualified Entity (determined by taking into account (A) the attribution rules of Code Section 318(a), as modified by Code Sections 856(d)(5) and 7704(d)(3)(B), and (B) any stock of CCC, if and for so long as it shall be a Disqualified Entity, that Host Marriott, L.P. would be deemed to own under these rules by reason of the ownership of an interest in Host Marriott, L.P. by Blackstone Real Estate Advisors L.P. or any of its affiliated entities or any other Person or such other Person's affiliated entities);

(F) Any event (other than an event described in Sections 6.07(l)(ii)(A) through (E) above) involving the ownership or deemed ownership of Host Marriott shares of common stock (taking into account the attribution rules of Code Section 318(A), as modified by Code Section 856(d)(5)), which event is attributable to the exercise, in whole or in part, of MII's Right (or, if relevant, the Blocked Portion of the Right after assignment thereof), if the consequence of such event would be Host Marriott's failure to continue to qualify to be taxed as a "real estate investment trust" ("REIT") under the applicable Code provisions or Host Marriott, L.P. being considered taxable as a corporation pursuant to Code Section 7704; or

(G) If at any time MII has assigned all or part of the Blocked Portion of the Right, after any representation made by MII for the purpose of obtaining the ruling described in Section 6.07(m)(i)(A) below becomes inaccurate or incomplete and in the reasonable opinion of Host Marriott there is a realistic and meaningful possibility that, as a result of such inaccuracy or incompleteness, the ruling issued by the Internal Revenue Service could no longer be relied upon by Host Marriott (unless MII obtains a written opinion of outside counsel reasonably acceptable to Host Marriott, in form and substance reasonably satisfactory to Host Marriott, that Host Marriott should be able to continue to rely on the ruling issued by the Internal Revenue Service that is described in Section 6.07(m)(i)(A) below).

(iii) If at any time MII has exercised any portion of MII's Right and MII thereafter owns any shares of Host Marriott, Host Marriott hereby undertakes to provide to MII reasonable notice of the following events:

(A) Any changes in the ownership of shares of Host Marriott stock by a Person who owns, directly or indirectly, five percent (5%) or more of the outstanding shares of such stock as to which Host Marriott has Knowledge (as defined below) could reasonably be expected to (1) result in a Disqualification Event or (2) increase materially the risk of a Disqualification Event occurring; and

(B) The implementation of any Host Marriott stock repurchase program.

For purposes of this Distribution Agreement, "Knowledge" shall mean actual knowledge of any of the officers of Host Marriott (other than a member of the Marriott family). Notwithstanding any of the foregoing, in no event would the delay or failure of Host Marriott to provide the notice described in this Section 6.07(l)(iii) cause the provisions of this Agreement (including, without limitation, those set forth in Section 6.07(l)) not to apply.

(m) (i) In the event that MII's Right would not be exercisable in full by reason of one or more of the prohibitions set forth in subsection (j) or subsection (k) of this Section 6.07, MII shall, subject to the conditions set forth below, have the right to assign that portion (but only such portion) of the Right that is not exercisable by reason of such prohibition (the "Blocked Portion of the Right"), subject to further reduction as set forth below, to one or more Persons whose exercise of the assigned Blocked Portion of the Right would not be precluded by either subsection (j) or subsection (k) (applied by replacing the term "MII" each place it appears in subsection (j) and subsection (k) with the following: "MII and/or any permitted assignees pursuant to subsection (m)(i) below"), subject to the following conditions:

(A) Host Marriott and MII shall have obtained from the Internal Revenue Service, for the mutual benefit of Host Marriott and MII, a private letter ruling (the user fees and legal fees related to which shall be shared equally by Host Marriott and MII, provided, however, that in no event shall Host Marriott be required to pay more than a total of $50,000 with respect to such fees) to the effect that neither the existence of such assignment right nor the exercise of such assignment right shall cause (A) MII (or any Person that is considered pursuant to Code Section 318(a) to own any stock of Host Marriott considered owned by MII, actually or constructively pursuant to Code Section 318(a)) to be considered for purposes of any of Code Sections 318(a), 856(d)(2), Section 856(d)(3)(A), Section 856(d)(3)(B), Section 856(d)(8)(B), Section 856(d)(9)(A), Section 856(i) and Section 7704(d)(1)(C) to own all or any portion of the Host Marriott stock that is subject to the Blocked Portion of the Right or (B) Host Marriott otherwise to fail to continue to qualify to be taxed as a REIT under the applicable Code provisions or Host Marriott, L.P. to be taxed as a corporation pursuant to Code Section 7704;

(B) the proposed assignee shall not be a "Host Marriott Competitor" (as defined in subsection (m)(iv) below);

(C) [Intentionally Omitted];

(D) the proposed assignee enters into a written agreement with Host Marriott, in such form as shall be satisfactory to Host Marriott in its reasonable discretion, pursuant to which the proposed assignee agrees to be bound by and subject to all of subparagraphs (j), (k), and (l) of this Section 6.07 (applied by replacing the term "MII" each place it appears in subsections (j), (k) and (l) with the identity of such proposed assignee), but without the rights of MII under this subsection (m)(i) or subsection (n) of this Section 6.07; and

(E) such proposed assignment shall comply in all respects with the factual and other representations made in connection with obtaining the ruling described in clause (A) above and there are not other facts or circumstances involved in or related to such proposed assignment that, in the reasonable opinion of Host Marriott, create a realistic and meaningful possibility that the ruling issued by the Internal Revenue Service could not be relied upon by Host Marriott in connection with such proposed assignment (unless MII obtains a written opinion of outside counsel reasonably acceptable to Host Marriott, in form and substance reasonably satisfactory to Host Marriott, that Host Marriott should be able to continue to rely on the ruling issued by the Internal Revenue Service in connection with the proposed assignment).

Host Marriott agrees that, upon request of MII, it will assist MII in preparing the private letter ruling referred to in clause (A) of the preceding sentence and will join MII in such ruling request. Following any permitted assignment under this subsection (m)(i), the term "MII," as used in subsections (j), (k) and (l) hereof, shall be construed to mean "MII and/or any permitted assignee pursuant to subsection (m)(i) and their permitted successors and assignees."

(ii) Following any permitted assignment under subsection (m)(i) and with respect only to the portion of the Blocked Portion of the Right assigned pursuant to such subsection, the term "Exercise Period" defined in Section 6.07(a) hereof shall be defined to mean a period commencing on any Trigger Date (as defined in such Section 6.07(a)) and ending forty-five (45) days thereafter.

(iii) A permitted assignee of the MII Right pursuant to this subsection (m) that exercises any portion by the MII Right and its Affiliates shall not be considered a Person for purposes of the definition of "Trigger Date" set forth in Section 6.07(a).

(iv) (A) For purposes of this subsection (m), a "Host Marriott Competitor" shall mean any one of the following:

(1) an entity that either qualifies to be taxed as a REIT under the applicable Code provisions or is a lodging company if (a) the shares of such REIT or lodging company are traded on a United States securities exchange registered under the Exchange Act or a comparable foreign securities exchange (a "Publicly Traded Entity") and (b) such Publicly Traded Entity satisfies either the "Ownership Test" (defined below) or the "Operating Test" (defined below);

(2) any other entity that (a) has as its principal business the ownership or operation of full-service hotels (taking into account only its activities and the activities of its "Controlled Subsidiaries" (defined

below)) but whose shares are not traded on a United States securities exchange registered under the Exchange Act or a comparable foreign securities exchange (a "Non-Publicly Traded Entity") and (b) meets either the Ownership Test or the Operating Test; or

(3) the Controlled Subsidiary of an entity described in clause (1) or (2) above.

(B) For purposes of this subsection (m), the following terms shall have the meanings set forth below:

(1) "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 the ownership of voting securities, by contract, or otherwise.

(2) "Controlled Subsidiary" shall mean a controlled or majority-owned subsidiary, including, without limitation, a corporation, partnership, limited liability company or other entity.

(3) "Ownership Test" shall mean the ownership, directly or indirectly through one or more Controlled Subsidiaries, of (i) in the case of a Publicly Traded Entity, more than twenty five (25) full-service hotels, and (ii) in the case of a Non-Publicly Traded Entity, full-service hotels having a total of more than fifteen thousand (15,000) rooms.

(4) "Operating Test" shall mean the operation of a branded hotel chain (whether or not such operator is also the owner of the brand) that includes (i) in the case of a Publicly Traded Entity, in the aggregate, more than twenty five (25) full-service hotels, and (ii) in the case of a Non-Publicly Traded Entity, more than fifteen (15) full-service hotels.

(C) For purposes of this subsection (m), neither (1) the ownership of non-controlling interests in hotels or hotel operating companies, either directly or indirectly through subsidiaries, affiliates or partnerships, nor (2) the holding of a mortgage or mortgages secured by one or more hotels, shall be considered in the determination of the principal business of an entity.

