Public Storage
Form 424B5
August 02, 2017
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Filed under Rule 424(b)(5)
File No. 333-211758

CALCULATION OF REGISTRATION FEE

Title of each class of securities offered	Amount to be registered	Proposed maximum offering price per unit	Proposed maximum aggregate offering price	Amount of registration fee(1)
Depositary Shares Each Representing 1/1,000 of a 5.05% Cumulative Preferred Share of Beneficial Interest, Series G	13,800,000	$25.00	$345,000,000	$39,986

(1) Calculated in accordance with Rule 457(r) under the Securities Act of 1933, as amended, and relates to the Registration Statement on Form S-3 (File No. 333-211758) filed by the Registrant on June 1, 2016.

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PROSPECTUS SUPPLEMENT

(To Prospectus dated June 1, 2016)

12,000,000 Shares

Public Storage

Depositary Shares Each Representing 1/1,000 of a

5.05% Cumulative Preferred Share of Beneficial Interest, Series G

Liquidation Preference Equivalent to $25.00 Per Depositary Share

We are selling 12,000,000 depositary shares (the Depositary Shares) each representing 1/1,000 of a 5.05% Cumulative Preferred Share of Beneficial Interest, Series G (the Preferred Shares). The Preferred Shares represented by the Depositary Shares will be deposited with Computershare Trust Company, N. A., as depositary. As a holder of Depositary Shares, you will be entitled to all proportional rights, preferences and privileges of the Preferred Shares. We have granted the underwriters an option to purchase up to additional 1,800,000 Depositary Shares solely to cover over-allotments, if any. The following is a summary of the Preferred Shares:

We will pay cumulative distributions on the Preferred Shares, from, and including, the date of original issuance, at the rate of 5.05% of the liquidation preference per year ($1.2625 per year per Depositary Share).

We will pay distributions on the Preferred Shares quarterly on March 31, June 30, September 30 and December 31 of each year, beginning on September 30, 2017 (with the payment on that date being based pro rata on the number of calendar days from the original issuance of the Preferred Shares).

We are not allowed to redeem the Preferred Shares before August 9, 2022, except in order to preserve our status as a real estate investment trust.

On and after August 9, 2022, we may, at our option, redeem the Preferred Shares by paying you $25.00 per Depositary Share, plus any accrued and unpaid distributions.

The Preferred Shares have no stated maturity and are not subject to any sinking fund or mandatory redemption and are not convertible into any other securities.

Investors in the Depositary Shares representing interests in the Preferred Shares generally have no voting rights, except if we fail to pay distributions for six or more quarters or as required by law.

We intend to apply to have the Depositary Shares listed on the New York Stock Exchange (NYSE) under the symbol PSAPrG. If this application is approved, trading of the Depositary Shares on the NYSE is expected to begin within 30 days following initial delivery of the Depositary Shares.

Investing in the Depositary Shares involves risks. See Risk Factors beginning on page S-3 of this prospectus supplement and the risks discussed in the documents we file with the U.S. Securities and Exchange Commission.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public Offering Price	$ 25.00	$ 300,000,000(1)
Underwriting Discount	$ 0.7671(2)	$ 9,204,906(2)
Proceeds to Public Storage (before expenses)	$ 24.2329	$ 290,795,094

(1) The underwriters also may purchase up to an additional 1,800,000 Depositary Shares within 30 days of the date of this prospectus supplement solely to cover over-allotments, if any.

(2) The underwriting discount will be $0.7875 per Depositary Share for retail orders and $0.50 per Depositary Share for institutional orders. See Underwriting beginning on page S-17 of this prospectus supplement for a discussion regarding certain additional underwriting compensation and discounts.

The underwriters are offering the Depositary Shares subject to various conditions. The underwriters expect to deliver the Depositary Shares to purchasers on or about August 9, 2017.

Joint Book-Running Managers

BofA Merrill Lynch **Morgan Stanley** **UBS Investment Bank** **Wells Fargo Securities**

Co-Manager

Citigroup

July 31, 2017

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You should rely only on the information contained in or incorporated by reference in this prospectus supplement or the accompanying prospectus or any related free writing prospectus we file with the Securities and Exchange Commission (the SEC). We have not, and the underwriters have not, authorized anyone to provide you with different information. We are not, and the underwriters are not, making an offer of these securities in any state or jurisdiction where the offer is not permitted. You should not assume that the information contained herein or in any document incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of this prospectus supplement or the date of the document incorporated by reference herein.

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Prospectus Supplement

Prospectus

This prospectus supplement and the accompanying prospectus, including documents incorporated by reference, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements are inherently subject to risk and uncertainties, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results, financial and otherwise, may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in Risk Factors in this prospectus supplement and in our most recent annual report as well as in Management s Discussion and Analysis of Financial Condition and Results of Operations in our most recent annual and quarterly reports.

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WHERE YOU CAN FIND MORE INFORMATION

We are subject to the reporting requirements of the Exchange Act and are required to file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may telephone the SEC at 1-800-SEC-0330 for further information on SEC public reference facilities. The SEC also maintains a website at http://www.sec.gov that contains the reports, proxy and information statements and other information that we and other registrants file electronically with the SEC. You also can inspect reports and other information we file at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

This prospectus supplement and the accompanying prospectus are a part of a registration statement on Form S-3 filed with the SEC to register offers and sales of the securities described in this prospectus supplement and the accompanying prospectus under the Securities Act. The registration statement contains additional information about us and the securities. You may obtain the registration statement and its exhibits from the SEC as indicated above or from us.

The SEC allows us to provide information about our business and other important information to you by incorporating by reference the information we file with the SEC, which means that we can disclose that information to you by referring in this prospectus supplement and the accompanying prospectus to the documents we file with the SEC. Under SEC regulations, any statement contained in a document incorporated by reference in this prospectus supplement and the accompanying prospectus is automatically updated and superseded by any information contained in this prospectus supplement and the accompanying prospectus, or in any subsequently filed document of the types described below.

We incorporate into this prospectus supplement by reference the following documents filed with the SEC by us, each of which should be considered an important part of this prospectus supplement:

SEC Filing	Period Covered or Date of Filing
Annual Report on Form 10-K	Year ended December 31, 2016 (filed March 1, 2017)
Quarterly Reports on Form 10-Q	Quarters ended March 31, 2017 (filed May 4, 2017) and June 30, 2017 (filed July 31, 2017)
Current Reports on Form 8-K	Filed February 23, 2017, April 17, 2017, April 27, 2017 (solely with respect to Item 5.07) and May 24, 2017
The portions of our Definitive Proxy Statement on Schedule 14A that are incorporated by reference in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016	Filed March 17, 2017
All subsequent documents filed by us under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934 (other than those furnished pursuant to Item 2.02 or Item 7.01 of Form 8-K or other information furnished to the SEC)	After the date of this prospectus supplement and before the termination of the offering

You may request a copy of each of our filings at no cost, by writing or telephoning us at the following address,

telephone or facsimile number:

Investor Services Department

Public Storage

701 Western Avenue

Glendale, California 91201-2349

Telephone: (800) 421-2856
(818) 244-8080
Facsimile: (800) 291-1015

Exhibits to a document will not be provided unless they are specifically incorporated by reference in that document.

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You should carefully read this entire prospectus supplement and the accompanying prospectus, as well as the information to which we refer you and the information incorporated by reference, before deciding whether to invest in the Depositary Shares. You should pay special attention to the Risk Factors section of this prospectus supplement and in our Annual Report on Form 10-K for the year ended December 31, 2016, which is incorporated by reference herein, to determine whether an investment in the Depositary Shares is appropriate for you.

THE COMPANY

We are a fully integrated, self-administered and self-managed real estate investment trust (REIT) that acquires, develops, owns and operates self-storage facilities which offer self-storage spaces for lease for personal and business use. We are the largest global owner and operator of self-storage facilities with equity interests (through direct ownership, as well as joint venture and general and limited partnership interests), as of June 30, 2017, in 2,358 storage facilities located in 38 states in the United States and 220 storage facilities located in seven countries in Western Europe operated under the Shurgard brand. The Company also owns a 42% common equity interest in PS Business Parks, Inc. (NYSE:PSB) which owned and operated approximately 28 million rentable square feet of commercial space, primarily flex, multi-tennant office and industrial space, at June 30, 2017.

The following table reflects the geographic diversification of our storage facilities:

	At June 30, 2017	
	Number of Storage Facilities	Net Rentable Square Feet (in thousands)
United States:		
California		
Southern	247	17,999
Northern	178	11,057
Texas	282	19,648
Florida	282	19,024
Illinois	126	7,952
Georgia	108	7,129
Washington	94	6,438
North Carolina	87	6,029
Virginia	91	5,593
New York	67	4,672
Colorado	67	4,379
New Jersey	58	3,863
Maryland	62	3,761
Minnesota	48	3,359
South Carolina	56	3,075
Ohio	46	2,965
Arizona	44	2,896
Michigan	44	2,869
Missouri	38	2,236
Oregon	39	2,040
Indiana	34	2,152
Pennsylvania	29	1,993

Tennessee	32	1,952
Nevada	27	1,818
Massachusetts	25	1,691
Oklahoma	21	1,477
Kansas	21	1,268
Other states (12 states)	105	6,247
Total United States	2,358	155,582

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	At June 30, 2017	
	Number of Storage Facilities	Net Rentable Square Feet (in thousands)
Europe:		
Netherlands	61	3,116
France	56	2,915
Sweden	30	1,659
United Kingdom	26	1,432
Belgium	21	1,268
Germany	16	890
Denmark	10	572
Total Europe	220	11,852
Grand Total	2,578	167,434

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RISK FACTORS

Before investing in the Depositary Shares, you should carefully consider the risks described below and in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, including (i) those described under the caption Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and (ii) documents we file with the SEC after the date of this prospectus supplement and which are deemed incorporated by reference in this prospectus supplement.

The Depositary Shares offered by this prospectus supplement are a new issue and do not have an established trading market, which may negatively affect their market value and your ability to transfer or sell your Depositary Shares.

Because the Depositary Shares do not have a stated maturity date, investors seeking liquidity will be limited to selling their Depositary Shares in the secondary market. We will apply to list the Depositary Shares on the NYSE, but we cannot assure you that the Depositary Shares will be approved for listing. If the application is approved, trading is not expected to begin until 30 days after the initial delivery of the Depositary Shares. In addition, an active trading market on the NYSE for the Depositary Shares may not develop or, even if it develops, may not last, in which case the trading price of the Depositary Shares could be adversely affected. We have been advised by the underwriters that they intend to make a market in the Depositary Shares, but they are not obligated to do so and may discontinue market-making at any time without notice.

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USE OF PROCEEDS

We estimate that the net proceeds from this offering will be approximately $290.3 million (or approximately $333.9 million if the underwriters exercise their over-allotment option in full), after all anticipated issuance costs. We intend to use the net proceeds from this offering to make investments in self-storage facilities and in entities that own self-storage facilities, for the development of self-storage facilities, and for general corporate purposes.

Pending application of the net proceeds as described above, we expect to deposit the net proceeds of this offering in interest bearing accounts or invest them in certificates of deposit, United States government obligations or other short-term, high-quality debt instruments selected at our discretion.

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DESCRIPTION OF PREFERRED SHARES AND DEPOSITARY SHARES

General

Under our Articles of Amendment and Restatement of Declaration of Trust, the Board of Trustees is authorized without further shareholder action to provide for the issuance of up to 100,000,000 preferred shares of beneficial interest, par value $0.01 per share, in one or more series, with such voting powers, full or limited, and with such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as shall be set forth in resolutions providing for the issue of preferred shares adopted by the Board of Trustees. At July 28, 2017, we had outstanding 167,500 preferred shares.

The Board of Trustees has adopted resolutions classifying the 5.05% Cumulative Preferred Shares, Series G (the Preferred Shares). When issued, the Preferred Shares will have a liquidation value of $25,000 per share, will be fully paid and nonassessable, will not be subject to any sinking fund or other obligation of the Company to repurchase or retire the Preferred Shares, and will have no preemptive rights.

Computershare Trust Company, N. A. will be the transfer agent and distribution disbursing agent for the Preferred Shares. Its offices are located at 250 Royall Street, Canton, Massachusetts 02105-1865.

Each depositary share represents 1/1,000 of a Preferred Share (the Depositary Shares). The Preferred Shares will be deposited with Computershare Trust Company, N. A., as Depositary (the Preferred Shares Depositary), under a Deposit Agreement among the Company, the Preferred Shares Depositary and the holders from time to time of the depositary receipts (the Depositary Receipts) issued by the Preferred Shares Depositary under the Deposit Agreement. The Depositary Receipts will evidence the Depositary Shares. Subject to the terms of the Deposit Agreement, each holder of a Depositary Receipt evidencing a Depositary Share will be entitled, proportionately, to all the rights and preferences of, and subject to all of the limitations of, the interest in the Preferred Shares represented by the Depositary Share (including distribution, voting, redemption and liquidation rights and preferences). See Description of Depositary Shares in the accompanying prospectus and Depositary Shares below.

