

Capital Management Associates, Inc.

Charles J. Dushek, President

Investment Management.....Financial Planning.....Estate Planning.....Tax Strategy

801 Warrenville Road, Suite 195, Lisle IL 60532 Internet: www.cmaadvisors.com

Phone: (630) 963-4235

Fax: (630) 963-4236

Email: chuckdushek@cmaadvisors.com

CMA Update: Company and Industry News for Week Ending 2/15/08

Week of 2/15/08

While there was plenty of economic and company specific news this week, the highest profile news continued to be speculation surrounding YHOO. While Microsoft is expected to eventually purchase YHOO, other possibilities include a search partnership with Google, a partnership with Time Warner's AOL division, a partnership with NBC Universal or News Corp and/or an acquisition by Apple.

Of these other combinations, the News Corp deal is the most likely. A possible deal would involve spinning News Corp's Fox Interactive (primarily the website My Space) into Yahoo along with cash from NWS and \$15 billion from a private equity fund. This would value Yahoo at \$50 billion, a 12% premium to Microsoft's current bid price and would give NWS a 20% interest in this joint company. However, given that News Corp is still integrating Dow Jones, a deal with YHOO is possible, but unlikely. In other YHOO News, Yahoo's head of its Advanced Technology Division has defected to Google. Unless a deal is signed fairly quickly, more of these defections are likely.

- Blue Nile down 20% Wednesday on cautious guidance on forward outlook and several down grades. In contrast, Tiffany (TIF) has recently given a forward revenue growth outlook for 2008 of 10% growth....mainly on anticipated strong international sales.
- Hollywood writers vote to lift their current strike...Good for Disney's (DIS) ABC network .
- Regulators raided Intel's offices and computer retailers in Europe in order to determine if Intel has been using predatory pricing and using "tying" agreements to thwart competition from AMD and others. The suit against Intel was originally filed last July. In addition, Ingram Micro, a semiconductor competitor to Intel and AMD, recently announced that its sales in Europe and North America were weakening. This is likely just a small negative for Intel (INTC) and may not affect revenues or earnings growth much.

ASHFORD HOSPITALITY TRUST (AHT)...Ashford acquires \$45 million in mezzanine loans with a majority of these loans bearing a 12.5% yield to maturity. AHT's dividend yield is currently at 12.8% and is a holding in CMA portfolios. Ashford Hospitality Trust, a real estate investment trust, owns directly or through joint ventures 119 hotels with a concentration in the **Hilton, Marriott, Starwood and Hyatt** branded hotels in the U.S. Marriott just reported 4th quarter and full year results below and is likely a good indicator for general business conditions throughout the upscale and luxury hotel REITs we hold: SHO, HPT, BEE, HOT, LHO.

Marriott (MAR)

Marriott International Reports Solid Fourth Quarter Results

Full Year Highlights:

- Full year management and franchise fee revenue totaled a record breaking \$1.4 billion in 2007, up 17 percent over the prior year;
- Incentive management fees reached an all-time record \$369 million during the year, 31 percent higher than 2006 levels. Over 67 percent of company-operated hotels earned incentive management fees in 2007 compared to 62 percent in 2006. Hotels outside the United States contributed 36 percent of incentive management fees in 2007;
- Worldwide systemwide comparable revenue per available room (REVPAR) rose 7.6 percent (6.5 percent using constant dollars). Average Daily Rates increased 7.5 percent (6.4 percent using constant dollars). Occupancy remained strong at 73 percent;
- In North America, company-operated comparable REVPAR rose 6.2 percent during 2007 and house profit margins increased 160 basis points to near record levels;
- Over 31,000 rooms opened in 2007, including nearly 7,800 rooms outside the United States. Eighteen percent of total room openings were conversions from competitor brands;
- The company's worldwide pipeline of hotels under construction, awaiting conversion or approved for development increased to a record 125,000 rooms compared to 100,000 rooms a year ago and 115,000 rooms in the third quarter of 2007;
- Marriott repurchased 41 million shares of the company's common stock in 2007 for nearly \$1.8 billion. The company repurchased over \$5 billion of the company's common stock over the past three years.

Fourth Quarter Highlights:

- Fourth quarter 2007 earnings per share from continuing operations totaled \$0.62, up 19 percent from the fourth quarter of 2006;
- Fourth quarter management and franchise fee revenue rose 19 percent over the prior year. Incentive management fees increased 31 percent;
- Worldwide company-operated comparable REVPAR rose 9.2 percent (7.0 percent using constant dollars) and worldwide company-operated house profit margins increased 130 basis points during the quarter;
- In North America, company-operated comparable REVPAR increased 6.2 percent and house profit margins rose 140 basis points;
- Outside North America, company-operated comparable REVPAR increased 15.5 percent (8.5 percent using constant dollars) with double-digit growth in Southeast Asia, Latin America, Europe and the Middle East;
- Approximately 10,800 rooms opened during the fourth quarter, including over 2,500 rooms converted from competitor brands. Twenty-five percent of rooms opened in the quarter are outside the United States;
- Marriott repurchased 12 million shares of the company's common stock for \$462 million during the fourth quarter.