(n) Notwithstanding any of the foregoing, the prohibitions set forth in subsections (j) and (k) of this Section 6.07 shall not apply with respect to MII if all of the conditions set forth below are satisfied (and if all of the conditions set forth below are satisfied, the provisions of subparagraph (l) shall no longer apply with respect to MII):

(i) The Person described in the definition of "Trigger Date" set forth in subsection (a) of this Section 6.07 is (A) a Person who is, or is controlled by, Persons who have been convicted as felons in any state or federal court, or (B) a Person (or an "Affiliate" (as such term is defined in Section 1.10 of the Agreement) of a Person) that is engaged in the business of operating (as opposed to owning) a branded hotel chain having five thousand (5,000) or more guest rooms in competition with MII and its successors (a "Competitor");

(ii) The Person described in the definition of "Trigger Date" set forth in subsection (a) of this Section 6.07 actually consummates either (A) an acquisition of such number of shares of Voting Stock such as would cause the condition in clause (i) of the definition of "Trigger Date" to be met, or (B) a tender offer or exchange offer, as described in clause (ii) of the definition of Trigger Date, that results in such Person being the Beneficial Owner of a number of shares of Voting Stock representing 30% or more of the total voting power of the then outstanding shares of Voting Stock (in either case, a "Voting Stock Acquisition"); and

(iii) Either (A) a consequence of the Voting Stock Acquisition is the failure of Host Marriott to continue to qualify to be taxed as a REIT under the applicable Code provisions, or (B) the Competitor publicly announces (which announcement shall include, without limitation, a report filed pursuant to the Exchange Act) that, following the Voting Stock Acquisition, either (1) Host Marriott will fail to qualify to be taxed as a REIT under the applicable Code provisions, or (2) the Competitor intends to cause Host Marriott to revoke its election, or otherwise cause Host Marriott to fail to qualify, to be taxed as a REIT and the Competitor owns a sufficient number of shares of Voting Stock to effectuate this intent.

In the event that the Exercise Period for the exercise of the MII Right otherwise shall have expired prior to the satisfaction of all three of the above conditions, then, notwithstanding the foregoing, that portion of the MII Right that otherwise was not exercisable by reason of the prohibitions set forth in subsections (j) and (k) of this Section 6.07 (but only such portion thereof) shall be exercisable for a period of thirty (30) days from the date the last of such conditions was satisfied."

3. New subsection (o) of Section 6.07 of the Distribution Agreement shall be amended by adding the following language after every appearance of the phrase "subsection (j)":

"or subsection (k) or subsection (l) or subsection (m)"

4. 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.

5. Host Marriott covenants that at the next meeting of its Board of Directors or, if sooner, immediately following any Trigger Date, the Board of Directors shall duly adopt a resolution in the form of Annex A hereto granting any permitted assignee of MII pursuant to subsection (m) of Section 6.07 of the Distribution Agreement, as an irrevocable exemption under Section 8.2.7 of the Amended and Restated Articles of Incorporation of Host Marriott from the Ownership Limit (as defined in Section 8.1 of the Amended and Restated Articles of Incorporation of Host REIT) to permit such permitted assigned to exercise any portion of the MII Right that such permitted assignee otherwise would be permitted to exercise under Section 6.07 of the Distribution Agreement, as amended by this Amendment. Host Marriott covenants that, for as long as MII has the right to exercise the Right, Host Marriott will not revoke or amend such resolution without the prior written consent of MII. Host Marriott agrees that MII would suffer irreparable damage in the event any of the foregoing provisions of this Paragraph 5 were not to be performed in accordance with the terms hereof, and that, in such event, MII's remedy at law would be inadequate. Host Marriott agrees and consents that temporary and permanent injunctive relief may be granted in favor of MII in any proceeding which may be brought to enforce any provision of this Paragraph 5 without the necessity of proof of actual damage.

6. This Amendment may be executed in any number of counterparts, which, when taken together, shall constitute a single binding instrument. The absence of Host Marriott Services Corporation as a party to this Amendment shall not cause this Amendment not to be a binding agreement as between Host Marriott and MII.

[signatures appear on the following page]

IN WITNESS WHEREOF, the parties have caused this Amendment No. 6 to be duly executed and delivered and effective for all purposes as of January 1, 2001.

MARRIOTT INTERNATIONAL, INC.

By: /s/ KEVIN M. KIMBALL

Name: Kevin M. Kimball
Title: Vice President

HOST MARRIOTT CORPORATION

By: /s/ W. EDWARD WALTER

Name: W. Edward Walter
Title: Executive Vice President

ANNEX A TO
AMENDMENT NO. 6, DATED AS OF JANUARY 10, 2001, TO DISTRIBUTION
AGREEMENT DATED AS OF SEPTEMBER 15, 1993 BETWEEN HOST
MARRIOTT CORPORATION AND MARRIOTT INTERNATIONAL, INC.

RESOLUTION FOR
THE BOARD OF DIRECTORS OF HOST MARRIOTT CORPORATION

<u>Waiver of "Ownership Limit" for Assignee of Marriott International, Inc.'s Right to Purchase Voting Stock of Host Marriott Corporation</u>

WHEREAS, pursuant to Section 6.07 of that certain Distribution Agreement between the Corporation (f/k/a as "Marriott Corporation") and Marriott International, Inc., dated as of September 15, 1993, as amended (the "Distribution Agreement"), the Corporation previously has granted to Marriott International, Inc. ("MII") the right to acquire voting stock of the Corporation upon the occurrence of certain events (the "MII Right");

WHEREAS, the Corporation's Articles of Amendment and Restatement of Articles of Incorporation (the "Articles") contain restrictions on ownership of the Corporation's Capital Stock (all capitalized terms not otherwise defined herein have the meaning set forth in the Articles) intended to facilitate the Corporation's qualification as a REIT for federal income tax purposes;

WHEREAS, Section 8.2.7(a) of the Articles authorizes the Board of Directors to grant to any Person an exception to the Ownership Limit, subject to certain conditions set forth therein;

WHEREAS, in accordance with the terms of Amendment No. 4, dated as of December 28, 1998, to the Distribution Agreement, the Board of Directors previously granted to MII an irrevocable exception to the Ownership Limit solely to permit MII to exercise the MII Right in accordance with, and subject to the terms and restrictions of, the Distribution Agreement, and the Bylaws of the Corporation were amended to reflect this exception;

WHEREAS, pursuant to Section 6.07(m) of the Distribution Agreement, as set forth in Amendment No. 6, dated as of January 10, 2001, to the Distribution Agreement, in the event that the MII Right is not exercisable in full by reason of one or more of the prohibitions set forth in subsection (j) or subsection (k) of Section 6.07 of the Distribution Agreement (which prohibitions are intended to facilitate the Corporation's qualification as a REIT for federal income tax purposes), the Corporation has agreed to permit MII to assign the "blocked" portion of the MII Right to one or more assignees if, and only if, certain conditions set forth in such

Section 6.07(m) are satisfied and subject to the restrictions set forth in subsections (j), (k) and (l) of Section 6.07 (each such assignee, a “Permitted Assignee”); and

WHEREAS, the Board of Directors has determined that it is in the best interests of the Corporation to grant a waiver of the Ownership Limit to each Permitted Assignee and to set forth the conditions pursuant to which such waiver shall be continue to be effective.

NOW, THEREFORE, BE IT RESOLVED, that, pursuant to Section 8.2.7 of the Articles, the Board of Directors of the Corporation hereby grants to each Permitted Assignee of MII a waiver of the Ownership Limit solely for purposes of permitting the Permitted Assignee to acquire shares of stock of the Corporation pursuant to the exercise of the “blocked” portion of the MII Right assigned to the Permitted Assignee, conditioned upon the Permitted Assignee’s continued compliance with the conditions set forth in Section 6.07(m), and subject to the restrictions set forth in subsections (j), (k) and (l) of Section 6.07, of the Distribution Agreement, and subject to the condition that no Person who would be treated as an “individual” for purposes of Section 542(a)(2) of the Code (determined taking into account Section 856(h)(3)(A) of the Code) would be considered to Beneficially Own shares of Capital Stock in excess of the Ownership Limit by reason of the Permitted Assignee’s ownership of shares of stock of the Corporation.

RESOLVED FURTHER, that the appropriate officers of the Corporation, or any one or more of them, hereby are authorized and directed, in the name and on behalf of the Corporation, to do all things, to take all such actions and to execute, deliver and file all such other agreements, instruments, reports, documents and regulatory and other notices as may be determined by such officer(s) to be necessary or appropriate in effecting this waiver (such determination to be conclusively, but not exclusively, evidenced by the taking of such actions or the execution, delivery and filing of such agreements, instruments, reports, documents or regulatory or other notices by such officer(s)).

Exhibit 10.25

HOST MARRIOTT, L.P.