Immediately following our issuance of the Preferred Shares, we will deposit the Preferred Shares with the Preferred Shares Depositary, which will then issue and deliver the Depositary Receipts to us. We will, in turn, deliver the Depositary Receipts to the underwriters. Depositary Receipts will be issued evidencing only whole Depositary Shares.

We intend to apply to have the Depositary Shares listed on the NYSE. The Preferred Shares will not be listed and we do not expect that there will be any trading market for the Preferred Shares except as represented by the Depositary Shares.

Ownership Restrictions

For a discussion of ownership limitations that apply to the Preferred Shares and related Depositary Shares, see Description of Preferred Shares Ownership Limitations in the accompanying prospectus.

Preferred Shares of Beneficial Interest

The following is a brief description of the terms of the Preferred Shares which does not purport to be complete and is subject to and qualified in its entirety by reference to the articles supplementary classifying the Preferred Shares, the form of which will be incorporated by reference into the Registration Statement of which this prospectus supplement constitutes a part.

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Ranking

With respect to the payment of distributions and amounts upon liquidation, the Preferred Shares will rank pari passu with our 5.750% Cumulative Preferred Shares, Series T, 5.625% Cumulative Preferred Shares, Series U, 5.375% Cumulative Preferred Shares, Series V, 5.200% Cumulative Preferred Shares, Series W, 5.200% Cumulative Preferred Shares, Series X, 6.375% Cumulative Preferred Shares, Series Y, 6.000% Cumulative Preferred Shares, Series Z, 5.875% Cumulative Preferred Shares, Series A, 5.400% Cumulative Preferred Shares, Series B, 5.125% Cumulative Preferred Shares, Series C, 4.95% Cumulative Preferred Shares, Series D, 4.90% Cumulative Preferred Shares, Series E and 5.15% Cumulative Preferred Shares, Series F (collectively, the Existing Senior Preferred Shares) and any other preferred shares issued by us, whether now or hereafter issued, ranking pari passu with the Existing Senior Preferred Shares (collectively, together with the Existing Senior Preferred Shares and the Preferred Shares, the Senior Preferred Shares), and will rank senior to the Common Shares and any other shares of beneficial interest of the Company ranking junior to the Preferred Shares.

Distributions

Holders of Preferred Shares, in preference to the holders of Common Shares, and of any other shares of beneficial interest issued by us ranking junior to the Preferred Shares as to payment of distributions, will be entitled to receive, when and as declared by the Board of Trustees out of assets of the Company legally available for payment, cash distributions payable quarterly at the rate of 5.05% of the liquidation preference per year ($1262.50 per year per share, equivalent to $1.2625 per year per Depositary Share). Distributions on the Preferred Shares will be cumulative from, and including, the date of issue and will be payable quarterly on or before March 31, June 30, September 30 and December 31, commencing September 30, 2017, to holders of record as they appear on the shares register of the Company on such record dates, not less than 15 or more than 45 days preceding the payment dates thereof, as shall be fixed by the Board of Trustees. If the last day of a quarter falls on a non-business day, we may pay distributions for that quarter on the first business day following the end of the quarter. After full distributions on the Preferred Shares have been paid or declared and funds set aside for payment for all past distribution periods and for the then current quarter, the holders of Preferred Shares will not be entitled to any further distributions with respect to that quarter.

When distributions are not paid in full upon the Preferred Shares and any other preferred shares of the Company ranking on a parity as to distributions with the Preferred Shares (including the other series of Senior Preferred Shares), all distributions declared upon the Preferred Shares and any other preferred shares of the Company ranking on a parity as to distributions with the Preferred Shares shall be declared pro rata so that the amount of distributions declared per share on such Preferred Shares and such other shares shall in all cases bear to each other the same ratio that the accrued distributions per share on the Preferred Shares and such other preferred shares bear to each other. Except as set forth in the preceding sentence, unless full distributions on the Preferred Shares have been paid for all past distribution periods, no distributions (other than in Common Shares or other shares of beneficial interest issued by us ranking junior to the Preferred Shares as to distributions and upon liquidation) shall be declared or paid or set aside for payment, nor shall any other distribution be made on the Common Shares or on any other shares of beneficial interest issued by us ranking junior to or on a parity with the Preferred Shares as to distributions or upon liquidation.

Unless full distributions on the Preferred Shares have been paid for all past distribution periods, we and our subsidiaries may not redeem, repurchase or otherwise acquire for any consideration (nor may we or they pay or make available any moneys for a sinking fund for the redemption of) any Common Shares or any other shares of beneficial interest issued by us ranking junior to or on a parity with the Preferred Shares as to distributions or upon liquidation except by conversion into or exchange for shares of beneficial interest issued by us ranking junior to the Preferred Shares as to distributions and upon liquidation.

If for any taxable year, we elect to designate as capital gain dividends (as defined in the Internal Revenue Code of 1986, as amended (the Code)) any portion of the distributions paid or made available for the year to the

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holders of all classes and series of our shares of beneficial interest (to the extent treated as a dividend for U.S. federal income tax purposes), then the portion of such distributions designated as capital gain dividends that will be allocable to the holders of Preferred Shares will be an amount equal to the total capital gain dividends multiplied by a fraction, the numerator of which will be the total dividends paid or made available to the holders of Preferred Shares for the year (determined for U.S. federal income tax purposes), and the denominator of which will be the total dividends paid or made available to holders of all classes and series of our outstanding shares of beneficial interest for that year (determined for U.S. federal income tax purposes).

Distributions that are treated as dividends for U.S. federal income tax purposes paid by regular C corporations to persons or entities that are taxed as individuals are generally taxed at the rate applicable to long-term capital gains, which is a maximum of 20%, subject to certain limitations. Because we are a REIT, however, our dividends, including dividends paid on the Preferred Shares, generally are taxed at regular ordinary income tax rates, except to the extent that the special rules relating to qualified dividend income or capital gains dividends paid by a REIT apply. See Additional Material U.S. Federal Income Tax Considerations.

Conversion Rights

The Preferred Shares will not be convertible into shares of any other class or series of beneficial interest of the Company.

Liquidation Rights

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, the holders of the Preferred Shares will be entitled to receive out of our assets available for distribution to shareholders, before any distribution of assets is made to holders of Common Shares or of any other shares of beneficial interest issued by us ranking as to such distribution junior to the Preferred Shares, liquidating distributions in the amount of $25,000 per share (equivalent to $25.00 per Depositary Share), plus all accrued and unpaid distributions (whether or not earned or declared) for the then current, and all prior, distribution periods. If upon any voluntary or involuntary liquidation, dissolution or winding up of the Company, the amounts payable with respect to the Preferred Shares and any other shares issued by us ranking as to any such distribution on a parity with the Preferred Shares (including other series of Senior Preferred Shares) are not paid in full, the holders of the Preferred Shares and of such other shares will share ratably in any such distribution of assets of the Company in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of the Preferred Shares will not be entitled to any further participation in any distribution of assets by us.

For purposes of liquidation rights, a consolidation or merger of the Company with or into any other corporation or corporations or a sale of all or substantially all of the assets of the Company is not a liquidation, dissolution or winding up of the Company.

Redemption

Except in certain circumstances relating to our qualification as a REIT, we may not redeem the Preferred Shares prior to August 9, 2022. On and after August 9, 2022, at any time or from time to time, we may redeem the Preferred Shares in whole or in part at our option at a cash redemption price of $25,000 per Preferred Share (equivalent to $25.00 per Depositary Share), plus all accrued and unpaid distributions to the date of redemption.

Notwithstanding the foregoing, if any distributions, including any accumulation, on the Preferred Shares are in arrears, we may not redeem any Preferred Shares unless we redeem simultaneously all outstanding Preferred Shares, and we

may not purchase or otherwise acquire, directly or indirectly, any Preferred Shares; provided, however, that this shall not prevent the purchase or acquisition of the Preferred Shares pursuant to a purchase or exchange offer if such offer is made on the same terms to all holders of the Preferred Shares.

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A notice of redemption of the Preferred Shares (which may be contingent on the occurrence of a future event) will be mailed, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, addressed to the holders of record of Preferred Shares at their addresses as they appear on our stock transfer records. The failure to give such notice or any defect in the notice or in its mailing will not affect the validity of the proceedings for the redemption of any Preferred Shares except as to the holder to whom notice was defective or not given. Each notice will state: (1) the redemption date; (2) the number of Preferred Shares to be redeemed; (3) the redemption price per Preferred Share; (4) the place or places where certificates for the Preferred Shares are to be surrendered for payment of the redemption price; and (5) that distributions on the Preferred Shares to be redeemed will cease to accrue on such redemption date.

If fewer than all the Preferred Shares held by any holder are to be redeemed, the notice mailed to such holder shall also specify the number of Preferred Shares to be redeemed from such holder. If fewer than all of the outstanding Preferred Shares are to be redeemed, the shares to be redeemed shall be selected pro rata or by lot in a manner determined by the Board of Trustees. In order to facilitate the redemption of Preferred Shares, the Board of Trustees may fix a record date for the determination of Preferred Shares to be redeemed, such record date to be not less than 30 nor more than 60 days prior to the date fixed for such redemption.

Notice having been given as provided above, from and after the date specified therein as the date of redemption, unless we default in providing funds for the payment of the redemption price on such date, all distributions on the Preferred Shares called for redemption will cease. From and after the redemption date, unless we so default, all rights of the holders of the Preferred Shares as shareholders of the Company, except the right to receive the redemption price (but without interest), will cease. Upon surrender in accordance with such notice of the certificates representing any such shares (properly endorsed or assigned for transfer, if the Board of Trustees of the Company shall so require and the notice shall so state), the redemption price set forth above shall be paid out of the funds provided by the Company. If fewer than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without cost to the holder thereof.

Subject to applicable law and the limitation on purchases when distributions on the Preferred Shares are in arrears, we may, at any time and from time to time, purchase any Preferred Shares in the open market, by tender or by private agreement.

Voting Rights

Except as indicated below, or except as expressly required by applicable law, holders of the Preferred Shares will not be entitled to vote.

If six quarterly distributions payable on the Preferred Shares or any other series of preferred shares are in default (whether or not declared or consecutive), the holders of the Preferred Shares (voting as a class with all other series of Senior Preferred Shares) will be entitled to elect two additional trustees until all distributions in default have been paid or declared and set apart for payment.

Such right to vote separately to elect trustees shall, when vested, be subject, always, to the same provisions for vesting of such right to elect trustees separately in the case of future distribution defaults. At any time when such right to elect trustees separately shall have so vested, we may, and upon the written request of the holders of record of not less than 10% of the total number of preferred shares of the Company then outstanding shall, call a special meeting of shareholders for the election of trustees. In the case of such a written request, such special meeting shall be held within 90 days after the delivery of such request and, in either case, at the place and upon the notice provided by law and in our Bylaws, provided that we shall not be required to call such a special meeting if such request is received less than 120 days before the date fixed for the next ensuing annual meeting of shareholders, and the holders of all classes

of outstanding preferred shares are offered the opportunity to elect such trustees (or fill any vacancy) at such annual meeting of shareholders. Trustees so elected shall serve until the next annual meeting of our shareholders or until their respective successors are elected and qualified. If, prior

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to the end of the term of any trustee so elected, a vacancy in the office of such trustee shall occur, during the continuance of a default in distributions on preferred shares of the Company, by reason of death, resignation, or disability, such vacancy shall be filled for the unexpired term of such former trustee by the appointment of a new trustee by the remaining trustee or trustees so elected.

The affirmative vote or consent of the holders of at least 66 $^{2}/_{3}$% of the outstanding Preferred Shares and any other series of preferred shares ranking on a parity with the Preferred Shares as to distributions or upon liquidation (which includes the other series of Senior Preferred Shares), voting as a single class, will be required to authorize another class of shares senior to the Preferred Shares with respect to the payment of distributions or the distribution of assets on liquidation. The affirmative vote or consent of the holders of at least 66 $^{2}/_{3}$% of the outstanding Preferred Shares will be required to amend or repeal any provision of, or add any provision to, the Declaration of Trust, including articles supplementary if such action would materially and adversely alter or change the rights, preferences or privileges of the Preferred Shares.

No consent or approval of the holders of the Preferred Shares will be required for the issuance from the Company s authorized but unissued preferred shares or other shares of any series of preferred shares ranking on a parity with or junior to the Preferred Shares as to payment of distributions and distribution of assets, including other Preferred Shares.

Depositary Shares

The following is a brief description of the terms of the Depositary Shares which does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Deposit Agreement (including the form of Depositary Receipt contained therein), which is incorporated by reference in the Registration Statement of which this prospectus supplement constitutes a part.

Distributions

The Preferred Shares Depositary will distribute all cash distributions or other cash distributions received in respect of the Preferred Shares to the record holders of Depositary Receipts in proportion to the number of Depositary Shares owned by such holders on the relevant record date, which will be the same date as the record date fixed by us for the Preferred Shares. In the event that the calculation of such amount to be paid results in an amount which is a fraction of one cent, the amount the Preferred Shares Depositary shall distribute to such record holder shall be rounded to the next highest whole cent.