J.W. Marriott, Jr., Marriott International's chairman and chief executive officer, said, "2007 was another terrific year. Significant unit growth, REVPAR gains, and property-level margin improvement combined to deliver record management and franchise fee earnings. We recently celebrated our 3,000th hotel in November, the JW Marriott Beijing, and we

introduced two new brands, Edition and Nickelodeon, which position us well for the travelers of the future. With our owners and franchisees, we opened 31,000 rooms during the year and, despite a tight credit market, drove our pipeline of hotels under construction, awaiting conversion or approved for development to a record 125,000 rooms.

“Around the world, customer satisfaction levels rose as our guests enjoyed a record number of newly renovated hotels. We introduced either new lobby or guest room enhancements – and sometimes both – in six of our brands. Our Marriott and Renaissance hotels are rolling out next-generation lobbies throughout our system. Our limited-service brands are also changing, with guest room and lobby enhancements designed to drive guest satisfaction and owner profitability.

“Looking ahead, we’ve never been better positioned to tackle short-term economic challenges nor more optimistic about our long-term prospects. While we’re carefully watching economic trends, our expected unit growth for 2008 is strong, customers love our brands, and owners and franchisees prefer our portfolio more than ever. Almost 40 percent of our full-service hotels, including Ritz-Carlton, are located outside the U.S. and 60 percent of the full-service hotels in our pipeline are outside the U.S.

“Our strategy of managing and franchising hotels under solid, long-term agreements (with REITs) is proven. Over the years, we’ve shown that this business model results in profits that are less volatile than owning properties. And our brands’ strength continues to accelerate unit growth without significant capital investment by us. Marriott’s pre-tax return on invested capital rose to a record 25 percent in 2007.”

In the fourth quarter, Marriott added 70 new properties (10,787 rooms) to its worldwide lodging portfolio, including 12 new hotels (2,697 rooms) outside the United States. Worldwide, 13 properties (2,832 rooms) exited the system during the quarter. At quarter-end, the company’s lodging group encompassed about 3,000 properties and timeshare resorts for a total of over 535,000 rooms.

CISCO (CSCO)...There are rumors that the new CFO at Cisco is about ready to initiate large layoffs. IT networking equipment sales are sluggish, likely due to pull back in new orders from financial services firms: Banks, Brokers and Credit Card companies due to sub prime loan losses. CSCO is a tiny holding in CMA accounts.

HOSPITALITY PROPERTIES TRUST (HPT)...HPT reported 4Q 2007 FFO of \$1.15, an increase of 15% and ahead of the \$1.11 estimate. This follows along with Marriott's blowout results for the 4th quarter 2007. CMA holds HPT, which has a dividend yield of 8.9%.

PANERA (PNRA)...Company reported 4Q EPS of \$0.59, \$0.03 less than last year, but \$0.04 ahead of estimates. Revenue was about 1% below estimates, but still increased 29%. More importantly, the company said that its recent price hike of 2.5% resulted in no degradation in sales. Despite the price hike, the company narrowed its 2008 guidance to 12-18% growth due to higher wheat costs and the slower economy. Current 2008 guidance is at \$2.00-\$2.11 per share vs the previous estimate of 12-18% growth. The first and second quarter EPS guidance was also lowered from the *** and *** to the \$0.36-\$0.42 range and the \$0.37-\$0.43 range. We like PNRA and hold it in CMA accounts because their basic self-service business model, heavy takeout sales, long business hours 6AM till Midnight, and free WIFI attract a lot of consumers seeking quality, organic style food, coffees & teas, at low prices compared to full service family restaurants. Price conscious consumers seek out Panera style dining...no 15% tipping required.

Recent Portfolio Changes

This past two weeks, we have added more investment positions in high income bonds and preferreds to increase portfolio yields. The average yield across all our fixed income securities (Preferreds, Bonds and REITs) is 9%. Recently added income securities names are: Royal Caribbean Cruise Lines (CWZ) 8.875%, Mid America Apartments (MAA.H) 8.3%, Post Properties (PPS.B) 8.47%, JCPenney (PFH) 7.625%, Sprint (JZK) 8.1%, Kinder Morgan Energy (CVB) 7.75%, AON Insurance (KVF) 7.8%, Harris Bank (HBC) 7.43%, El Paso Gas (PJJ) 7.97%, Valero Energy (PJZ) 7.25%, Hertz Corp (DKR) 8.1% and SouthWest Gas (SWX.B) 7.7%. A number of these securities are at discounts to their par values giving potential upside to prices as the FED continues to cut rates and credit market turmoil diminishes.

We trimmed back some of the growth stock holdings that could be adversely affected by the slowing US economy....companies having high US business concentration, while holding growth companies with heavier international business.

Prepared by Chuck Dushek and Greg Nickum CFA