RETIREMENT AND SAVINGS PLAN

(Amended and Restated)

Effective January 1, 2004

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”) 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 (the “Plan”);

WHEREAS, Host Marriott, L.P. amended and restated the Plan, effective as of January 31, 2002, to reflect certain provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001;

NOW, THEREFORE, Host Marriott, L.P. hereby amends and restates the Host Marriott Corporation (HMC) Retirement and Savings Plan to reflect certain additional changes in the tax laws. This amendment is intended as good faith compliance with the requirements of the Code and ERISA and is to be construed in accordance with the Code and ERISA and guidance issued thereunder. Except as otherwise provided, this amendment shall be effective as of January 1, 2004.

This amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions of its various amendments.

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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 1.69.

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 Investment Committee appointed by the Company 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 Two Hundred Thousand Dollars ($200,000) 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 non-accountable 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 includable in the gross income of the Participant under Sections 125, 132 (f)(4),401(k), 402(g)(3), 402(h)(1)(B), 403(b) or 457 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 “Default” includes: (a) a failure to pay any principal or interest when due on a loan provided pursuant to Section 11.1 that continues beyond the end of the calendar quarter following the calendar quarter in which the payment of principal and interest was due shall constitute a default of such loan; (b) a failure by a terminated Participant to repay the entire outstanding balance of a loan prior to the end of the calendar quarter following the calendar quarter in which the Participant terminated employment with the Company, or (c) any other uniform and nondiscriminatory written standards adopted by the Committee as to what constitutes default.

1.25 “Distributee” means a Participant, Former Participant, Retired Participant, Disabled Participant, the Surviving Spouse of a Deceased Participant, and an Alternate Payee.

1.26 “Effective Date” means January 1, 2004.

1.27 “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). This definition shall not apply to amounts distributed due to hardships as provided in Section 10.7 of the Plan. For purposes of the direct rollover provisions in Sections 6.12 and 8.12 of the Plan, a portion of a distribution shall not fail to be an eligible rollover distribution merely because the portion consists of After-tax employee contributions, which are not includable in gross income. However, such portion may be transferred only to an individual retirement account or annuity described in section 408(a) or (b) of the Code, or to a qualified defined contribution plan described in section 401(a) or 403(a) of the Code that agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includable in gross income and the portion of such distribution which is not so includable.

1.28 "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), a qualified trust (described in Section 401(a) of the Code), that accepts the Distributee's Eligible Rollover Distribution, an annuity contract described in Section 403(b) of the Code and an eligible plan under Section 457(b) of the Code which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state, and which agrees to separately account for amounts transferred into such a plan from this plan. In the case of an Eligible Rollover Distribution to the Spouse, this definition of "Eligible Retirement Plan" shall apply.

1.29 "Employee" means any person classified by a Participating Company 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; (d) a leased employee (within the meaning of Section 414(n) of the Code); (e) an independent contractor; or (f) any other individual who is not classified by the Participating Company as an employee, regardless of whether such leased employee, independent contractor or other individual is later determined to be common law employee.

1.30 "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.

1.31 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

1.32 "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.

1.33 "Fiscal Year" means 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.

1.34 "Flexible Compensation" shall have the meaning set forth in Section 5.1.

1.35 "FLSA" means the Fair Labor Standards Act, as amended from time to time.

1.36 "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.

1.37 "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.

1.38 "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 $85,000 and was in the "top-paid group," as defined in Section 414(q) of the Code (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)).

1.39 "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.

1.40 "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.

1.41 "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.

1.42 "Maximum Permissible Amounts" means the lesser of:

(a) $40,000, 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).

1.43 "Month" means any calendar month.

1.44 "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.

1.45 "Named Fiduciary" means the Committee in its role as named fiduciary of the Plan as set forth in Section 15.1(a).

1.46 “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.

1.47 “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.

1.48 “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 disability shall be 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.

1.49 “Period of Severance” means the period of time commencing on the Separation Date and ending on the Participant’s Reemployment Date.

1.50 “Plan” means the Host Marriott, L.P. Retirement and Savings Plan, including any amendments thereto.

1.51 “Plan Administrator” means the person to whom the duties of Plan Administrator are delegated pursuant to Section 15.3(b).

1.52 “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.

1.53 "Predecessor Company" means Host Marriott Corporation.

1.54 "Prior Plan" means the Host Marriott Corporation (HMC) Retirement and Savings Plan and Trust, as in effect prior to the Effective Date.

1.55 "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.

1.56 "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.

1.57 "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.

1.58 "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.

1.59 "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.

1.60 "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.

1.61 "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 he attains age 70-1/2, in which case, clause (b) shall not apply.

1.62 "Section 401(k) Contribution" shall have the meaning set forth in Section 5.2.

1.63 "Section 401(k) Contribution Account" shall have the meaning set forth in Section 6.1(b).

1.64 "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".

1.65 "Service" means an Employee's or a Participant's period of employment with the Company; the Predecessor Company prior to the Effective Date; 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; 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 or any employer that maintains a plan from which assets are transferred to this Plan on behalf of the Employee or Participant in a transaction subject to Section 414(1) of the Code. An Employee's Service shall include any period of employment with Crestline Capital Corporation if the Employee was employed by the Company immediately after becoming employed by Crestline Capital Corporation. 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.

1.66 "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).

1.67 "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.

1.68 "Subaccount" means the portion of a Participant's Account placed in each Fund pursuant to Article XIV.

1.69 "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.

1.70 "Trustees" means the corporate trustee or persons appointed as Trustee of the Trust Fund and any successors.

1.71 "Trust Agreement" means the Agreement providing for the terms and conditions under which the Trustee will hold and invest the Trust Fund.

1.72 "Trust Fund" means the assets of the Plan and Trust as the same shall exist from time to time.

1.73 "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.*** 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 That 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), (d) or (e), 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 or the Committee.

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 twenty percent (20%), 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 twenty percent (20%) 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.*** Except as permitted under Section 5.12 of the Plan and Section 414(v) of the Code, if applicable, the annual addition that may be contributed or allocated to a participant's account under the plan for any limitation year shall not exceed the lesser of:

(a) Forty Thousand Dollars ($40,000) as adjusted for increases in the cost-of-living under Section 415(d) of the Code;

(b) One Hundred percent (100%) of the participant's compensation, within the meaning of Section 415(c)(3) of the Code, for the limitation year.

(c) 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 severance from employment (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; or

(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).

Notwithstanding the foregoing, any distribution made pursuant to subsections (a)(4) 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 or Section 10.7, as applicable.

5.11 ***Effect 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.

5.12 ***Catch-up Contributions.*** All Participants who are eligible to make elective deferrals under the Plan and who have attained age 50 before the close of the Plan Year shall be eligible to make catch-up contributions in accordance with, and subject to the limitations of, Section 414(v) of the Code. Such catch-up contributions shall not be taken into account for purposes of the provisions of the Plan implementing the required limitations of sections 402(g) and 415 of the Code. The Plan shall not be treated as failing to satisfy the provisions of the Plan implementing the requirements of section 401(k)(3), 401(k)(11), 401(k)(12), 410(b), or 416 of the Code, as applicable, by reason of the making of such catch-up contributions.

5.13 ***Contribution Limitation.*** No participant shall be permitted to have elective deferrals made under this Plan, or any other qualified plan maintained by the employer during any taxable year, in excess of the dollar limitation contained in section 402(g) of the Code in effect for such taxable year, except to the extent permitted under Section 5.12 of the Plan and section 414(v) of the Code, if applicable.

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 of 401(k) Contribution.*** 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)(l)(a)(ii) of this Section, which shall in no event exceed twice the lesser of subsection (b)(l)(a)(i) of this Section or subsection (b)(l)(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 recharachterized 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 3.1(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 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 Sections 401(a) and 403(a) of the Code, an annuity that meets the requirements of Section 403(b) of the Code, or from an eligible plan under Section 457(b) of the Code. Such rollover or 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 1.64(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 1.65.

(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 59 1/2.

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 age 59 ½.

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 Balance.*** 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 to 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 non-spouse 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.

(a) *Distributions to Participants.* For distributions commencing on or after January 1, 2003, distribution of a Participant's Account balance shall be made or commence as provided in Appendix A to the Plan. For distributions commencing prior to January 1, 2003, 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.* For distributions commencing on or after January 1, 2003, distribution of a Participant's Account balance to a Participant's Beneficiary shall be made or commence as provided in Appendix A to the Plan. Notwithstanding any other provision of this Article VIII, any distribution, commencing prior to January 1, 2003, 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:

(a) 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

(b) 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.

Distribution of a Participant's Account balance shall be made or commence as provided in Appendix A to the Plan.