In the event of a distribution other than in cash, the Preferred Shares Depositary will distribute property received by it to the record holders of Depositary Receipts entitled thereto, in proportion, as nearly as may be practicable, to the number of Depositary Shares owned by such holders on the relevant record date, unless the Preferred Shares Depositary determines (after consultation with us) that it is not feasible to make such distribution, in which case the Preferred Shares Depositary may (with our approval) adopt any other method for such distribution as it deems equitable and appropriate, including the sale of such property (at such place or places and upon such terms as it may deem equitable and appropriate) and distribution of the net proceeds from such sale to such holders.

Liquidation Preference

In the event of the liquidation, dissolution or winding up of the affairs of the Company, whether voluntary or involuntary, the holders of each Depositary Share will be entitled to 1/1000th of the liquidation preference accorded each Preferred Share.

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Redemption

Whenever we redeem any Preferred Shares held by the Preferred Shares Depositary, the Preferred Shares Depositary will redeem as of the same redemption date the number of Depositary Shares representing the Preferred Shares so redeemed. The Preferred Shares Depositary will publish a notice of redemption of the Depositary Shares containing the same type of information and in the same manner as our notice of redemption and will mail the notice of redemption promptly upon receipt of such notice from us and not less than 30 nor more than 60 days prior to the date fixed for redemption of the Preferred Shares and the Depositary Shares to the record holders of the Depositary Receipts. In case less than all the outstanding Depositary Shares are to be redeemed, the Depositary Shares to be so redeemed shall be determined pro rata or by lot in a manner determined by the Board of Trustees.

Voting

Promptly upon receipt of notice of any meeting at which the holders of the Preferred Shares are entitled to vote, the Preferred Shares Depositary will mail the information contained in such notice of meeting to the record holders of the Depositary Receipts as of the record date for such meeting. Each such record holder of Depositary Receipts will be entitled to instruct the Preferred Shares Depositary as to the exercise of the voting rights pertaining to the number of Preferred Shares represented by such record holder s Depositary Shares. The Preferred Shares Depositary will endeavor, insofar as practicable, to vote such Preferred Shares represented by such Depositary Shares in accordance with such instructions, and we will agree to take all action which may be deemed necessary by the Preferred Shares Depositary in order to enable the Preferred Shares Depositary to do so. The Preferred Shares Depositary will abstain from voting any of the Preferred Shares to the extent that it does not receive specific instructions from the holders of Depositary Receipts.

Withdrawal of Preferred Shares

Upon surrender of Depositary Receipts at the principal office of the Preferred Shares Depositary, upon payment of any unpaid amount due the Preferred Shares Depositary, and subject to the terms of the Deposit Agreement, the owner of the Depositary Shares evidenced thereby is entitled to delivery of the number of whole Preferred Shares and all money and other property, if any, represented by such Depositary Shares. Partial Preferred Shares will not be issued. If the Depositary Receipts delivered by the holder evidence a number of Depositary Shares in excess of the number of Depositary Shares representing the number of whole Preferred Shares to be withdrawn, the Preferred Shares Depositary will deliver to such holder at the same time a new Depositary Receipt evidencing such excess number of Depositary Shares. Holders of Preferred Shares thus withdrawn will not thereafter be entitled to deposit such shares under the Deposit Agreement or to receive Depositary Receipts evidencing Depositary Shares therefor.

Amendment and Termination of Deposit Agreement

The form of Depositary Receipt evidencing the Depositary Shares and any provision of the Deposit Agreement may at any time and from time to time be amended by agreement between us and the Preferred Shares Depositary. However, any amendment which materially and adversely alters the rights of the holders (other than any change in fees) of Depositary Shares will not be effective unless such amendment has been approved by the holders of at least a majority of the Depositary Shares then outstanding. No such amendment may impair the right, subject to the terms of the Deposit Agreement, of any owner of any Depositary Shares to surrender the Depositary Receipt evidencing such Depositary Shares with instructions to the Preferred Shares Depositary to deliver to the holder the Preferred Shares and all money and other property, if any, represented thereby, except in order to comply with mandatory provisions of applicable law. The Deposit Agreement may be terminated by us or the Preferred Shares Depositary only if (i) all outstanding Depositary Shares have been redeemed or (ii) there has been a final distribution in respect of the Preferred

Shares in connection with any dissolution of the Company and such distribution has been made to all the holders of Depositary Shares.

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Charges of Preferred Shares Depositary

We will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. We will pay charges of the Preferred Shares Depositary in connection with the initial deposit of the Preferred Shares and the initial issuance of the Depositary Shares, and redemption of the Preferred Shares and all withdrawals of Preferred Shares by owners of Depositary Shares. Holders of Depositary Receipts will pay transfer, income and other taxes and governmental charges and certain other charges as are provided in the Deposit Agreement to be for their accounts. In certain circumstances, the Preferred Shares Depositary may refuse to transfer Depositary Shares, may withhold distributions and sell the Depositary Shares evidenced by such Depositary Receipt if such charges are not paid.

Miscellaneous

The Preferred Shares Depositary will forward to the holders of Depositary Receipts all reports and communications from us which are delivered to the Preferred Shares Depositary and which we are required to furnish to the holders of the Preferred Shares. In addition, the Preferred Shares Depositary will make available for inspection by holders of Depositary Receipts at the principal office of the Preferred Shares Depositary, and at such other places as it may from time to time deem advisable, any reports and communications received from the Company which are received by the Preferred Shares Depositary as the holder of Preferred Shares.

Neither the Preferred Shares Depositary nor any Depositary s Agent (as defined in the Deposit Agreement), nor the Registrar (as defined in the Deposit Agreement) nor the Company assumes any obligation or will be subject to any liability under the Deposit Agreement to holders of Depositary Receipts other than for its gross negligence, willful misconduct or bad faith. Neither the Preferred Shares Depositary, any Depositary s Agent, the Registrar nor the Company will be liable if it is prevented or delayed by law or any circumstance beyond its control in performing its obligations under the Deposit Agreement. The Company and the Preferred Shares Depositary are not obligated to prosecute or defend any legal proceeding in respect of any Depositary Shares, Depositary Receipts or Preferred Shares unless reasonably satisfactory indemnity is furnished. The Company and the Preferred Shares Depositary may rely on written advice of counsel or accountants, on information provided by holders of Depositary Receipts or other persons believed in good faith to be competent to give such information and on documents believed to be genuine and to have been signed or presented by the proper party or parties.

Resignation and Removal of Preferred Shares Depositary

The Preferred Shares Depositary may resign at any time by delivering to us notice of its election to do so, and we may at any time remove the Preferred Shares Depositary, any such resignation or removal to take effect upon the appointment of a successor Preferred Shares Depositary and its acceptance of such appointment. Such successor Preferred Shares Depositary must be appointed within 60 days after delivery of the notice for resignation or removal and must be a bank or trust company having its principal office in the United States of America and having a combined capital and surplus of at least $150,000,000.

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ADDITIONAL MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain additional U.S. federal income tax considerations pertaining to the acquisition, ownership and disposition of the Depositary Shares and should be read in conjunction with the referenced sections in the accompanying prospectus. This discussion of additional considerations is general in nature and is not exhaustive of all possible U.S. federal income tax considerations, nor does the discussion address any state, local or foreign tax considerations. This discussion of additional considerations is based on current law and does not purport to deal with all aspects of U.S. federal income taxation that may be relevant to a prospective shareholder in light of its particular circumstances or to certain types of shareholders (including insurance companies, financial institutions, broker-dealers, tax exempt investors, foreign corporations and persons who are not citizens or residents of the United States) subject to special treatment under U.S. federal income tax law. We have not requested and will not request a ruling from the Internal Revenue Service (the IRS) with respect to any of the U.S. federal income tax issues discussed below or in the accompanying prospectus. Prospective investors should consult, and must depend on, their own tax advisors regarding the U.S. federal, state, local, foreign and other tax consequences of holding and disposing of the Depositary Shares.

For a discussion of the taxation of the Company and the tax considerations relevant to shareholders generally, see Material U.S. Federal Income Tax Considerations in the accompanying prospectus, as supplemented and superseded by the discussion below, beginning with the heading Taxation of Public Storage as a REIT Taxation. To the extent any information set forth under the title Material U.S. Federal Income Tax Considerations in the accompanying prospectus is inconsistent with this supplemental information, this supplemental information will apply and supersede the information in the accompanying prospectus. The supplemental information below is provided on the same basis and subject to the same qualifications as are set forth in the first four paragraphs under the title Material U.S. Federal Income Tax Considerations in the accompanying prospectus, as if those paragraphs were set forth in this prospectus supplement.

Taxation of Holders of Depositary Shares

General. Owners of the Depositary Shares will be treated for U.S. federal income tax purposes as if they were owners of the Preferred Shares represented by such Depositary Shares. Accordingly, such owners will take into account, for U.S. federal income tax purposes, income to which they would be entitled if they were holders of such Preferred Shares. See Material U.S. Federal Income Tax Considerations in the accompanying prospectus. A withdrawal of Preferred Shares for Depositary Shares is not a taxable event for U.S. federal income tax purposes.

Distributions; Withholding. For a discussion of the taxation of the Company, the treatment of distributions with respect to shares of the Company, and the withholding rules, see Material U.S. Federal Income Tax Considerations Taxation of Public Storage as a REIT, Taxation of U.S. Shareholders, U.S. Taxation of Non-U.S. Shareholders and Information Reporting and Backup Withholding Tax Applicable to Shareholders in the accompanying prospectus. In determining the extent to which a distribution on the Depositary Shares constitutes a dividend for U.S. federal income tax purposes, the earnings and profits of the Company will be allocated first to distributions with respect to the Preferred Shares and all other series of Preferred Shares, and second to distributions with respect to Common Shares of the Company.

Sale or Exchange of Depositary Shares. Upon the sale, exchange or other disposition of Depositary Shares to a party other than the Company, a holder of Depositary Shares will realize capital gain or loss measured by the difference between the amount realized on the sale, exchange or other disposition of the Depositary Shares and such shareholder s adjusted tax basis in the Depositary Shares (provided the Depositary Shares are held as a capital asset). For a discussion of capital gain taxation see Material U.S. Federal Income Tax Considerations Taxation of U.S. Shareholders

and U.S. Taxation of Non-U.S. Shareholders in the accompanying prospectus.

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Redemption of Depositary Shares. Whenever the Company redeems any Preferred Shares held by the Preferred Shares Depositary, the Preferred Shares Depositary will redeem as of the same redemption date the number of Depositary Shares representing the Preferred Shares so redeemed. The treatment to a holder of Depositary Shares accorded to any redemption by the Company (as distinguished from a sale, exchange or other disposition) of Preferred Shares held by the Preferred Shares Depositary and corresponding redemption of Depositary Shares can only be determined on the basis of particular facts as to the holder of Depositary Shares at the time of redemption. In general, a holder of Depositary Shares will recognize capital gain or loss measured by the difference between the amount received upon the redemption and the holder of the Depositary Shares adjusted tax basis in the Depositary Shares redeemed (provided the Depositary Shares are held as a capital asset) if such redemption (i) results in a complete termination of a holder s interest in all classes of stock of the Company under Section 302(b)(3) of the Code or (ii) is not essentially equivalent to a dividend with respect to the holder under Section 302(b)(1) of the Code. In applying these tests, there must be taken into account not only any Depositary Shares owned by the holder, but also such holder s ownership of Common Shares, equity shares, other series of preferred shares and any options (including share purchase rights) to acquire any of the foregoing. The holder also must take into account any such securities (including options) which are considered to be owned by such holder by reason of the constructive ownership rules set forth in Sections 318 and 302(c) of the Code.

If a particular holder of Depositary Shares owns (actually or constructively) no Common Shares or equity shares of the Company or an insubstantial percentage of the outstanding Common Shares, equity share or preferred shares of the Company, based upon current law, it is probable that the redemption of Depositary Shares from such a holder would be considered not essentially equivalent to a dividend. However, whether a distribution is not essentially equivalent to a dividend depends on all of the facts and circumstances, and a holder of Depositary Shares intending to rely on any of these tests at the time of redemption should consult its tax advisor to determine their application to its particular situation.

If the redemption does not meet any of the tests under Section 302 of the Code, then the redemption proceeds received from the Depositary Shares will be treated as a distribution on the Depositary Shares as described under Material U.S. Federal Income Tax Considerations Taxation of U.S. Shareholders and U.S. Taxation of Non-U.S. Shareholders in the accompanying prospectus. If the redemption is taxed as a distribution, the holder s adjusted tax basis in the redeemed Depositary Shares will be transferred to any other shareholdings of the holder of Depositary Shares in the Company. If the holder of Depositary Shares owns no other shares of beneficial interest in the Company, under certain circumstances, such basis may be transferred to a related person, or it may be lost entirely.

However, notwithstanding the foregoing, the IRS has proposed Treasury Regulations that would require the basis reduction associated with a redemption that is taxed as a distribution to be applied on a share-by-share basis, which could result in taxable income with respect to some shares, even though the holder s aggregate basis in its shares would be sufficient to absorb the entire redemption distribution. In addition, as a general matter, these proposed Treasury Regulations would not permit the transfer of basis in the redeemed shares to the remaining shares held (directly or indirectly) by the redeemed holder. Instead, the unrecovered basis in our preferred shares would be treated as a deferred loss to be recognized when certain conditions are satisfied. These proposed Treasury Regulations would be effective for transactions that occur after the date the regulations are published as final Treasury Regulations. There can, however, be no assurance as to whether, when, and in what particular form such proposed Treasury Regulations will ultimately be finalized.

Taxation of Public Storage as a REIT ***Taxation***

551,024 0.2 0 0.2

W. Edward Walter (6)

1,031,160 0.3 0 0.3

All Directors and Executive Officers as a group:

(15 persons, including the foregoing)(6)(7)

21,642,191 6.8 140,296 6.8

Certain Beneficial Owners:

Deutsche Bank AG(8)

16,241,700 5.0 0 5.0

Franklin Resources, Inc.(9)

17,405,389 5.4 0 5.4

Morgan Stanley Investment Management, Inc.(10)

17,145,390 5.3 0 5.3

Stichting Pensioenfonds ABP(11)

26,734,000 8.3 0 8.3

Wallace R. Weitz & Company(12)

28,021,000 8.7 0 8.7

Wellington Management Company, LLP(13)

16,032,500 5.0 0 5.0

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* Reflects ownership of less than 1/10th of 1%.

(1) Any descriptions of ownership or aggregations of ownership of our common stock within this proxy statement are based upon the disclosure requirements of federal securities laws. They do not indicate ownership of our common stock under the Internal Revenue Code of 1986, as amended, or for purposes of the ownership limitations set forth in our Articles of Incorporation.

(2) This column assumes that all operating partnership units held by the named person or group of persons are redeemed for shares of our common stock on a one-for-one basis, but that none of the operating partnership units held by others are redeemed for shares of our common stock.

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(3) The number of shares of our common stock listed here includes common stock equivalents: (1) awarded annually to non-employee directors under our Non-Employee Directors Deferred Stock Compensation Plan; (2) resulting from a non-employee directors election to receive part of their annual retainer and attendance fees in stock pursuant to the Non-Employee Directors Deferred Stock Compensation Plan; and (3) for Mr. Robert Baylis and Ms. Ann McLaughlin Korologos, 10,733 common stock equivalents from a one-time special stock award made in 1997 to all non-employee directors, plus reinvested dividend equivalents relating thereto.

(4) Richard E. Marriott, J.W. Marriott, Jr., and other members of the Marriott family and various trusts and foundations established by members of the Marriott family owned beneficially an aggregate of 26,347,299 shares, or 8.13% of the total shares outstanding of our common stock.

(5) The number of shares of our common stock listed here for Richard E. Marriott includes: (1) 1,860,539 shares held in trust for which Richard E. Marriott is the trustee or a co-trustee; (2) 75,364 shares held by the wife of Richard E. Marriott; (3) 603,828 shares held in trust for which the wife of Richard E. Marriott is the trustee or a co-trustee; (4) 5,467,538 shares held by the J. Willard and Alice S. Marriott Foundation of which Richard E. Marriott is a co-trustee; (5) 1,463,300 shares held by the Richard E. and Nancy P. Marriott Foundation of which Richard E. Marriott is a co-trustee; and (6) 2,503,066 shares held by a corporation of which Richard E. Marriott is the controlling stockholder. It does not include shares held by the adult children of Richard E. Marriott, as to which Mr. Marriott disclaims beneficial ownership.

(6) The number of shares of our common stock listed here includes the shares of restricted stock granted under our 1997 Comprehensive Stock and Cash Incentive Plan, which are voted by the holder thereof.

(7) The number of shares of our common stock listed here includes 65,255 shares which could be acquired through the exercise of stock options to certain executive officers.

(8) Deutsche Bank AG filed a Schedule 13G with the SEC on February 13, 2004 reporting beneficial ownership as a parent holding company of various subsidiaries. Deutsche Bank AG reports the sole power to dispose of and vote all 16,241,700 shares. The principal address of Deutsche Bank AG is Taunusanlage 12, D-60325, Frankfurt am Main, Federal Republic of Germany.

(9) Franklin Resources, Inc., certain of its subsidiaries, and Charles B. Johnson and Rupert H. Johnson, Jr. (holders of more than 10% of the common stock of Franklin Resources, Inc.), filed a Schedule 13G with the SEC on February 13, 2004 reporting holdings of our common stock beneficially owned by one or more open or closed-end investment companies or other managed accounts advised by subsidiaries of Franklin Resources, Inc. Franklin Resources, Inc. reports the sole power to dispose of and vote all 17,405,389 shares (which shares include 10,447,956 common shares that would result upon exchange of their holdings of Host Marriott, L.P. Exchangeable Senior Debentures due 2024). The principal address of Franklin Resources, Inc. is One Franklin Parkway, San Mateo, California 94403.

(10) Morgan Stanley filed an amendment to Schedule 13G with the SEC on February 17, 2004 reporting holdings of 17,145,390 shares of our common stock, of which it reports that its shares the power to dispose of and to vote 13,150,302 shares. Morgan Stanley reported that it is filing solely in its capacity as the parent company of, and indirect beneficial owner of, securities held by business units including Morgan Stanley Investment Management Inc., a wholly owned subsidiary, for accounts managed on a discretionary basis. The principal address of Morgan Stanley is 1585 Broadway, New York, New York 10036.

(11) Pursuant to an amendment to Schedule 13G filed with the SEC on February 6, 2004, Stichting Pensioenfonds ABP reports the sole power to dispose of and vote all 26,734,000 shares. Stichting Pensioenfonds ABP reports that it is an entity established under the laws of The Kingdom of the Netherlands which invests funds on behalf of certain employees of The Kingdom of the Netherlands. Their business address is Oude Lindestraat 70, Postbus 2889, 6401 DL Heerlen, The Kingdom of the Netherlands.

(12) Wallace Weitz & Company (Weitz & Co.) and its president and primary owner, Wallace R. Weitz, filed an amendment to Schedule 13G with the SEC on January 23, 2004 to report 28,021,000 shares of our common stock held of record by clients of Weitz & Co. that they may be deemed to beneficially own in their capacity as investment advisor. The Schedule 13G amendment reports that they share the power to dispose of all such shares and share the power to vote with respect to 27,821,000 shares. The business address of Weitz & Co. is 1125 South 103rd Street, Suite 600, Omaha, Nebraska 68124-6008.

(13) Wellington Management Company, LLP (Wellington) filed an amendment to Schedule 13G with the SEC on February 12, 2004 to report 16,032,500 shares of our common stock held of record by clients of Wellington that they may be deemed to beneficially own in their capacity as investment advisor. Wellington reports that its shares the power to dispose of all such shares and shares the power to vote with respect to 12,686,900 shares. Wellington s business address is 75 State Street, Boston, Massachusetts, 02109.

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EXECUTIVE OFFICER COMPENSATION

Summary of Compensation

The following table shows, for the last three fiscal years, a summary of the compensation paid to our Chief Executive Officer and to our four other most highly compensated persons serving as executive officers at the end of 2003.

SUMMARY COMPENSATION TABLE

			Annual Compensation		Long-Term Compensation		
Name and Principal Position	Fiscal Year	Salary(1) ($)	Bonus(2) ($)	Other Annual Compensation ($)	Restricted Stock Awards ($)	LTIP Payouts ($)	All Other Compensation(3) ($)
Richard E. Marriott	2003	348,888	261,666	79,805(4)	0	0	654,625
	2002	336,000	168,000	506,432(4)	0	0	13,015
Chairman of the Board	2001	336,000	84,000	320,878(4)	0	0	16,821
Christopher J. Nassetta	2003	800,000	808,000	0	9,426,139(5)		63,719
President and Chief Executive Officer	2002	800,000	890,000	0	5,000,000(6)	0	34,522
	2001	800,000	350,720	0	0	0	47,696
W. Edward Walter	2003	467,250	357,446	0	6,472,533(5)	0	50,261
	2002	467,250	478,371	0	2,000,000(6)	0	20,362
Executive Vice President and Chief Financial Officer	2001	429,810	211,466	0	764,902(7)		23,192
James F. Risoleo	2003	397,219	500,000	0	3,077,924(5)	0	35,680
	2002	365,000	367,300	0	400,000(6)	0	15,842
Executive Vice President, Acquisitions and Development	2001	346,233	163,076	0	399,900(7)	0	13,587
Minaz Abji(8)	2003	146,918	386,188	0	1,521,625(5)		2,163
Executive Vice President, Asset Management							

(1) Salary amounts include base salary earned and paid in cash during the fiscal year as well as the amount of base salary deferred at the election of the named executive officer under our Executive Deferred Compensation Plan.

(2) The bonus consists of the cash bonus that is earned pursuant to the performance criteria for annual incentive awards established by our Compensation Policy Committee. It was either paid subsequent to the end of each fiscal year or deferred under the Executive Deferred Compensation Plan.

(3) This column includes the following for 2003:

Matching contributions made under the Retirement and Savings Plan for each of Mr. Marriott, Mr. Nassetta, Mr. Walter and Mr. Risoleo in the amount of $6,000.

Matching contributions made under the Executive Deferred Compensation Plan as follows: Mr. Marriott, $9,487; Mr. Nassetta, $44,700; Mr. Walter, $22,369; Mr. Risoleo, $16,886 and Mr. Abji, $2,163.

For Mr. Marriott, this column also includes $639,138 which, although no cash payments were paid by the Company or received by Mr. Marriott, is imputed as compensation to him as a result of the Company s termination and assignment of the split-dollar life insurance agreement between the Company and The REM Insurance Trust. See Employment Agreements-Split Dollar Life Insurance.

In connection with the long term incentive stock awards granted for the period 2003-2005, Messrs. Nassetta, Walter and Risoleo each agreed to purchase life insurance policies and to accept funding under these policies instead of receiving any long-term incentive stock compensation that would vest and would be payable in the event of the executive s death. The Company has reimbursed each executive for the cost of each policy and the taxes payable as a result of this reimbursement as follows: Mr. Nassetta, $13,019, Mr. Walter, $21,892 and Mr. Risoleo, $12,794.

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(4) The amounts set forth in this column for Mr. Marriott include $44,158 in 2003 for complimentary rooms and other hotel services at hotels owned by us or managed by Marriott International or its affiliates when on personal travel, $194,885, and $132,150 in 2002 and 2001, respectively, for the allocation of Company personnel costs for personal use, $64,185 in 2002 for personal use of Company aircraft and $35,447, $245,140, and $152,110 in 2003, 2002 and 2001, respectively, for additional cash compensation to cover taxes payable for all other compensation in this column.

(5) In January 2003, the Compensation Policy Committee approved long-term incentive stock awards for senior management for the three years 2003-2005. These stock awards are discussed in more detail in the Compensation Policy Committee Report. They are multi-year grants that vest over a three-year period from 2003-2005 based predominately on achievement of annual performance criteria and partially on continued employment until December 31st of each year in the vesting period. Although the grants vest over three years and an executive may not ultimately earn portions of the award, we reflect the total dollar value of the award on the day it is granted. The awards granted in 2003 to Messrs. Nassetta, Walter and Risoleo are valued at $8.02 per share, the closing price of our common stock on the New York Stock Exchange on January 30, 2003, the date of grant. The award granted to Mr. Abji in 2003 is valued at $9.94 per share, which is closing price of our common stock on the New York Stock Exchange on August 11, 2003, the date of his grant.

Under these grants, twenty-five percent of the shares vest on a yearly basis over the three-year period as long as the executive continues to be employed. The remaining seventy-five percent of the shares vest based on performance criteria established by the Compensation Policy Committee: (i) twenty-five percent may be earned by satisfying an earnings-based measure (based on funds from operations per share) established each calendar year, (ii) fifty percent may be earned by satisfying a total stockholder return measure, and (iii) any shares not vested by satisfaction of these annual performance criteria may be earned at the end of the award period by satisfying a total cumulative stockholder return measure established in 2003 for the years 2003-2005. In the event the performance criteria are not satisfied, the shares are forfeited. Cash dividends will only be paid on shares of restricted stock that ultimately vest.

The total number of all restricted shares that remain subject to vesting conditions held by each named executive as of December 31, 2003 and the aggregate value of those shares were as follows: Mr. Marriott: 5,000 shares valued at $61,600; Mr. Nassetta: 981,612 shares valued at $12,093,460; Mr. Walter: 628,488 shares valued at $7,742,972; Mr. Risoleo: 281,359 shares valued at $3,466,589; and Mr. Abji: 129,327 valued at $1,593,309. All shares were valued at $12.32 per share, the closing price for our common stock on the New York Stock Exchange on December 31, 2003.