(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)(II) 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. This right shall also apply in the case of Eligible Rollover Distributions to a surviving spouse, or to a spouse or former spouse who is the alternate payee under a Qualified Domestic Relations Order as defined in Section 414(p) of the Code. 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 contract" 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)-I(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 six (6) 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 six (6) 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 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) Loan repayments will be suspended during a period of Qualified Military Service as defined in Section 414(u) of the Code.

(h) A married Participant who has elected payment in the form of a life annuity or a QJSA, pursuant to Section 8.5(d), must obtain Spousal Consent to obtain a loan.

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 ***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.

11.8 ***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 ½, or until an event described in Section 401(k)(10) of the Code has occurred or as defined in Section 1.24.

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 1.66 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; (4) shall be designed to limit a Participant's investment in Company stock or Qualifying Employer Securities to no more than twenty percent (20%) of the Participant's Account; and (5) 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 therefore 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 Funds described in the Investment Policy or such other Funds as the Committee shall determine from time to time.

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) *Investment 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 at least five (5), but no more than ten (10), persons appointed by the Board of Directors. The Plan Administrator shall attend all meetings of the Committee. A representative of the Office of the General Counsel 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 advisers 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 claims procedure set forth in Appendix B shall apply.

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 therefore; 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 the 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(1) 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.

(3) To the extent elected by the Committee, any other Section 401 Plan of the Company that when aggregated with any plans described in Subsections (a)(1) and (2) of this Section meets the requirements of Sections 401(a)(4) and 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 is 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. 401(k) elective deferrals made by a non-key employee under this Plan or any other plan of the Company or a Subsidiary pursuant to a cash or deferred arrangement shall not be credited toward the minimum allocation described in the preceding sentence. 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.

20.4 ***Applicability of Top-Heavy Rules.*** The top-heavy requirements of Section 416 of the Code and Article 20 of the Plan shall not apply in any year beginning after December 31, 2001, in which the plan consists solely of a cash or deferred arrangement which meets the requirements of Section 401(k)(12) of the Code and matching contributions with respect to which the requirements of the Section 401(m)(11) of the Code are met.

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 January, 2004.

By: ______________________________

Elizabeth Abdoo

Attest:

Pamela Kaufman Wagoner, Plan Administrator

COMMITTEE ACKNOWLEDGMENT AND CONSENT

The undersigned as a member of the Investment 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 January, 2004.

By: ______________________________

Elizabeth Abdoo

Attest:

Pamela Kaufman Wagoner, Plan Administrator

COMMITTEE ACKNOWLEDGMENT AND CONSENT

The undersigned as a member of the Investment 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 January, 2004.

By: ________________________________

W. Edward Walter, III

Attest:

Pamela Kaufman Wagoner, Plan Administrator

COMMITTEE ACKNOWLEDGMENT AND CONSENT

The undersigned as a member of the Investment 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 January, 2004.

By: ____________________________________

James F. Risoleo

Attest:

Pamela Kaufman Wagoner, Plan Administrator

COMMITTEE ACKNOWLEDGMENT AND CONSENT

The undersigned as a member of the Investment 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 January, 2004.

By: ____________________________________

Larry K. Harvey

Attest:

Pamela Kaufman Wagoner, Plan Administrator

Appendix A

MINIMUM DISTRIBUTION REQUIREMENTS

Section A-1. General Rules

A-1.1. *Effective Date*. The provisions of this Appendix will apply for purposes of determining required minimum distributions for calendar years beginning with the 2003 calendar year.

A-1.2. *Precedence*. The requirements of this Appendix will take precedence over any inconsistent provisions of the Plan.

A-1.3. *Requirements of Treasury Regulations Incorporated*. All distributions required under this Appendix will be determined and made in accordance with the Treasury regulations under Code Section 401(a)(9).

A-1.4. *TEFRA Section 242(b)(2) Elections*. Notwithstanding the other provisions of this Appendix, distributions may be made under a designation made before January 1, 1984, in accordance with section 242(b)(2) of the Tax Equity and Fiscal Responsibility Act (TEFRA) and the provisions of the Plan that relate to section 242(b)(2) of TEFRA.

Section A-2. Time and Manner of Distribution.

A-2.1. *Required Beginning Date*. The Participant's entire interest will be distributed, or begin to be distributed, to the Participant no later than the Participant's Required Beginning Date.

A-2.2. *Death of Participant Before Distributions Begin*. If the Participant dies before distributions begin, the Participant's entire interest will be distributed, or begin to be distributed, no later than as follows:

(a) If the Participant's surviving spouse is the Participant's sole designated beneficiary, then distributions to the surviving spouse will begin by the later of December 31 of the calendar year immediately following the calendar year in which the Participant died or by December 31 of the calendar year in which the Participant would have attained age 70½.

(b) If the Participant's surviving spouse is not the Participant's sole designated beneficiary, then, distributions to the designated beneficiary will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died.

(c) If there is no designated beneficiary as of September 30 of the year following the year of the Participant's death, the Participant's entire interest will be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(d) If the Participant's surviving spouse is the Participant's sole designated beneficiary and the surviving spouse dies after the Participant but before distributions to the surviving spouse begin, this section A-2.2, other than section A-2.2(a), will apply as if the surviving spouse were the Participant.

For purposes of this section A-2.2 and section A-4, unless section A-2.2(d) applies, distributions are considered to begin on the Participant's Required Beginning Date. If section A-2.2(d) applies, distributions are considered to begin on the date distributions are required to begin to the surviving spouse under section A-2.2(a). If distributions under an annuity purchased from an insurance company irrevocably commence to the Participant before the Participant's Required Beginning Date (or to the Participant's surviving spouse before the date distributions are required to begin to the surviving spouse under section A-2.2(a)), the date distributions are considered to begin is the date distributions actually commence.

A-2.3. *Forms of Distribution*. Unless the Participant's interest is distributed in a single sum on or before the Required Beginning Date, as of the first distribution calendar year distributions will be made in accordance with sections A-3 and A-4 of this Appendix. If the Participant's interest is distributed in the form of an annuity purchased from an insurance company, distributions thereunder will be made in accordance with the requirements of Section 401(a)(9) of the Code and the Treasury regulations.

Section A-3. Required Minimum Distributions During Participant's Lifetime.

A-3.1. *Amount of Required Minimum Distribution For Each Distribution Calendar Year*. During the Participant's lifetime, the minimum amount that will be distributed for each distribution calendar year is the lesser of:

(a) the quotient obtained by dividing the Participant's account balance by the distribution period in the Uniform Lifetime Table set forth in Treas. Reg. Sec. 1.401(a)(9)-9, using the Participant's age as of the Participant's birthday in the distribution calendar year; or

(b) if the Participant's sole designated beneficiary for the distribution calendar year is the Participant's spouse, the quotient obtained by dividing the Participant's account balance by the number in the Joint and Last Survivor Table set forth in Treas. Reg. Sec. 1.401(a)(9)-9, using the Participant's and spouse's attained ages as of the Participant's and spouse's birthdays in the distribution calendar year.

A-3.2. *Lifetime Required Minimum Distributions Continue Through Year of Participant's Death*. Required minimum distributions will be determined under this section A-3 beginning with the first distribution calendar year and up to and including the distribution calendar year that includes the Participant's date of death

Section A-4. Required Minimum Distributions After Participant's Death.

A-4.1. *Death On or After Date Distributions Begin*.

(a) Participant Survived by Designated Beneficiary. If the Participant dies on or after the date distributions begin and there is a designated beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the longer of the remaining life expectancy of the Participant or the remaining life expectancy of the Participant's designated beneficiary, determined as follows:

(1) The Participant's remaining life expectancy is calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

(2) If the Participant's surviving spouse is the Participant's sole designated beneficiary, the remaining life expectancy of the surviving spouse is calculated for each distribution calendar year after the year of the Participant's death using the surviving spouse's age as of the spouse's birthday in that year. For distribution calendar years after the year of the surviving spouse's death, the remaining life expectancy of the surviving spouse is calculated using the age of the surviving spouse as of the spouse's birthday in the calendar year of the spouse's death, reduced by one for each subsequent calendar year.

(3) If the Participant's surviving spouse is not the Participant's sole designated beneficiary, the designated beneficiary's remaining life expectancy is calculated using the age of the beneficiary in the year following the year of the Participant's death, reduced by one for each subsequent year.

(b) No Designated Beneficiary. If the Participant dies on or after the date distributions begin and there is no designated beneficiary as of September 30 of the year after the year of the Participant's death, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the Participant's remaining life expectancy calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

A-4.2. *Death Before Date Distributions Begin*

(a) Participant Survived by Designated Beneficiary. If the Participant dies before the date distributions begin and there is a designated beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the remaining life expectancy of the Participant's designated beneficiary, determined as provided in section A-4.1.