(6) Equals the market value of restricted stock awards to Messrs. Nassetta, Walter, and Risoleo on August 1, 2002, the date on which the shares were granted. The shares of restricted stock were granted to these executives in recognition of the work performed in positioning and restructuring the Company leading up to and after the events of September 11, 2001 and the economic downturn, including the restructuring of a majority of the Company s management and other corporate agreements, and to provide the executives with a strong incentive to continue to increase the value of the Company during their employment. One-third of the shares to each executive were vested on the date of the grant. The restrictions on the remaining two-thirds of the restricted stock lapse over time as long as the executive is employed by the Company (with one-third of the shares vesting in one year and the final one-third vesting two years after the date of grant). The number of shares granted were as follows: Mr. Nassetta: 476,644 shares; Mr. Walter: 190,658 shares; and Mr. Risoleo: 38,132 shares. The market value is based on the average of the high and low sale price of the common stock on August 1, 2002 of $10.49 on the New York Stock Exchange. Cash dividends on the shares of restricted stock shall be, after withholding for the payment of any taxes due on the dividends, reinvested in shares of our common stock.

(7) In 2001, prior long-term incentive stock awards made to Mr. Walter and Mr. Risoleo for the period 1999-2001 (and which were amended in 2000 to extend the period covered by the program by one year to 2002) were further amended to reflect promotions to Executive Vice President and Chief Operating Officer and Executive Vice President Acquisitions and Development, respectively. Mr. Walter and Mr. Risoleo each received additional allocations of 57,382 shares and 30,000 shares, respectively, which could be earned during 2001 and 2002 and which were reported in 2001. All shares were valued at $13.33 per share, the fair market value of our common stock on the New York Stock Exchange on May 17, 2001, the date the additional shares were awarded. The multi-year program covered by the grants concluded in 2002 and approximately 36% of the total shares awarded were forfeited for failure to satisfy performance criteria.

(8) Mr. Abji joined the Company in August 2003. His salary reflects the portion earned from an annual salary of $375,000. His bonus includes $110,188 earned pursuant to the performance criteria for annual incentive awards established by our Compensation Policy Committee and a signing bonus of $276,000.

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AGGREGATED STOCK OPTION/SAR EXERCISES AND YEAR-END VALUE

The table below sets forth, on an aggregated basis:

- information regarding the exercise of options to purchase our common stock (and shares of common stock of Marriott International, Inc., which we have previously spun off) by each of the named executive officers listed above on the Summary Compensation Table;
- information regarding the exercise of stock appreciation rights (SARs) in our common stock by each of the named executive officers listed above on the Summary Compensation Table; and
- the value on December 31, 2003 of all unexercised options and SARs held by such individuals.

Messrs. Nassetta, Walter, Abji and Risoleo do not have any options to purchase stock or SARs in either the Company or Marriott International, Inc. Richard E. Marriott is the only executive officer who holds stock appreciation rights in our common stock. In 1998, Mr. Marriott entered into an agreement with our Company which canceled all of his then outstanding options to purchase our common stock and replaced them with stock appreciation rights on equivalent economic terms.

Aggregated Stock Option/SAR Exercises In Last Fiscal Year And Fiscal Year-End Option/SAR Values

Name	Company (1)	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Shares Underlying Unexercised Options/SARs at Fiscal Year End(2) (#)		Value of Unexercised In-the-Money Options/SARs at Fiscal Year End(3) ($)	
				Exercisable	Unexercisable	Exercisable	Unexercisable
Richard E. Marriott	HM	0	0	66,685	0	$ 689,197	0
	MI	0	0	122,634	0	$ 5,047,893	0
	TOTAL	0	0	189,319	0	$ 5,737,090	0

(1) HM represents options to purchase our common stock or SARs in our common stock. MI represents options to purchase Marriott International, Inc. common stock.

(2) The number and terms of these options reflect several adjustments made as a result of our spin-off of Marriott International in October 1993, our spin-off of Host Marriott Services Corporation in December 1995, the spin-off from Marriott International of Sodexho Marriott Services Corporation in March 1998, and our conversion into a real estate investment trust (and the related spin-off of Crestline Capital

Corporation) in December 1998, each in accordance with the applicable employee benefit plans covering those options. These adjustments preserved, but did not increase or decrease, the economic value of the options.

(3) These figures are based on a per share price for our common stock of $12.22 and a per share price for Marriott International, Inc. common stock of $46.22. These prices reflect the average of the high and low trading prices on the New York Stock Exchange on December 31, 2003.

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EQUITY COMPENSATION PLAN INFORMATION

(as of December 31, 2003)

Plan Category	Number of securities (in millions) to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities (in millions) remaining available for future issuance under equity compensation plans (excluding securities reflected in the 1st column)
Equity compensation plans approved by security holders(1)	4.5	$ 6.44	11.9
Equity compensation plans not approved by security holders	0	0	0
TOTAL	4.5	$ 6.44	11.9

(1) Shares indicated are the aggregate of those issuable under the Host Marriott Corporation and Host Marriott, L.P. 1997 Comprehensive Stock and Cash Incentive Plan, as amended, whereby we may award to officers and key employees (i) options to purchase our common stock, (ii) deferred shares of our common stock, and (iii) restricted shares of our common stock.

EMPLOYMENT ARRANGEMENTS

The Company does not maintain employment agreements with any of its executive officers. The Company entered into a Separation Agreement and Release with Robert Parsons effective on his resignation from the Company in May 2003. Mr. Parsons had been employed by the Company for over 20 years. Mr. Parsons received severance in the aggregate amount of $1,700,000. In addition, pursuant to the terms of his Restricted Stock Agreement dated August 1, 2002, Mr. Parsons received the remaining shares of restricted stock that had been granted in August 2002 in recognition of work performed in repositioning the Company leading up to and after the events of September 11, 2001. We also agreed to pay the cost of health benefits for a period of 18 months.

Split-Dollar Life Insurance

In December 2003, we terminated a split-dollar life insurance agreement between the Company and The REM Insurance Trust, a trust established by Mr. Richard E. Marriott, the Company s Chairman of the Board. The split-dollar agreement was put in place in exchange for the termination of Mr. Marriott s accrued interest, as of November 30, 1996, in awards of deferred bonus stock to him under the Host Marriott Corporation 1993 Comprehensive Stock Incentive Plan. Under that split-dollar agreement, The REM Insurance Trust had acquired life insurance policies on behalf of Mr. Marriott and his wife, Nancy Marriott. The Company paid certain premiums on the policies, and had a right to be reimbursed for the premiums at maturity (estimated at 32 years). The remaining proceeds from the policy would go to The REM Insurance

Trust.

Under the termination and release agreement among the Company, The REM Insurance Trust and Mr. Marriott, the Company terminated its responsibility to make any additional premium payments and its right to receive at maturity the premiums which it paid. In exchange, The REM Insurance Trust paid the Company the estimated net present value of the premiums previously paid by the Company, which was approximately $165,000.

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Severance Plan

In 2002, the Compensation Policy Committee approved the adoption of the Host Marriott Severance Plan for members of senior management, including Messrs. Nassetta, Walter, Abji and Risoleo. Mr. Richard E. Marriott is not covered by the plan. The plan provides for the payment of severance compensation upon termination as follows:

Termination for Cause: an executive terminated for cause receives no severance and forfeits any unvested long-term incentive stock compensation;

Termination as a Result of Death or Disability: upon death or disability, an executive receives a prorated annual bonus through the month of death or disability and all long-term incentive stock compensation vests. In addition, the executive would be entitled to benefits under the Company s life insurance and disability plans applicable to all employees. Messrs. Nassetta, Walter and Risoleo have each agreed to purchase life insurance policies and to accept the proceeds under these policies instead of receiving any long-term incentive stock compensation that would vest and be payable in the event of the executive s death. The Company has reimbursed each executive for the cost of each policy;

Voluntary Termination by Executive Without Good Reason: an executive who resigns in this manner receives no severance compensation and the executive s unvested long-term incentive stock compensation is forfeited;

Termination Without Cause or Voluntary Termination by Executive With Good Reason Following a Change in Control: an executive terminated in this manner receives a payment equal to a multiple of the executive s current base pay and average bonus over the prior three-year period. Mr. Nassetta is entitled to three times his current base salary plus three times his average bonus. All other members of senior management covered by the plan are entitled to two times their current base salary plus two times their average bonus. All long-term incentive stock compensation vests, and the Company will pay for the executive s benefits under the Company s standard benefit plans for 18 months or until the executive is re-employed, whichever time period is shorter. These provisions remain in effect for a period of one year following a change in control of the Company; and

Termination Without Cause or Voluntary Termination by Executive With Good Reason Not Following a Change in Control: an executive terminated in this manner receives a payment equal to a multiple of the executive s current base pay and average bonus over the prior three-year period. Mr. Nassetta is entitled to two times his current base salary plus two times his average bonus. All other members of senior management covered by the plan are entitled to a payment equal to their current base salary plus their average annual bonus. One year s worth of the executive s time-based and performance-based portions (assuming achievement of target performance goals) of long-term incentive stock compensation is subject to accelerated vesting, and the Company will pay for the executive s benefits under the Company s standard benefit plans for 18 months or until the executive is re-employed, whichever time period is shorter.

The plan also provides for a one-year non-compete/non-solicitation period and allows each executive a period of one year after termination to exercise any options to which the executive may be entitled due to the accelerated vesting of long-term incentive compensation.

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REPORT OF THE COMPENSATION POLICY COMMITTEE

ON EXECUTIVE COMPENSATION

The Compensation Policy Committee of the Board of Directors approves compensation objectives and policies for all employees and oversees and administers the executive compensation program on behalf of the Board and, by extension, our stockholders. The Compensation Policy Committee consists entirely of independent members of the Board of Directors. The Committee met three times during 2003.

Goals of the Program

The Committee has established three primary objectives for the executive compensation program:

- to foster a strong relationship between stockholder value and executive compensation programs by having a significant portion of compensation comprised of equity-based incentives;
- to provide annual and long-term incentives that emphasize performance-based compensation dependent upon achieving corporate and individual performance goals; and
- to provide overall levels of compensation that are competitive in order to attract, retain and motivate highly qualified executives to continue to enhance long-term stockholder value.

Competitiveness Targets

To establish compensation targets, the Committee uses data gathered by independent consultants which reflects the compensation practices for a large group of general industry, lodging and real estate companies. These surveys are based on a broader group of companies than the comparison group used in the performance graph below because the Committee believes that targeting compensation of a diverse group of companies better reflects the labor market for our executives. Based on information collected, the Committee then makes decisions regarding individual executives based on competitive levels of compensation and the need to retain an experienced and effective management team. The Company s compensation for Executive Officers consists of cash and restricted stock. Consistent with the philosophy of aligning executive compensation with stockholder value, long-term incentive awards represent a substantial portion of the total pay package for executive officers.

Components of Executive Compensation

The basic components of executive compensation are:

- Annual Cash Compensation including base salary and annual incentive awards; and

- Long-Term Incentive Compensation, which consists solely of restricted stock.

Annual Cash Compensation

Base Salary. Executive officers base salaries are based on the level of the position within the Company and the individual s current and sustained performance results as well as the process used to achieve such results. Salaries are targeted to between the median and 75th percentile of the comparison group.

Annual Incentive Awards. The purpose of the annual incentive bonus plan is to provide cash compensation that is contingent on the achievement of annual corporate performance objectives and individual objectives. The Compensation Policy Committee determines the performance criteria that apply to the annual incentive awards at the beginning of each year. In 2003, the Committee determined that 80% of the annual incentive award would be based on achievement of corporate financial objectives for the Chairman, Chief Executive Officer, and other named executive officers, and 20% would be based on individual objectives. For all other members of senior management, the annual incentive award would be equally split between the achievement of corporate and individual objectives. The Company performance measures adopted by the Committee for 2003 were based on

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our actual financial performance as determined by funds from operations per share and funds from operations per share growth as measured in comparison to other REITs in the NARIET lodging index. The Committee also reviewed and approved the individual performance criteria for each executive based on specific objectives for such executive, establishing additional performance criteria where the Committee determined was appropriate.

The Committee may also, on occasion, grant special cash bonuses to executive officers in recognition of exemplary contributions to the Company and/or for the completion of special projects on behalf of the Company. The Committee did not grant any such cash bonuses to any of the named executive officers in 2003.

Long-Term Incentive Compensation

Restricted Stock. Restricted stock is our primary long-term incentive vehicle for senior executives. No executives or members of senior management receive stock options for their long-term compensation. We believe that restricted stock creates an incentive for senior executives to manage our Company in a manner that creates significant long-term value for stockholders. The Comprehensive Stock and Cash Incentive Plan allows the Committee to make awards of stock with restrictions relating to either continued employment (time-based awards) or to performance standards that are set by the Committee (performance-based awards). The Committee emphasizes performance-based awards with 75% of each award subject to performance-based criteria and 25% of each award subject to general restrictions based on continued employment. The performance-based criteria for these awards of restricted stock are linked to the measurement of the total return to the Company s stockholders and to the growth of the Company s earnings measured against a pre-determined target.