(b) No Designated Beneficiary. If the Participant dies before the date distributions begin and there is no designated beneficiary as of September 30 of the year following the year of the Participant's death, distribution of the Participant's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(c) Death of Surviving Spouse Before Distributions to Surviving Spouse Are Required to Begin. If the Participant dies before the date distributions begin, the Participant's surviving spouse is the Participant's sole designated beneficiary, and the surviving spouse dies before distributions are required to begin to the surviving spouse under section A-2.2(a), this section A-4.2 will apply as if the surviving spouse were the Participant.

Section A-5. Definitions.

A-5.1. *Designated beneficiary*. The individual who is designated as the beneficiary under Section 1.16 of the Plan and is the designated beneficiary under Code Section 401(a)(9). Treas. Reg. Sec. 1.401(a)(9)-1, Q&A-4.

A-5.2. *Distribution calendar year*. A calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first distribution calendar year is the calendar year immediately preceding the calendar year which contains the Participant's Required Beginning Date. For distributions beginning after the Participant's death, the first distribution calendar year is the calendar year in which distributions are required to begin under section A-2.2. The required minimum distribution for the Participant's first distribution calendar year will be made on or before the Participant's Required Beginning Date. The required minimum distribution for other distribution calendar years, including the required minimum distribution for the distribution calendar year in which the Participant's Required Beginning Date occurs, will be made on or before December 31 of that distribution calendar year.

A-5.3. *Life expectancy*. Life expectancy as computed by use of the Single Life Table in Treas. Reg. Sec. 1.401(a)(9)-9.

A-5.4. *Participant's account balance*. The account balance as of the last valuation date in the calendar year immediately preceding the distribution calendar year (valuation calendar year) increased by the amount of any contributions made and allocated or forfeitures allocated to the account balance as of dates in the valuation calendar year after the valuation date and decreased by distributions made in the valuation calendar year after the valuation date. The account balance for the valuation calendar year includes any amounts rolled over or transferred to the Plan either in the valuation calendar year or in the distribution calendar year if distributed or transferred in the valuation calendar year.

A-5.5 *Required Beginning Date*. The date specified in Section 1.61 of the Plan.

The Sections marked below shall apply for purposes of this Appendix.

Section A-6. Election to Apply 5-Year Rule to Distributions to Designated Beneficiaries.

For all distributions, if the Participant dies before distributions begin and there is a designated beneficiary, distribution to the designated beneficiary is not required to begin by the date specified in section A- 2.2 of this Appendix, but the Participant's entire interest will be distributed to the designated beneficiary by December 31 of the calendar year containing the fifth anniversary of the Participant's death. If the Participant's surviving spouse is the Participant's sole designated beneficiary and the surviving spouse dies after the Participant but before distributions to either the Participant or the surviving spouse begin, this election will apply as if the surviving spouse were the Participant.

Section A-7. Election to Allow Participants or Beneficiaries to Elect 5-Year Rule.

Participants or Beneficiaries may elect on an individual basis whether the 5-year rule or the life expectancy rule in sections A-2.2 and A-4.2 of this Appendix applies to distributions after the death of a Participant who has a designated beneficiary. The election must be made no later than the earlier of September 30 of the calendar year in which distribution would be required to begin under section A-2.2 of this Appendix, or by September 30 of the calendar year which contains the fifth anniversary of the Participant's (or, if applicable, surviving spouse's) death. If neither the Participant nor Beneficiary makes an election under this paragraph, distributions will be made in accordance with sections A-2.2 and A-4.2 of this Appendix and, if applicable, the elections in section A-6 above.

Appendix B

Claims Procedure

CLAIMS FOR BENEFITS

The Plan Administrator shall determine the Participants', alternate payees' and Beneficiaries' rights to benefits under the Plan. Except as to their own Accounts, claimants shall not have any legal right to inquire as to any payment under this Plan having been made or as to determining the amount of such payment.

REQUIREMENTS FOR NOTICE OF DENIAL

If a claim is wholly or partially denied, the Administrator shall provide the claimant with a notice of denial written in a manner calculated to be understood by the claimant, setting forth:

1. The specific reason for such denial;
2. Specific references to the pertinent Plan provisions on which the denial is based;
3. A description of any additional material or information necessary for the claimant to perfect the claim with an explanation of why such material or information is necessary; and
4. Appropriate information as to the steps (including time limits applicable to such steps) to be taken if the claimant wishes to submit his or her claim for review and a statement of the claimant's rights to bring a civil action under Section 502(a) of ERISA.

TIMING OF NOTIFICATION OF DENIAL

The notice of denial shall be given within a reasonable time period but no later than 60 days after the claim is filed, unless special circumstances require an extension of time for processing the claim. If such extension is required, written notice shall be furnished to the claimant within 90 days of the date the claim was filed stating the special circumstances requiring an extension of time and the date by which a decision on the claim can be expected, which shall be no more than 180 days from the date the claim was filed. If no notice of denial is provided as herein described, the claimant may appeal the claim as though the claim had been denied.

CLAIM FOR APPEAL MUST BE SUBMITTED WITHIN 60 DAYS

In the event of a dispute over benefits, a Participant, alternate payee, or Beneficiary may file a written claim for benefits with the Administrator, provided such claim is filed within 60 days of the date the Participant, Beneficiary, or alternate payee receives notification of the Administrative decision. 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.

TIME LIMIT ON REVIEW OF DENIED CLAIM

Upon receipt of a request for review, the Administrator shall provide written notification of its decision to the claimant stating the specific reasons and referencing specific plan provisions on which its decision is based, within a reasonable time period but not later than 60 days after receiving the request, unless special circumstances require an extension for processing the review. If such an extension is required, the Administrator shall notify the claimant in writing of such special circumstances and of the date, no later than 120 days after the original date the review was requested, on which the Administrator will notify the claimant of its decision.

CLAIMANT'S RIGHTS DURING APPEAL

Claimant will have a reasonable opportunity for a full and fair review of a claim and adverse benefit determination, including the following:

1. Claimant has the opportunity to submit written comments, documents, records, and other information relating to the claim for benefits;
2. Claimant shall be provided, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits. A document is "relevant" if such document (A) was relied upon in making the benefit determination; (B) was submitted, considered, or generated in the course of making the benefit determination, without regard to whether such document, record, or other information was relied upon in making the benefit determination; (C) demonstrates compliance with the administrative processes and safeguards designed to ensure and to verify that benefit claim determinations are made in accordance with governing plan documents and that, where appropriate, the Plan provisions have been applied consistently with respect to similarly situated claimants; or (D) constitutes a statement of policy or guidance with respect to the plan concerning the denied treatment option or benefit for the claimant's diagnosis, without regard to whether such advice or statement was relied upon in making the benefit determination; and
3. The claims procedure shall provide for a review that takes into account all comments, documents, records, and other information submitted by the claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

If a claim is wholly or partially denied, the Administrator shall provide the claimant with a notice of denial written in a manner calculated to be understood by the claimant, setting forth:

1. The specific reason for such denial;
2. Specific references to the pertinent Plan provisions on which the denial is based;
3. A statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits. A document, record, or other information is relevant to a claim for benefits if such document, record, or other information: (A) was relied upon in making the benefit determination; (B) was submitted, considered, or generated in the course of making the benefit determination, without regard to whether such document, record, or other information was relied upon in making the benefit determination; (C) demonstrates compliance with the administrative processes and safeguards designed to ensure and to verify that benefit claim determinations are made in accordance with governing Plan documents and that, where appropriate, the Plan provisions have been applied consistently with respect to similarly situated claimants; or (D) constitutes a statement of policy or guidance with respect to the Plan concerning the denied treatment option or benefit for the claimant's diagnosis, without regard to whether such advice or statement was relied upon in making the benefit determination; and
4. Appropriate information as to the steps (including time limits applicable to such steps) to be taken if the claimant wishes to submit his or her claim for review and a statement of the claimant's rights to bring a civil action under Section 502(a) of ERISA.

REQUIREMENTS FOR DISABILITY BENEFITS

1. *Timing of Notification of Denial*. Notwithstanding the foregoing, a notice of denial of disability benefits shall be given within a reasonable time period but no later than 45 days after the claim is filed. This period may be extended by 30 days provided that special circumstances require an extension of time for processing the claim due to matters beyond the control of the Plan. If prior to the end of the first 30 day extension, the Administrator determines that, due to matters beyond the control of the Plan, a decision cannot be rendered within the initial 30 day extension period, the period for making the determination may be extended an additional 30 days. If such second 30 day extension is required, written notice shall be furnished to the claimant within 75 days of the date the claim was filed stating the special circumstances requiring an extension of time and the date by which a decision on the claim can be expected, which shall be no more than 105 days from the date the claim was filed. If an initial or secondary 30 day extension is required, written notice shall be furnished to the claimant within 45 days or 75 days of the date the claim was filed, as applicable, stating: (A) the special circumstances requiring an extension of time; (B) the date by which a decision on the claim can be expected, which shall be no more

than 75 days or 105 days from the date the claim was filed; (C) the standards on which entitlement to a benefit is based; (D) the unresolved issues that prevent a decision on the claim; (E) any additional information needed to resolve those issues; and (F) the time period during which the claimant must provide any additional information, which shall be no less than 45 days.