Additional Information

Other Benefits. The named executive officers are eligible to receive, subject to limitations, tax return preparation services and complimentary rooms and hotel services at hotels owned by the Company or managed by Marriott International or its affiliates when on personal travel.

Stock Ownership Guidelines. A significant portion of executive compensation is comprised of equity-based incentives. The Committee expects senior management to retain Host Marriott stock to closely align their interests with those of the stockholders. The Committee has established stock ownership guidelines for officers and senior management based on a multiple of salary as follows: five times base salary for the CEO, three times base salary for Executive Vice Presidents, and two times base salary for Senior Vice Presidents. The Committee monitors compliance with these guidelines.

CEO Evaluation. The Committee considers the evaluation of the CEO important and valuable. The Committee considers both quantitative and qualitative measures in assessing the performance of the CEO. In 2003, the Committee gathered information from both Board members and others on the performance of the CEO. The CEO s individual objectives set forth by the Committee and later used to determine the bonus for 2003, included specific recommendations as a result of that evaluation.

Compensation of the CEO and Named Executive Officers

The Committee reviewed the salaries for Mr. Nassetta and all other executive officers in January 2003. Due to the continued decline in business in the lodging industry as a result of the effects of the economic recession, Mr. Nassetta s salary remained at $800,000, the level it has been since 2001. Mr. Walter also did not receive a salary increase for 2003. Mr. Risoleo received a base increase to $400,000 and Mr. Marriott received a base increase to $350,000, in each case effective January 30, 2003. The Committee believed it was appropriate to increase Mr. Risoleo and Mr. Marriott s salary based on compensation data gathered by an independent consultant which showed that their salaries were below the desired level for their positions relative to the Company s comparison group.

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Based on corporate and individual performance criteria set by the Committee, Mr. Nassetta had an opportunity to receive between 50% 150% of his base salary as bonus. Mr. Nassetta received an annual incentive award of $808,000 for 2003. This award was 101% of his fiscal year base salary earnings. The other named executive officers had an opportunity to receive generally between 37.5% 120% of their base salary earnings in bonus based on the achievement of corporate and individual performance objectives established by the Committee. They received annual incentive awards for 2003 ranging from 75% to 101% of their base salary, with the exception of Mr. Risoleo, who received a bonus of $125% of his fiscal year base salary for exemplary service in resolving a number of insurance claims related to the New York World Trade Center Marriott and New York Marriott Financial Center hotels.

The Company s previous three year long-term incentive stock program expired at the end of 2002. Of the shares available, approximately 64% vested based on satisfaction of vesting criteria for senior executive officers and approximately 36% were forfeited for failure to satisfy performance criteria set by the Committee. In January 2003, the Committee approved long-term incentive stock awards for all members of senior management for the three year period 2003-2005. The Committee engaged an independent consultant, reporting to the Committee, to assist in designing the new long-term incentive stock program. Under these multi-year grants, 25% of the shares vest on a yearly basis over the three-year period as long as the executive continues to be employed. The remaining 75% of the shares vest based on performance criteria established by the Compensation Policy Committee, including (i) satisfying an earnings-based measure (based on funds from operations per share) established each calendar year, and (ii) satisfying a total stockholder return measure. In addition, any shares not vested by satisfaction of these annual performance criteria may be earned at the end of the award period by satisfying a total cumulative stockholder return measure established in 2003 for the years 2003-2005. For the three year period 2003-2005, Mr. Nassetta received an award of 1,175,329 shares, Mr. Walter received an award of 807,049 shares, Mr. Risoleo received an award of 383,781 shares and Mr. Abji received an award of 153,081 shares. Of the portion of the total award eligible for release in 2003 based on the criteria established by the Committee for the year, ten percentage points of the eligible earnings-based awards were not released because the corporate performance measures were not fully satisfied. Restrictions on the time-based portion of the award were released.

Summary

The Committee believes that the caliber and motivation of our employees, and their leadership, are critical to our success in a competitive marketplace, particularly at a time when our industry faces several challenges. Effective and motivational compensation programs are essential ingredients to success. The Committee believes that our compensation programs are effective in serving us and our stockholders in the short and long term.

The Compensation Policy Committee

Ann McLaughlin Korologos, Chair

Judith A. McHale

Robert M. Baylis

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PERFORMANCE GRAPH

The following graph compares the five-year cumulative total stockholder return on our common stock against the cumulative total returns of the Standard & Poor s Corporation Composite 500 Index and a peer group index. The graph assumes an initial investment of $100 in our common stock and in each of the indexes, and also assumes the reinvestment of all dividends.

Comparisons of Five-Year Cumulative Total Stockholder Returns

The peer group index consists of: Boykin Lodging Company (BOY), Felcor Lodging Trust Inc. (FCH), Hilton Hotels Corporation (HLT), Hospitality Properties Trust (HPT), LaSalle Hotel Properties (LHO), MeriStar Hospitality Corporation (MHX), Starwood Hotels & Resorts Worldwide, Inc. (HOT) and Wyndham International, Inc. (WYN).

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Ms. Ann McLaughlin Korologos, Ms. Judith A. McHale and Mr. John G. Schreiber served on the Compensation Policy Committee during 2003. None of these persons was an officer or employee of the Company or any of its subsidiaries during 2003, or was formerly an officer or employee of the Company. Mr. Schreiber, who was a director and member of the Compensation Policy Committee until November 5, 2003, was affiliated with the owner of the Hyatt Regency Maui Resort and Spa, which the Company purchased later in November, after Mr. Schreiber s resignation from the Board of Directors. Except for this transaction, which is described below, none of the members of the Compensation Policy Committee had any relationships with the Company or any of its subsidiaries requiring disclosure of interlocks or insider (employee) participation during 2003.

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Acquisition of the Hyatt Regency Maui from Blackstone Real Estate Advisors, L.P.

On November 13, 2003, the Company closed on the acquisition of the 806-room Hyatt Regency Maui Resort and Spa. The purchase price was $321 million, or $398,000 per room, and was paid in cash. The acquisition was funded with the proceeds of the Company s August 2003 and October 2003 equity offerings of 27.5 million and 23.5 million shares, respectively, resulting in net proceeds of approximately $501 million. These proceeds were contributed to Host Marriott, L.P. in return for 51 million operating partnership units.

The seller of the Hyatt Regency Maui is an affiliate of Blackstone Real Estate Advisors, L.P. John G. Schreiber, who, as noted above, was a director and member of the Compensation Policy Committee until November 5, 2003, is a co-founder and partner of Blackstone Real Estate Advisors, L.P., an affiliate of the Blackstone Group L.P.

In assessing the value of the property, the Company s Board of Directors used a discounted cash flow analysis, taking into account the hotel s past performance, estimated future performance and anticipated capital expenditure needs. Mr. Schreiber did not participate in any of the deliberations of the Company s Board of Directors regarding this acquisition.

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REPORT OF THE AUDIT COMMITTEE

To Our Stockholders:

The Audit Committee serves as the representative of the Board of Directors for general oversight of the Company s financial accounting and reporting, systems of internal control and audit processes. Management of the Company has responsibility for preparing the Company s financial statements, as well as for the Company s financial reporting process and internal controls. KPMG LLP, acting as independent auditors, is responsible for performing an independent audit of the Company s financial statements and for expressing an opinion on the conformity of the Company s financial statements with accounting principles generally accepted in the United States. The Audit Committee is responsible for monitoring and overseeing these processes. The Audit Committee members are not professional accountants or auditors, and the Committee s functions are not intended to duplicate or certify the activities of management and the independent auditors. In this context, the Audit Committee has:

- reviewed and discussed with management the audited financial statements for the year ended December 31, 2003, including discussions of the quality, not merely the acceptability, of the Company s accounting principles, the reasonableness of significant estimates and judgments and the clarity of disclosure in the Company s financial statements;

- discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, Communications with Audit Committees;

- received the written disclosures and the letter from the independent auditors, KPMG LLP, required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees; and

- discussed with KPMG LLP their independence from the Company and its management.

In reliance on the reviews, reports and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board of Directors has approved, that the audited financial statements be included in the Company s Annual Report for the year ended December 31, 2003. This report was filed with the Securities and Exchange Commission on March 22, 2004.

The Audit Committee operates under a written charter that is reviewed annually. Following the annual review, the Audit Committee recommended to the Board of Directors, and the Board of Directors adopted, an amended and restated Audit Committee Charter effective as of February 5, 2004. The charter was revised to reflect new listing rules adopted by the New York Stock Exchange and approved by the Securities and Exchange Commission in November 2003. The amendments to the charter strengthen the role of the Audit Committee in a number of respects and provide that:

- the Committee will be responsible for discussing with management the Company s major risk exposures, policies on risk management and the Company s compliance with these policies;

- the Committee will be responsible for resolution of any disagreements between management and the independent auditors regarding financial reporting;

if a Committee member serves on the audit committees of more than three public companies, the Board of Directors must determine that such service does not impair the ability of the member to effectively serve on the Company s audit committee; and

the amendments also clarify and expand the primary purpose of the internal audit function, which is to provide the Committee and management with ongoing assessments of the Company s risk management processes and system of internal control.

A copy of the amended and restated Audit Committee Charter is attached as Appendix B to this Proxy Statement. The above summary of amendments is qualified by reference to the complete charter, which should be read in its entirety.

The Audit Committee

Robert M. Baylis, Chairman

Terence C. Golden

John B. Morse, Jr.

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AUDITORS FEES

Principal Accountant Fees and Services

The Company was billed the following amounts for professional services by KPMG LLP (its independent auditors since May 22, 2002) for fiscal years 2002 and 2003:

	2003	2002
Audit fees (annual financial statements and review of quarterly financial statements) (1)	$ 1,325,500	$ 1,697,000
Audit related fees (2)	310,705	458,100
Tax fees		
All other fees (3)	571,401	
Total fees	$ 2,207,606	$ 2,155,100

(1) For fiscal year 2002, this includes $1,062,000 for 2002 audits, as well as $635,000 for 2001 and 2000 re-audits.
(2) Audit related fees consisted principally of fees for compliance audits, audits of financial statements of our employee benefit plan, and consultation on accounting issues.
(3) This includes fees for comfort letters and consents for debt and equity offerings as well as fees for acquisition/disposition due diligence.

The Audit Committee concluded that the provision of these other non-audit services is compatible with maintaining the independence of KPMG LLP.

Pre-Approval Policy for Services of Independent Auditors

All services performed by KPMG LLP were pre-approved by the Audit Committee in accordance with its pre-approval policy adopted in 2003. The policy describes the audit, audit-related, tax, and other services permitted to be performed by the independent auditors, subject to the Audit Committee s prior approval of the services and fees. On an annual basis, the Audit Committee will review and provide pre-approval for certain types of services that may be provided by the independent auditors without obtaining specific pre-approval from the Audit Committee. If a type of service to be provided has not received pre-approval during this annual process, it will require specific pre-approval by the Audit Committee. Any proposed services exceeding pre-approved cost levels or budgeted amounts will also require separate pre-approval by the committee.

The Audit Committee has designated the Senior Vice President and Corporate Controller to monitor the performance of all services provided by the independent auditors and to determine whether such services are in compliance with the pre-approval policy.

Policy for Hiring Members of the Audit Engagement Team

In 2003 the Audit Committee adopted a policy regarding the hiring of audit engagement team members to address the potential for impairment of auditor independence when partners and other members of the audit engagement team accept employment with the Company. Under the policy, the Company may not hire into a financial oversight role any individuals who were members of the Company s audit engagement team for the prior year. Individuals not subject to the one-year cooling off period include, among others, persons who provided less than 10 hours of audit services and individuals whose employment resulted from an emergency or other unusual situation. In all such cases the Audit Committee must determine that the relationship is in the best interests of stockholders. In addition, the Company may not appoint a director who is affiliated with or employed by a present or former auditors of the Company until three years after the affiliation or auditing relationship has ended.

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Other Company Accountants and Auditors

Currently, the Company has engaged Ernst & Young LLP for tax consultation and tax compliance services. Since 1996, the Company has engaged PriceWaterhouseCoopers LLP as its internal auditors. The purpose of the internal audit program is to provide the Audit Committee and Company management with ongoing assessments of the Company s risk management processes and to review the effectiveness and design of internal controls at our properties and the Company s corporate offices.

Change in Independent Auditors

On May 22, 2002, on the recommendation of the Audit Committee, our Board dismissed Arthur Andersen LLP as independent auditors and appointed KPMG LLP to serve as the Company s independent auditors.

Arthur Andersen LLP s reports on the Company s consolidated financial statements for each of the past two fiscal years did not contain an adverse opinion or disclaimer of opinion, nor were such reports qualified or modified as to uncertainty, audit scope or accounting principles. During the two fiscal years ended December 31, 2000 and 2001 through to May 22, 2002, the date Arthur Andersen LLP was dismissed, there were: (i) no disagreements with Arthur Andersen LLP on any matter of accounting principle or practice, financial statement disclosure, or auditing scope or procedure which, if not resolved to Arthur Andersen LLP s satisfaction, would have caused them to make reference to the subject matter in connection with their report on our consolidated financial statements for such years; and there were no reportable events as defined by SEC rules.