2. *Requirements for Notification of Denial*. If a claim is wholly or partially denied, the Administrator shall provide the claimant with a notice of denial written in a manner calculated to be understood by the claimant, setting forth:

   a. The specific reason for such denial;

   b. Specific references to the pertinent Plan provisions on which the denial is based;

   c. A description of any additional material or information necessary for the claimant to perfect the claim with an explanation of why such material or information is necessary;

   d. Appropriate information as to the steps (including time limits applicable to such steps) to be taken if the claimant wishes to submit his or her claim for review and a statement of the claimant's rights to bring a civil action under Section 502(a) of ERISA;

   e. If an internal rule, guideline, protocol or other similar criterion was relied upon in making the denial of a claim for disability benefits, either (i) the specific rule, guideline, protocol or other similar criterion will be provided or (ii) a statement that a specific rule, guideline, protocol or other similar criterion was relied upon and that a copy of such specific rule, guideline, protocol or other similar criterion will be provided free of charge to the claimant upon request; and

   f. If the denial of a claim for disability benefits is based on a medical necessity, experimental treatment or similar exclusion or limit, either (i) an explanation of the scientific or clinical judgment for the determination as applied to the claimant's specific circumstances or (ii) a statement that such explanation will be provided free of charge upon request.

3. *Claim for Appeal Must be Submitted within 60 Days.* The claimant and/or his representative may appeal the denied claim, free of charge, provided that such appeal is made within 180 days of the date the claimant receives a notification of the denied disability claim. The decision of the claimant as to whether or not to submit a benefit dispute to this voluntary level of appeal will have no effect on the claimant's rights to any other benefits under the Plan. The Committee's review shall take into account all comments, documents, records and other information submitted by the claimant relating to the claim, regardless of whether such information was submitted and/or

considered in the initial determination. In the review of a claim for disability benefits, the following shall apply*:*

a. A review shall not afford deference to the initial denial and shall be conducted by a named fiduciary of the Plan who is neither the individual who made the adverse benefit determination that is the subject of the appeal, nor a subordinate or such individual;

b. The named fiduciary who is reviewing the appeal and making a determination based, in whole or in part, on medical judgment shall consult with a health care professional who (i) has appropriate training and experience in the field of medicine involved in the medical judgment, (ii) did not consult with respect to the initial adverse benefit determination that is the subject of the appeal, and (iii) is not a subordinate of an individual who consulted with respect to the initial adverse benefit determination that is the subject of the appeal; and

The Plan shall provide the identification of medical or vocational experts whose advice was obtained on behalf of the Plan in connection with the denial of the claim for disability benefits.

FIRST AMENDMENT TO RESTATED NONCOMPETITION AGREEMENT

THIS FIRST AMENDMENT TO RESTATED NONCOMPETITION AGREEMENT (this “Amendment”) is made and entered into as of 28th day of December, 1998 by and among Marriott International, Inc., a Delaware corporation (“Marriott International”), Host Marriott Corporation, a Delaware corporation (“Host Marriott”), and Crestline Capital Corporation, a Maryland corporation (“Crestline”).

RECITALS

WHEREAS, Host Marriott and Marriott International are parties that certain Restated Noncompetition Agreement dated March 3, 1998 (the “1998 Agreement”); and

WHEREAS, Host Marriott has determined that it will restructure its business operations so as to qualify as a real estate investment trust for federal income tax purposes, and, in connection therewith, on or about December 29, 1998, (i) Host Marriott will distribute approximately 93.6% of the outstanding common stock of Crestline to or on behalf of the stockholders of Host Marriott (the “Crestline Distribution”) and will contribute the remaining 6.4% of such Crestline common stock to Host Marriott, L.P. for delivery to The Blackstone Group and certain affiliated entities thereof (or for return to Crestline if not delivered to The Blackstone Group and its affiliated entities) and (ii) Host Marriott will merge (the “Merger”) into HMC Merger Corporation, a Maryland corporation (“Host REIT”); and

WHEREAS, the parties hereto desire to amend the 1998 Agreement in connection with the Crestline Distribution and the Merger.

NOW, THEREFORE, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties intending to be legally bound agree as follows:

1. Crestline is hereby added as a party to the 1998 Agreement and shall be subject to the same restrictions, obligations and benefits thereunder as Host Marriott, it being further understood that all references to “Host Marriott” in the 1998 Agreement (other than in the definition of “Host Marriott” in Article One, the third sentence of the definition of “Affiliates” under Article One and the last sentence of Section 4.1.C as set forth in Paragraph 5 below, which, in each of the foregoing cases, shall mean only Host Marriott Corporation and its Subsidiaries and Affiliates) shall mean each of Host Marriott and Crestline as if each of the foregoing

entities were parties to a separate agreement with MI having terms identical to the 1998 Agreement as amended by this Amendment, subject to the limitations set forth in Paragraph 5 below.

2. The third sentence of the definition of "Affiliates" under Article One is hereby deleted and replaced in its entirety with the following:

Notwithstanding the foregoing, (i) Host Marriott's Affiliates shall not include Marriott International, Crestline or their respective Subsidiaries or Affiliates, (ii) Marriott International's Affiliates shall not include Host Marriott, Crestline or their respective Subsidiaries or Affiliates, and (iii) Crestline's Affiliates shall not include Marriott International, Host Marriott or their respective Subsidiaries or Affiliates.

3. The following definition shall be added to Article One after the definition of "Conference Centers":

"Crestline" means Crestline Capital Corporation, a Maryland corporation.

4. The following sentence shall be added to the definition of "Hotel Management Business" at the end thereof."

For purposes of this definition, it is expressly understood and acknowledged that, with respect to the activities of any Person who is the lessee of property, the terms "operate" and "operating" do not include the terms "lease" and "leasing," respectively, where such Person has engaged another Person who is not an Affiliate of such Person to manage or operate, within the meaning of the term "Hotel Management Business" set forth herein, the leased property.

5. Section 4.1.C of the 1998 Agreement is hereby amended by adding the following sentence at the end thereof:

It is hereby understood for purposes of this Section 4.1.C that (i) in no event shall Host Marriott and Crestline be permitted, on an aggregate basis, to operate or franchise as franchisor more than ten (10) hotel properties under a Common Name or to contract with a third party manager for operation of the greater of (a) ten (10) hotel properties operated by such manager under a Common Name or (b) twenty-five percent (25%) of the system operated by such manager under a Common Name and (ii) each hotel owned by Host Marriott which is leased to Crestline shall count as one hotel property for purpose of determining compliance with the foregoing clause.

6. The following language shall be added to the end of Section 5.11:

To Crestline:

Crestline Capital Corporation
10400 Fernwood Road
Bethesda, Maryland 20817
Attention: General Counsel
FAX NO. 240/694-2040

7. The following sentence shall be added to the end of Section 5.13:

It is further understood and agreed that the obligations of each of Host Marriott and Crestline under this Agreement, and any liability arising therefrom, shall be several and not joint,

8. The parties acknowledge that, upon the effectiveness of the Merger, Host REIT shall succeed to all of the rights and obligations of Host Marriott under the 1998 Agreement.

9. Except as specifically amended hereby, the 1998 Agreement shall remain unchanged and in full force and effect.

10. This Amendment shall be effective as of the effective date of the Crestline Distribution.

11. This Amendment may be executed in any number of counterparts, which, when taken together, shall constitute a single binding instrument.

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.

MARRIOTT INTERNATIONAL, INC.

By: /s/ Myron D. Wallace

Name: Myron D. Wallace
Title: Vice President

HOST MARRIOTT CORPORATION

By: /s/ Christopher G. Townsend

Name: Christopher G. Townsend
Title: Vice President

CRESTLINE CAPITAL CORPORATION

By: /s/ Bruce Wardinski

Name: Bruce Wardinski
Title: President and CEO

The undersigned is executing this Amendment solely for the purpose of acknowledging and consenting to the provisions of paragraph 8 above.

HMC MERGER CORPORATION

By: /s/ Christopher G. Townsend

Name: Christopher G. Townsend
Title: Vice President and Secretary

EXHIBIT 12

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

(in millions, except ratio amounts)

	2003	2002	2001	2000	1999
Income (loss) from operations before income taxes	$(237)	$ (50)	$ 55	$ 26	$161
Add (deduct):					
Fixed charges	609	580	573	543	510
Capitalized interest	(2)	(2)	(8)	(8)	(7)
Amortization of capitalized interest	6	6	7	6	6
Minority interest in consolidated affiliates	5	7	23	72	82
Net (gains) losses related to certain 50% or less owned affiliates	22	9	(3)	(27)	(7)
Distributions from equity investments	3	6	9	1	1
Dividends on preferred stock	(37)	(37)	(32)	(20)	(6)
Adjusted earnings	$ 369	$519	$624	$593	$740
Fixed charges:					
Interest on indebtedness and amortization of deferred financing costs	$ 491	$462	$455	$436	$415
Capitalized interest	2	2	8	8	7
Dividends on convertible preferred securities of subsidiary trust	32	32	32	32	37
Dividends on preferred stock	37	37	32	20	6
Portion of rents representative of the interest Factor	47	47	46	47	45
Total fixed charges and preferred stock dividends	$ 609	$580	$573	$543	$510
Ratio of earnings to fixed charges and preferred stock dividends	—	—	1.1	1.1	1.5
Deficiency of earnings to fixed charges and preferred stock dividends	$(240)	$ (61)	—	—	—

HOST MARRIOTT CORPORATION

SUBSIDIARIES

1) Airport Hotels LLC
2) Ameliatel, a Florida GP
3) Atlanta II Limited Partnership
4) Beachfront Properties, Inc.
5) BRE/Swiss L.L.C
6) Calgary Charlotte Holdings Company
7) Calgary Charlotte Partnership
8) Camelback Inn Associates Limited Partnership
9) CB Realty Sales, Inc.
10) CBM Associates II LLC
11) CBM Funding Corporation
12) CBM I Holdings LLC
13) CBM II Holdings LLC
14) CBM Joint Venture LLC
15) CBM Mezzanine Borrower LLC
16) CBM One GP Corp.
17) CBM One Holdings LLC
18) CBM One LLC
19) CBM Two GP Corp.
20) CBM Two LLC
21) CCC CMBS Corporation
22) CCFS Atlanta LLC
23) CCFS Philadelphia LLC
24) CCHH Atlanta LLC
25) CCHH Burlingame LLC
26) CCHH Cambridge LLC
27) CCHH Maui LLC
28) CCHH Reston LLC
29) CCHI Singer Island LLC
30) CCMH Atlanta Marquis LLC
31) CCMH Atlanta NW LLC
32) CCMH Atlanta Suites LLC
33) CCMH Bethesda LLC
34) CCMH Charlotte LLC
35) CCMH Chicago CY LLC
36) CCMH Copley LLC
37) CCMH Coronado LLC
38) CCMH Costa Mesa Suites LLC
39) CCMH Dallas/FW LLC
40) CCMH DC LLC
41) CCMH Deerfield Suites LLC
42) CCMH Denver SE LLC
43) CCMH Denver Tech LLC
44) CCMH Denver West LLC
45) CCMH Diversified LLC
46) CCMH Downer’s Grove Suites LLC
47) CCMH Dulles AP LLC
48) CCMH Dulles Suites LLC

HOST MARRIOTT CORPORATION

SUBSIDIARIES—(Continued)

49) CCMH Farmington LLC
50) CCMH Fin Center LLC
51) CCMH Fisherman’s Wharf LLC
52) CCMH Ft. Lauderdale LLC
53) CCMH Gaithersburg LLC
54) CCMH Hanover LLC
55) CCMH Houston AP LLC
56) CCMH Houston Galleria LLC
57) CCMH IHP LLC
58) CCMH Jacksonville LLC
59) CCMH Kansas City AP LLC
60) CCMH Key Bridge LLC
61) CCMH Lenox LLC
62) CCMH Manhattan Beach LLC
63) CCMH Marina LLC
64) CCMH Memphis LLC
65) CCMH Metro Center LLC
66) CCMH Miami AP LLC
67) CCMH Minneapolis LLC
68) CCMH Moscone LLC
69) CCMH Nashua LLC
70) CCMH Newark LLC
71) CCMH Newport Beach LLC
72) CCMH Newport Beach Suites LLC
73) CCMH Newton LLC
74) CCMH Norcross LLC
75) CCMH Norfolk LLC
76) CCMH O’Hare AP LLC
77) CCMH O’Hare Suites LLC
78) CCMH Oklahoma LLC
79) CCMH Ontario AP LLC
80) CCMH Orlando LLC
81) CCMH Palm Beach LLC
82) CCMH Palm Desert LLC
83) CCMH Park Ridge LLC
84) CCMH Pentagon RI LLC
85) CCMH Perimeter LLC
86) CCMH Philadelphia AP LLC
87) CCMH Philadelphia Mkt. LLC
88) CCMH Plaza San Antonio LLC
89) CCMH Portland LLC
90) CCMH Potomac LLC
91) CCMH Properties II LLC
92) CCMH Quorum LLC
93) CCMH Raleigh LLC
94) CCMH Riverwalk LLC
95) CCMH Rocky Hill LLC
96) CCMH Romulus

HOST MARRIOTT CORPORATION

SUBSIDIARIES—(Continued)

97) CCMH Salt Lake LLC
98) CCMH San Diego LLC
99) CCMH San Fran AP LLC
100) CCMH Santa Clara LLC
101) CCMH Scottsdale Suites LLC
102) CCMH South Bend LLC
103) CCMH Tampa AP LLC
104) CCMH Tampa Waterside LLC
105) CCMH Tampa Westshore LLC
106) CCMH Times Square LLC
107) CCMH Torrance LLC
108) CCMH Waterford LLC
109) CCMH Westfields LLC
110) CCMH Williamsburg LLC
111) CCMH World Trade Center LLC
112) CCRC Amelia Island LLC
113) CCRC Atlanta LLC
114) CCRC Buckhead/Naples LLC
115) CCRC Dearborn LLC
116) CCRC Marina LLC
117) CCRC Naples Golf LLC
118) CCRC Phoenix LLC
119) CCRC San Francisco LLC
120) CCRC Tysons LLC
121) CCSH Atlanta LLC
122) CCSH Boston LLC
123) CCSH Chicago LLC
124) CCSH New York LLC
125) Chesapeake Financial Services LLC
126) Chesapeake Hotel Limited Partnership
127) CHLP Finance LP
128) City Center Development LP
129) City Center Hotel limited Partnership
130) City Center Interstate Partnership LLC
131) CLDH Meadowvale, Inc.
132) CLMH Airport Inc.
133) CLMH Calgary Inc.
134) CLMH Eaton Centre Inc.
135) Courtyard by Marriott II Limited Partnership
136) Courtyard by Marriott Limited Partnership
137) Courtyard II Associates, L.P.
138) Courtyard II Associates Management Corporation
139) Courtyard II Finance Company
140) DS Hotel LLC
141) Duna Szalloda Rt.
142) Durbin LLC
143) East Side Hotel Associates, L.P.
144) Elcrisa S.A. de C.V.

HOST MARRIOTT CORPORATION

SUBSIDIARIES—(Continued)

145) Farrell’s Ice Cream Parlour Restaurant’s LLC
146) Fernwood Atlanta Corporation
147) Fernwood Holdings LLC
148) Fernwood Hotel Assets LLC
149) Fernwood Hotel LLC
150) FIBM One LLC
151) G.L. Insurance Corporation
152) Hanover Hotel Acquisition Corp.
153) HMA Realty Limited Partnership
154) HMA-GP LLC
155) HMC Airport, Inc.
156) HMC Amelia I LLC
157) HMC Amelia II LLC
158) HMC AP Canada Company
159) HMC AP GP LLC
160) HMC AP GP, Inc.
161) HMC AP LP
162) HMC Atlanta LLC
163) HMC BCR Holdings LLC
164) HMC BN Corporation
165) HMC Burlingame Hotel LLC
166) HMC Burlingame II LLC
167) HMC Burlingame LLC
168) HMC California Leasing LLC
169) HMC Cambridge LLC
170) HMC Capital LLC
171) HMC Capital Resources LLC
172) HMC Charlotte (Calgary) Company
173) HMC Charlotte GP LLC
174) HMC Charlotte GP, Inc.
175) HMC Charlotte LP
176) HMC Chicago LLC
177) HMC Copley LLC
178) HMC Desert LLC
179) HMC Diversified American Hotels, L.P.
180) HMC Diversified LLC
181) HMC DSM LLC
182) HMC Duna, Inc.
183) HMC East Side II LLC
184) HMC East Side LLC
185) HMC Gateway LLC
186) HMC Gateway, Inc.
187) HMC Georgia LLC
188) HMC Grace (Calgary) Company
189) HMC Grand LLC
190) HMC Hanover LLC
191) HMC Hartford LLC
192) HMC Headhouse Funding LLC

HOST MARRIOTT CORPORATION

SUBSIDIARIES—(Continued)