We provided Arthur Andersen LLP with a copy of the foregoing statements and, in a letter dated May 16, 2002, Arthur Andersen LLP stated its agreement with these statements. A copy of this letter is included in our report on Form 8-K, filed with the SEC on May 24, 2002. In 2002, Arthur Andersen LLP billed the Company approximately $962,000 for audit and audit related services, $316,000 for tax services and $319,000 for other fees pertaining to insurance matters for our World Trade Center and Financial Center properties.

During the two fiscal years ended December 31, 2000 and 2001 and through to May 22, 2002, the date Arthur Andersen LLP was dismissed, we did not consult with KPMG LLP with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, and we did not consult with KPMG LLP on any other matters or reportable events as defined by SEC rules.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Relationship between Marriott International, Inc. and Host Marriott

Prior to October 8, 1993, we and Marriott International, Inc. were operated as a single consolidated company. On October 8, 1993, in connection with the issuance of a special dividend, the consolidated company s businesses were split between Host Marriott Corporation and Marriott International. Thereafter, we retained the lodging real estate business and the airport/toll road concessions business, while Marriott International

took the lodging and service management businesses. On December 29, 1995, we distributed the airport/toll road concessions business to our stockholders.

Our ongoing relationships with Marriott International can be divided into three general categories:

- distribution agreement and the related agreements stemming from our separation into two companies;
- lodging management and franchise agreements relating to our properties; and
- acquisition financing and joint ventures.

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As of February 29, 2004, Richard E. Marriott, the Chairman of our Board, beneficially owned approximately 12.3% of the outstanding shares of common stock of Marriott International, and J.W. Marriott, Jr., who was one of our directors until his retirement from our Board in May 2002, beneficially owned approximately 13.3% of the outstanding shares of common stock of Marriott International. J.W. Marriott, Jr. also serves as Chairman of the Board and Chief Executive Officer of Marriott International, and Richard E. Marriott served as a director of Marriott International until May 2002. By reason of their ownership of such shares of common stock and their current and former positions as directors of Marriott International, they could be deemed in control of Marriott International within the meaning of the federal securities laws. Other members of the Marriott family might also be deemed control persons of Marriott International by reason of their ownership of shares of Marriott International and/or their relationship to other family members.

Distribution Agreement and Related Agreements

In connection with the separation of our business from that of Marriott International, we entered into a distribution agreement with Marriott International that allocated the assumption of liabilities and cross-indemnities so that each company shouldered the financial and legal responsibility for its respective businesses. This distribution agreement has been amended from time to time. In connection with our renegotiation of our management agreements with Marriott International, we amended the distribution agreement to terminate Marriott International s right to purchase up to 20% of each class of our outstanding voting shares upon certain changes of control.

We also entered into other agreements with Marriott International in connection with the business separation which govern aspects of our ongoing relationships. These other agreements include:

Tax Sharing Agreement. We entered into a tax sharing agreement with Marriott International that allocates the parties rights and obligations with respect to: (1) deficiencies and refunds of federal, state and other income or franchise taxes relating to our businesses for tax years prior to the separation; and (2) certain of our tax attributes after the separation. We have agreed to cooperate with each other and to share information in preparing tax returns and in dealing with other tax matters.

License Agreement. We entered into a license agreement with Marriott International that grants us a non-exclusive, royalty-free, worldwide license to use the Marriott mark for corporate or partnership name purposes and only in connection with our activities relating directly to our business of developing, purchasing, leasing, selling and owning hotel properties. The license is subject to certain conditions, most significantly that the majority of all hotels owned by us are managed by or operated pursuant to a franchise granted by Marriott International or its affiliates.

Administrative Services Agreements and Office Space Lease. We entered into agreements with Marriott International pursuant to which Marriott International provided certain continuing administrative services for us and our subsidiaries and by which we subleased office space from Marriott International. These services and the sublease were provided on market terms and conditions. In August 2002, we terminated the sublease and related administrative services agreements when we relocated to our current office space, although we continue to lease from Marriott International approximately 2,400 square feet of office space. In 2003, we paid Marriott International approximately $94,000 in rental fees for this office space.

Lodging Management and Franchise Agreements

Marriott International and certain of its subsidiaries have entered into management agreements with us and certain of our subsidiaries to manage Marriott- and Ritz-Carlton-branded full-service hotels owned or leased by us and our subsidiaries. Marriott International has also entered into franchise agreements with us and certain of our subsidiaries that allow us to use the Marriott brand, associated trademarks, reservation systems and other related items for seven Marriott hotels for which we have entered into operating agreements with hotel

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management companies other than Marriott International. In 2003, we and our subsidiaries paid $140 million in the aggregate in management and franchise fees to Marriott International.

In addition, certain of our subsidiaries are partners in a joint venture that owned 120 Courtyard by Marriott lodging properties as of December 31, 2003. These properties are operated by a subsidiary of Marriott International under long-term agreements. Our subsidiaries are co-general partners in the joint venture partnerships. In 2003, those partnerships paid fees of $28.6 million to Marriott International under those agreements. The partnerships also paid $15.7 million in rent to Marriott International in 2003 for leases of land upon which some of the partnerships hotels are located.

On July 25, 2002, we completed our negotiations with Marriott International to amend our management and other agreements for substantially all our Marriott and Ritz-Carlton hotels. These changes were effective as of December 29, 2001. The management contract changes include the following:

- expanded approval rights over hotel operating budgets, capital budgets, shared service programs, and changes to certain system-wide programs;
- a reduction in the amount of working capital requirements, and the expansion of an existing agreement that allows us to fund FF&E expenditures as incurred from one account that we control rather than depositing funds into individual escrow accounts at each hotel, which collectively increased cash available to us in July 2002 for general corporate purposes by approximately $125 million;
- a reduction in incentive management fees payable on Marriott-managed hotels;
- a gradual reduction in the amounts payable with respect to various centrally administered programs;
- additional territorial restrictions for certain hotels in nine markets; and
- clarification of existing provisions that limit our ability to sell a hotel or our Company to a competitor of Marriott International.

In addition to these modifications, we expanded the pool of hotels subject to an existing agreement that allows us to sell assets unencumbered by a Marriott management agreement and provided that any such sale be without the payment of any termination fees. The revised pool included 46 assets, 75% (measured by Earnings Before Interest Expense, Taxes, Depreciation and Amortization, or 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 can be sold unencumbered by the Marriott brand).

Acquisition Financing and Joint Venture

Marriott International has provided financing to us for a portion of the cost of acquiring properties to be operated or franchised by Marriott International. One of our subsidiaries remains indebted to Marriott International for acquisition financing from prior years. The amount of such indebtedness as of December 31, 2003 was $19.5 million, of which $10.7 million was prepaid in February 2004. In 2003, Marriott International did not provide us with any new acquisition financing, although it is possible that Marriott International may from time to time provide this type

of financing in the future.

Acquisition of the Hyatt Regency Maui from Blackstone Real Estate Advisors, L.P.

See Compensation Committee Interlocks and Insider Participation on page 23 for information on this transaction.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Federal securities laws require directors, executive officers, and owners of more than ten percent of our common stock to file reports with the SEC and with the New York Stock Exchange. These reports relate to the

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number of shares of our common stock that each of those persons beneficially owns, and any changes in their ownership. Based solely upon a review of copies of the forms furnished to the Company, we believe that all filing requirements were complied with during 2003 except as follows:

Due to an oversight, Richard E. Marriott, our Chairman of the Board, filed a late Form 4 report relating to the distribution of shares from the JWM Sr. Charitable Trust on December 9, 2003. Mr. Marriott is deemed to be a beneficial owner of these shares.

Due to an oversight, Judith A. McHale, a director, filed a late Form 4 report for stock units received from the Non-Employee Directors Deferred Stock Compensation Plan for the month of February 2003.

Due to an oversight, John A. Carnella, Treasurer and Senior Vice President, filed a late Form 4 report for transferring shares to a trust on March 3, 2003.

An amended Form 4 report was filed for each of our executive officers in February 2003 to report the inadvertent omission of forfeitures of restricted stock granted under the Company s long-term incentive stock awards, and which did not vest for failure to satisfy performance criteria. The names of these executive officers are as follows: Richard E. Marriott; Christopher J. Nassetta; W. Edward Walter; James F. Risoleo; Richard A. Burton; John A. Carnella; and Elizabeth E. Abdoo.

STOCKHOLDER PROPOSALS FOR OUR NEXT ANNUAL MEETING

If you wish to submit a proposal to be included in the proxy statement for our 2005 annual meeting, we must receive it no later than December 15, 2004. The proposal must comply with the SEC s proxy rules and should be sent to the Corporate Secretary at Host Marriott Corporation, 6903 Rockledge Drive, Suite 1500, Bethesda, MD 20817.

Additionally, the Company s Bylaws include requirements which must be met if a stockholder would like to nominate a candidate for director or bring other business before the stockholders at the 2005 annual meeting, whether or not the proposal or nomination is requested to be included in the proxy statement. Those requirements include written notice to the Corporate Secretary (at the above address), no earlier than October 16, and not later than December 15, 2004, and which notice must contain all of the information required under our Bylaws, a copy of which is available, at no charge, from the Corporate Secretary.

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OTHER MATTERS

Our Board is not aware of any other business that will be presented at the annual meeting. If any other business is properly brought before the annual meeting, proxies received will be voted in accordance with the recommendation of our Board. Discretionary authority with respect to such other matters is granted by execution of the enclosed proxy.

It is important that the proxies be returned promptly and that your shares be represented. You are urged to sign, date and promptly return the enclosed proxy card in the enclosed return envelope.

A copy of our 2003 Annual Report has been mailed concurrently with this proxy statement to all stockholders entitled to notice of and to vote at the annual meeting. The Annual Report is not incorporated into this proxy statement and is not considered proxy solicitation material.

We have filed an Annual Report on Form 10-K for the year ended December 31, 2003 with the SEC. You may obtain, free of charge, a copy of the Form 10-K (excluding exhibits) by writing to the Corporate Secretary, Host Marriott Corporation, 6903 Rockledge Drive, Suite 1500, Bethesda, Maryland 20817-1109. We will charge an amount equal to the reproduction cost if the exhibits are requested. Our Annual Report on Form 10-K may also be accessed electronically on our website (http://www.hostmarriott.com).

BY ORDER OF THE BOARD OF DIRECTORS,

/s/ ELIZABETH A. ABDOO

Elizabeth A. Abdoo

Corporate Secretary

Dated: April 15, 2004

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Appendix A

TEXT OF PROPOSED AMENDMENT TO ARTICLES OF INCORPORATION

(marked to show changes from the existing Articles of Incorporation)

ARTICLE VII

Board of Directors

Section 7(a) Number of Directors~~; Classification~~. Effective upon the filing of these Articles of Amendment and Restatement with the State Department of Assessments and Taxation of Maryland, the number of directors shall be increased from two (2) to eight (8). Except as otherwise fixed by or pursuant to the provisions of Article VI hereof relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specified circumstances, the number of directors may thereafter be increased or decreased pursuant to the Bylaws of the Corporation; provided such number established in accordance with the Bylaws is not decreased to less than three (3) nor increased to more than thirteen (13). ~~The directors, other than those who may be elected by the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, shall be divided into three classes as nearly equal in number as possible, with the term of office of one class expiring each year. One class of directors, consisting initially of three members, shall hold office initially for a term expiring at the annual meeting of stockholders in 1999 (Class I); another class, consisting initially of three members, shall hold office initially for a term expiring at the annual meeting of stockholders in 2000 (Class II); and the third class, consisting initially of two members, shall hold office initially for a term expiring at the annual meeting of shareholders in 2001 (Class III). In the event of any increase or decrease in the number of directors, other than resulting from the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors pursuant to the provisions of Article VI hereof, the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the Board of Directors among the three classes of directors so as to maintain such classes as nearly equal in number as possible. The names and classes of the directors upon the filing of these Articles of Amendment and Restatement with the State Department of Assessments and Taxation of Maryland who will serve until their successors are elected and qualify are:~~

~~Class of Director~~	~~Name~~
~~Class I:~~	~~J. W. Marriott, Jr.~~
	~~Harry L. Vincent, Jr.~~
	~~John G. Schreiber~~
~~Class II:~~	~~Robert M. Baylis~~
	~~Ann Dore McLaughlin~~
	~~Terence C. Golden~~
~~Class III:~~	~~R. Theodore Ammon~~
	~~Richard E. Marriott~~

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Appendix B

HOST MARRIOTT CORPORATION AUDIT COMMITTEE CHARTER

I. Membership

The Audit Committee (the Committee) of the Board of Directors (the Board) of Host Marriott Corporation (the Company) shall consist of at least three members of the Board, as determined by the Board. Each Committee member shall satisfy the qualifications, financial literacy, financial expertise and independence requirements of The New York Stock Exchange and any other applicable law or regulation, as determined by the Board in its business judgment. In determining independence, the Board shall consider, in accordance with applicable rules and regulations, the employment, business, family and other relationships of the members. At least one member of the Committee shall be an audit committee financial expert within the definition adopted by the Securities and Exchange Commission (the SEC), or the Company shall disclose in its periodic reports required pursuant to the Securities Exchange Act of 1934 the reasons why at least one member of the Committee is not an audit committee financial expert. If a Committee member simultaneously serves on the audit committees of more than three (3) public companies (including the Company), the Board must determine that such simultaneous service does not impair the ability of the member to effectively serve on the Committee and disclose such determination in the Company s annual proxy statement.