193) HMC Host Atlanta, Inc.
194) HMC Host Restaurants LLC
195) HMC Hotel Development LLC
196) HMC Hotel Properties II Limited Partnership
197) HMC Hotel Properties Limited Partnership
198) HMC HPP LLC
199) HMC HT LLC
200) HMC IHP Holdings LLC
201) HMC JWDC GP LLC
202) HMC JWDC LLC
203) HMC Manhattan Beach LLC
204) HMC Market Street LLC
205) HMC Maui LLC
206) HMC MDAH One Corporation
207) HMC Mexpark LLC
208) HMC MHP II LLC
209) HMC MHP II, Inc.
210) HMC Naples Golf, Inc.
211) HMC NGL LLC
212) HMC OLS I LLC
213) HMC OLS I LP
214) HMC OLS II LP
215) HMC OP BN LLC
216) HMC Pacific Gateway LLC
217) HMC Palm Desert LLC
218) HMC Park Ridge II LLC
219) HMC Park Ridge LLC
220) HMC Park Ridge LP
221) HMC Partnership Holdings LLC
222) HMC Partnership Properties LLC
223) HMC PLP LLC
224) HMC Polanco LLC
225) HMC Potomac LLC
226) HMC Properties I LLC
227) HMC Properties II LLC
228) HMC Property Leasing LLC
229) HMC Reston LLC
230) HMC Retirement Properties, L.P.
231) HMC RTZ Loan Limited Partnership
232) HMC SBM Two LLC
233) HMC Seattle LLC
234) HMC SFO LLC
235) HMC SPE Manager I Corp.
236) HMC Suites Limited Partnership
237) HMC Suites LLC
238) HMC Swiss Holdings LLC
239) HMC Swiss-Lafayette LLC
240) HMC Times Square Hotel LLC

HOST MARRIOTT CORPORATION

SUBSIDIARIES—(Continued)

241) HMC Times Square Partner LLC
242) HMC Toronto Air Company
243) HMC Toronto Airport GP LLC
244) HMC Toronto Airport GP, Inc.
245) HMC Toronto Airport LP
246) HMC Toronto EC Company
247) HMC Toronto EC GP LLC
248) HMC Toronto EC GP, Inc.
249) HMC Toronto EC LP
250) HMC Waterford LLC
251) HMC/Interstate Manhattan Beach, L.P.
252) HMC/Interstate Ontario, L.P.
253) HMC/Interstate Waterford, L.P.
254) HMC/RGI Hartford, L.P.
255) HMH General Partner Holdings LLC
256) HMH HPT CBM LLC
257) HMH HPT RIBM LLC
258) HMH Marina LLC
259) HMH Norfolk LLC
260) HMH Norfolk, L.P.
261) HMH Pentagon LLC
262) HMH Realty Company, Inc.
263) HMH Restaurants II LLC
264) HMH Restaurants LLC
265) HMH Rivers L.P.
266) HMH Rivers LLC
267) HMH WTC LLC
268) HMP Capital Ventures LLC
269) HMP Financial Services LLC
270) HMT Lessee LLC
271) HMT Lessee Parent LLC
272) HMT Lessee Sub (Atlanta) LLC
273) HMT Lessee Sub (Palm Desert) LLC
274) HMT Lessee Sub (Properties II) LLC
275) HMT Lessee Sub (Santa Clara) LLC
276) HMT Lessee Sub (SDM Hotel) LLC
277) HMT Lessee Sub I LLC
278) HMT Lessee Sub II LLC
279) HMT Lessee Sub III LLC
280) HMT Lessee Sub IV LLC
281) HMT SPE (Atlanta) Corporation
282) HMT SPE (Pam Desert) Corporation
283) HMT SPE (Properties II) Corporation
284) HMT SPE (Santa Clara) Corporation
285) Hopewell Associates, L.P.
286) Host DSM Limited Partnership
287) Host Hanover Hotel Corporation
288) Host Hanover Limited Partnership

HOST MARRIOTT CORPORATION

SUBSIDIARIES—(Continued)

289) Host La Jolla LLC
290) Host Marriott Corporation
291) Host Marriott Financial Trust
292) Host Marriott, L.P.
293) Host MHP Two Corporation
294) Host of Boston, Ltd.
295) Host of Houston 1979
296) Host of Houston Ltd.
297) Host Park Ridge LLC
298) Host Properties, Inc.
299) Host/Interstate Partnership, L.P
300) Hot Shoppes, Inc.
301) Hotel Properties Management, Inc.
302) HTKG Development Associates Management Corporation
303) IHP Holdings Partnership LP
304) Ivy Street Hopewell LLC
305) Ivy Street Hotel Limited Partnership
306) Ivy Street LLC
307) JWDC Limited Partnership
308) Lauderdale Beach Association
309) Market Street Host LLC
310) Marriott Mexico City Partnership, G.P.
311) MDSM Finance LLC
312) MFR of Illinois LLC
313) MFR of Vermont LLC
314) MFR of Wisconsin LLC
315) MHP Acquisition Corp.
316) MHP II Acquisition Corp
317) MOHS Corporation
318) MRILP II Liquidating Trust
319) MRILP Liquidating Trust
320) Mutual Benefit Chicago Suite Hotel Partners, L.P.
321) New Market Street LP
322) Pacific Gateway, Ltd.
323) Philadelphia Airport Hotel Corporation
324) Philadelphia Airport Hotel Limited Partnership
325) Philadelphia Airport Hotel LLC
326) Philadelphia Market Street HMC Hotel Limited Partnership
327) Philadelphia Market Street Hotel Corporation
328) Philadelphia Market Street Marriott Hotel II Limited Partnership
329) PM Financial LLC
330) PM Financial LP
331) Potomac Hotel Limited Partnership
332) PRM LLC
333) RIBM One LLC
334) RIBM Two LLC
335) Rockledge Bickford’s Family Fare, Inc.
336) Rockledge CBM Investor I, Inc.

HOST MARRIOTT CORPORATION

SUBSIDIARIES—(Continued)

337) Rockledge CBM Investor II, Inc
338) Rockledge CBM One Corporation
339) Rockledge FIBM One Corporation
340) Rockledge Hanover LLC
341) Rockledge HMC BN LLC
342) Rockledge Hotel LLC
343) Rockledge Hotel Properties, Inc.
344) Rockledge Manhattan Beach LLC
345) Rockledge Minnesota LLC
346) Rockledge NY Times Square LLC
347) Rockledge Potomac LLC
348) Rockledge RIBM Two Corporation
349) Rockledge Riverwalk LLC
350) Rockledge Square 254 LLC
351) S.D. Hotels LLC
352) S.D. Hotels, Inc.
353) Santa Clara HMC LLC
354) Santa Clara Host Hotel Limited Partnership
355) Sparky's Virgin Islands, Inc.
356) Tecon Hotel Corporation
357) Timeport, L.P.
358) Times Square GP LLC
359) Times Square HMC Hotel, L.P.
360) Times Square LLC
361) Timewell Group, L.P.
362) Wellsford-Pard Ridge HMC Hotel Limited Partnership
363) YBG Associates LLC

Independent Auditors' Consent

The Board of Directors and Shareholders
Host Marriott Corporation:

We consent to the incorporation by reference in the registration statements (Nos. 333-31352, 333-93157, 333-78091, 333-61722, 333-40854, 333-51946 and 333-82444) on Form S-3 and (Nos. 333-75055, 333-28683, 333-75057, 333-75059 and 033-66622) on Form S-8 of Host Marriott Corporation of our report dated February 23, 2004, with respect to the consolidated balance sheets of Host Marriott Corporation and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2003 and the related financial statement schedule, which report appears in the annual report on Form 10-K of Host Marriott Corporation.

Our report refers to the adoption by Host Marriott Corporation of Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets in 2002*.

/s/ KPMG LLP
McLean, Virginia
March 2, 2004

Exhibit 31.1

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Christopher J. Nassetta, certify that:

1. I have reviewed this annual report on Form 10-K of Host Marriott Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the report based on such evaluation; and
   (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date March 2, 2004

/s/ CHRISTOPHER J. NASSETTA

Christopher J. Nassetta
President and Chief Executive Officer

Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, W. Edward Walter, certify that:

1. I have reviewed this annual report on Form 10-K of Host Marriott Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
   - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   - (b) evaluated the effectiveness of the registrant’s disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the report based on such evaluation; and
   - (c) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 2, 2004

/s/ W. EDWARD WALTER

W. Edward Walter
Executive Vice President and Chief Financial Officer

EXHIBIT 32

<u>Section 906 Certification</u>

Certification of Chief Executive Officer and Chief Financial Officer

Pursuant to 18 U.S.C. ss. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officers of Host Marriott Corporation (the “Company”) hereby certify, to such officers’ knowledge, that:

(i) the accompanying Annual Report on Form 10-K of the Company for the period ended December 31, 2003 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended: and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 2, 2004

/s/ Christopher J. Nassetta

Christopher J. Nassetta
Chief Executive Officer

/s/ W. Edward Walter

W. Edward Walter
Chief Financial Officer

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. ss. 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.