The members of the Committee, including the Chair of the Committee, shall be appointed annually by the Board on the recommendation of the Nominating and Corporate Governance Committee. Committee members may be removed from the Committee, with or without cause, by the Board. Any member of the Committee may resign at any time by giving written notice of his or her resignation to the Chair of the Committee.

II. Purpose

The purpose of the Committee is (1) to assist the Board with its oversight responsibilities regarding the Company s accounting and system of internal controls, the quality and integrity of the Company s financial reports, the independence and qualifications of the Company s outside auditor, the performance of the Company s outside auditor and internal audit function, and the Company s compliance with legal and regulatory requirements, and (2) to prepare the report required by the rules of the SEC to be included in the Company s annual proxy statement. The Committee should endeavor to maintain free and open means of communication between the members of the Committee, the other members of the Board, the outside auditor, the internal auditor and the management of the Company in furtherance of its purpose.

In the exercise of its oversight, it is not the duty of the Committee to plan or conduct audits or to determine that the Company s financial statements fairly present the Company s financial position and results of operation and are in accordance with generally accepted accounting principles. Instead, the planning and conduct of the audit is the responsibility of the independent auditor and the financial statements are the responsibility of management. Nothing contained in this Charter is intended to alter or impair the operation of the business judgment rule as interpreted by the courts under the Maryland General Corporation Law. Further, nothing contained in this Charter is intended to alter or impair the right of the members of the Committee under the Maryland General Corporation Law to rely, in discharging their oversight role, on the records of the Company and on other information presented to the Committee, the Board or the Company by its officers or employees or by outside experts such as the outside auditor.

III. Duties and Responsibilities

Outside Auditor

1. The Committee shall be directly responsible for the appointment, compensation, retention and oversight of the work of the outside auditor in connection with the audit of the Company s annual financial statements and

related services (including resolution of any disagreements between Company management and the outside auditor regarding financial reporting). In this regard, the Committee shall have the sole authority to appoint and retain the outside auditor and shall periodically, but at least annually, evaluate the performance, qualifications and independence of the outside auditor, including the review and evaluation of the lead partner of the outside auditor, taking into account the opinions of management and the internal auditors (or other persons responsible for the internal audit function), and, if necessary, replace the outside auditor. As appropriate, the Committee shall submit the appointment of the outside auditor for stockholder approval at any meeting of stockholders. The outside auditor shall report directly to the Committee.

2. The Committee shall approve in advance all audit engagement fees and terms of engagement and shall approve in advance all audit and non-audit services to be provided by the outside auditor. The Company shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the outside auditor. By approving the audit engagement, an audit service within the scope of the engagement shall be deemed to have been approved in advance. The Committee shall establish policies and procedures for the engagement of the outside auditor to perform non-audit services (including pre-approval of such services). The Committee may delegate authority to one or more members to grant pre-approvals of audit and permitted non-audit services, provided that decisions to grant pre-approvals shall be presented to the full Committee at its next scheduled meeting.

3. The Committee shall receive and review, at least annually, a written statement from the outside auditor delineating all relationships between the outside auditor and the Company, consistent with Independence Standards Board Standard 1. The Committee shall actively engage in a dialogue with the outside auditor with respect to any disclosed relationships or services that, in the view of the Committee, may affect the objectivity and independence of the outside auditor. If the Committee determines that further inquiry is advisable, the Committee shall take any appropriate action in response to the outside auditor s independence.

4. The Committee shall receive and review, at least annually, a written report from the outside auditor describing the outside auditor s internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the outside auditor, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the outside auditor, and any steps taken to deal with any such issues.

5. The Committee shall confirm with the outside auditor that the outside auditor is in compliance with the partner rotation requirements established by the SEC. The Committee shall further consider whether the Company should adopt a rotation of the annual audit among auditing firms.

Annual Audit

6. The Committee shall meet with the outside auditor, the internal auditor and management in connection with each annual audit to discuss the scope of the audit, the procedures to be followed and the staffing of the audit.

7. The Committee shall review[1] and discuss the audited financial statements with the management of the Company and the outside auditor, including (i) major issues regarding accounting principles and financial

[1] Auditing literature, particularly Statement of Accounting Standards No. 71, defines the term review to include a particular set of required procedures to be undertaken by independent accountants. The members of the Audit Committee are not independent accountants, and the

term review as used in this Audit Committee Charter is not intended to have this meaning. Consistent with footnote 47 of the SEC Release No. 34-42266 (December 22, 1999), any use in this Audit Committee Charter of the term review should not be interpreted to suggest that the Committee members can or should follow the procedures required of auditors performing reviews of interim financial statements.

statement presentation, including any significant changes in the Company s selection or application of accounting principles, and major issues as to the adequacy of the Company s internal controls and any special audit steps adopted in light of material control deficiencies; (ii) analyses prepared by management and/or the independent auditor setting forth significant reporting issues and judgments made in connection with the preparation of the Company s financial statements, including analyses of the effects of alternative GAAP methods on the Company s financial statements; (iii) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the Company s financial statements; and (iv) the Company s disclosures under Management s Discussion and Analysis of Financial Conditions and Results of Operations.

8. The Committee shall discuss with the outside auditor the matters required to be discussed by Statement on Auditing Standards No. 61 as then in effect including, among others, (i) the methods used to account for any significant unusual transactions; (ii) the effect of significant accounting policies in any controversial or emerging areas for which there is a lack of authoritative guidance or a consensus; (iii) the process used by management in formulating particularly sensitive accounting estimates and the basis for the auditor s conclusions regarding the reasonableness of those estimates; and (iv) any disagreements with management over the application of accounting principles, the basis for management s accounting estimates or the disclosures in the financial statements.

9. The Committee shall, based on the review and discussion in paragraphs 7 and 8 above, and based on the disclosures received from the outside auditor regarding its independence and discussions with the auditor regarding such independence in paragraph 3 above, conclude whether the audited financial statements should be included in the Company s Annual Report on Form 10-K for the fiscal year subject to the audit.

10. The Committee shall review and discuss with the Company s CEO and CFO the basis for the certifications required by the rules and regulations of the SEC to be provided in the Company s Form 10-K filing.

Quarterly Review

11. The Committee shall review and discuss the quarterly financial statements with the management of the Company, including the Company s disclosures under Management s Discussion and Analysis of Financial Condition and Results of Operations.

12. The outside auditor is required to review the quarterly financial statements to be included in any Form 10-Q of the Company using professional standards and procedures for conducting such reviews, as established by generally accepted auditing standards as modified or supplemented by the SEC, prior to the filing of the Form 10-Q. The Committee shall discuss with management and the outside auditor in person, at a meeting, or by conference telephone call, the results of the quarterly review, including such matters as significant adjustments, management judgments, accounting estimates, significant new accounting policies and disagreements with management.

13. The Committee shall review and discuss with the Company s CEO and CFO the basis for the certifications required by the rules and regulations of the SEC to be provided in the Company s Form 10-Q filings.

14. The Committee shall review and discuss with management corporate polices and procedures as to earnings press releases and financial information and earnings guidance provided to analysts and rating agencies, including the use of non-GAAP financial measures. The primary purpose of these discussions is to provide guidelines for the types of information to be disclosed and the type of presentation to be made. The Committee may, but is not required, to discuss in advance of publication each earnings release or each instance in which the Company provides earnings guidance. The Chair (or in his or her absence, a member designated by the Chair) may represent the entire Committee for purposes of

this discussion.

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Internal Controls

15. The Committee shall meet as often as deemed necessary or appropriate, but not less than annually, to discuss with the outside auditor and the senior internal auditor the adequacy and effectiveness of the accounting and financial controls of the Company and the Company s disclosure controls and procedures, and consider any recommendations for improvement of any such control procedures.

16. The Committee shall discuss with the outside auditor and with management any letter of recommendation provided by the outside auditor and any other significant matters brought to the attention of the Committee by the outside auditor as a result of its annual audit. The Committee should allow management adequate time to consider any such matters raised by the outside auditor. The Committee shall also review with the outside auditor any audit problems or difficulties encountered by the auditor in the course of its audit work and management s response to such problems or difficulties, including any restrictions on the scope of activities or access to required information. Among the items that the Committee may consider reviewing with the outside auditor are: (i) any accounting adjustments that were noted or proposed by the auditor but were passed (as immaterial or otherwise); (ii) any communications between the audit team and the independent auditor s national office respecting auditing or accounting issues presented by the engagement; and (iii) any management or internal control letter issued, or proposed to be issued, by the independent auditor to the Company. The Committee shall obtain from the outside auditor assurances that Section 10A(b) of the Securities Exchange Act has not been implicated

Internal Audit

17. The Committee shall review the appointment and replacement of the internal auditor. The Committee shall discuss at least annually with the senior internal auditor the activities, budget and organizational structure of the Company s internal audit function and the qualifications of the primary personnel performing such function. The primary purpose of the internal audit function is to provide the Committee and management with ongoing assessments of the Company s risk management processes and system of internal control.

18. Management shall furnish to the Committee a summary of audit reports prepared by the senior internal auditor of the Company.

19. The Committee shall, at its discretion, meet with the senior internal auditor to discuss any reports prepared by him or her or any other matters brought to the attention of the Committee by the senior internal auditor manager.

20. The internal auditor shall be granted unfettered access to the Committee.

Other Responsibilities

21. The Committee shall conduct an annual performance evaluation and shall similarly review and reassess the Committee s Charter at least annually. The Committee shall submit any recommended changes to the Board for its consideration.

22. The Committee shall provide the report, as required by Item 306 of Regulation S-K of the SEC, for inclusion in the Company s Annual Proxy Statement.

23. The Committee, through its Chair, shall report regularly, as deemed necessary or desirable by the Committee, but at least annually, to the full Board regarding the Committee s actions, recommendations and conclusions, including its conclusions with respect to the outside auditor s qualifications, performance and independence. It shall review with the full Board any issues that arise with respect to the quality or integrity of the Company s financial statements, the Company s compliance with legal or regulatory requirements, the performance and independence of the Company s independent auditors, or the performance of the internal audit function.

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24. The Committee shall establish clear hiring policies for employees and partners, and former employees and partners, of the Company s outside auditor.

25. The Committee shall establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal controls, or auditing matters and for the confidential, anonymous submission of concerns by employees regarding accounting and auditing matters.

26. The Committee shall discuss periodically, but at least annually, with management the Company s major financial risk exposures, management s policies on financial risk management, and the Company s compliance with these policies, including steps management has taken to monitor and control such exposures.

IV. Outside Advisors

The Committee may, in its discretion, use the services of the Company s regular corporate legal counsel with respect to legal matters or, at its discretion, retain independent legal counsel if it determines that such counsel is necessary or appropriate under the circumstances. The Committee may also, in its discretion, retain the services of any other experts, accountants, and other advisors that it deems necessary or appropriate to assist the Committee in the performance of its functions. The Company shall provide for appropriate funding, as determined by the Committee, for payment of compensation to any advisor retained by the Committee and for any administrative expenses of the Committee.

V. Meetings and Procedures

1. The members of the Committee shall appoint a Chair of the Committee by majority vote. The Chair (or in his or her absence, a member designated by the Chair) shall preside at all meetings of the Committee. The Committee may also create subcommittees, as it deems appropriate, consisting of one or more members who shall report on their activities at the next meeting of the Committee; provided, however, that the responsibilities and duties set forth in this Charter are the sole responsibilities of the Committee and may not be allocated to a different committee.

2. The Committee shall have the authority to establish its own rules and procedures consistent with the bylaws of the Company for notice and conduct of its meetings, should the Committee, in its discretion, deem it desirable to do so.

3. The Committee shall meet as often as may be deemed necessary or appropriate, but not less than four (4) times in each fiscal year, and more frequently as the Committee in its discretion deems desirable.

4. The Committee may, in its discretion, include in its meetings members of the Company s financial management, representatives of the outside auditor, the senior internal auditor and other financial personnel employed or retained by the Company.

5. The Committee shall, periodically, meet with the outside auditor and the senior internal auditor in separate executive sessions to discuss any matters that the Committee believes should be addressed privately, without management s presence. The Committee shall likewise meet privately with management, as it deems appropriate.

Committee Members

Robert M. Baylis (Chair)

Terence C. Golden

John B. Morse, Jr.

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