

LASALLE HOTEL PROPERTIES

Form 10-Q

April 18, 2007

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2007

OR

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

For the transition period from _____ to _____.

Commission file number 1-14045

LASALLE HOTEL PROPERTIES

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of

incorporation or organization)

3 Bethesda Metro Center, Suite 1200, Bethesda, Maryland
(Address of principal executive offices)

36-4219376
(IRS Employer

Identification No.)

20814
(Zip Code)

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301/941-1500

(Registrant's telephone number, including area code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common and preferred shares as of the latest practicable date.

Class	Outstanding at April 18, 2007
Common Shares of Beneficial Interest (\$0.01 par value)	40,104,127
8 ³ / ₈ % Series B Cumulative Redeemable Preferred Shares (\$0.01 par value)	1,100,000
7 ¹ / ₂ % Series D Cumulative Redeemable Preferred Shares (\$0.01 par value)	3,170,000
8 % Series E Cumulative Redeemable Preferred Shares (\$0.01 par value)	3,500,000
7 ¹ / ₄ % Series G Cumulative Redeemable Preferred Shares (\$0.01 par value)	4,000,000

Table of Contents

TABLE OF CONTENTS

	Page
PART I	
<u>Financial Information</u>	
Item 1. <u>Financial Statements</u>	3
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	36
Item 4. <u>Controls and Procedures</u>	37
PART II	
<u>Other Information</u>	
Item 1. <u>Legal Proceedings</u>	37
Item 1A. <u>Risk Factors</u>	37
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
Item 3. <u>Defaults Upon Senior Securities</u>	37
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	37
Item 5. <u>Other Information</u>	37
Item 6. <u>Exhibits</u>	38
<u>Signatures</u>	39

Table of Contents**PART I. Financial Information****Item 1. Financial Statements****LASALLE HOTEL PROPERTIES****Consolidated Balance Sheets***(Dollars in thousands, except per share data)*

	March 31, 2007 (unaudited)	December 31, 2006
Assets:		
Investment in hotel properties, net	\$ 1,892,548	\$ 1,932,141
Property under development	67,946	60,549
Cash and cash equivalents	9,855	63,026
Restricted cash reserves (Note 5)	13,558	18,389
Rent receivable	2,629	2,884
Hotel receivables (net of allowance for doubtful accounts of approximately \$663 and \$713, respectively)	26,553	24,030
Deferred financing costs, net	3,327	3,733
Deferred tax asset	20,498	16,700
Prepaid expenses and other assets	43,841	29,999
Assets sold, net	44	
Total assets	\$ 2,080,799	\$ 2,151,451
Liabilities and Shareholders' Equity:		
Borrowings under credit facilities (Note 4)	\$ 26,790	\$
Bonds payable (Note 4)	42,500	42,500
Mortgage loans (including unamortized premium of \$888 and \$978, respectively) (Note 4)	766,339	767,477
Accounts payable and accrued expenses	80,575	81,488
Advance deposits	9,773	6,986
Accrued interest	4,011	3,935
Distributions payable	11,253	12,885
Total liabilities	941,241	915,271
Minority interest of common units in Operating Partnership (Notes 1 and 6)	3,718	3,686
Minority interest of preferred units in Operating Partnership (Notes 1 and 6)	87,662	87,428
Commitments and contingencies (Note 5)		
Shareholders' Equity:		
Preferred shares, \$.01 par value, (liquidation preference \$294,250 and \$394,048 at March 31, 2007 and December 31, 2006, respectively), 20,000,000 shares authorized, 11,770,000 and 15,761,900 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively (Note 6)	118	158
Common shares of beneficial interest, \$.01 par value, 100,000,000 shares authorized, 40,108,169 shares issued at March 31, 2007 and December 31, 2006 and 40,104,127 and 40,108,169 outstanding at March 31, 2007 and December 31, 2006, respectively (Note 6)	401	401
Additional paid-in capital, net of offering costs of \$42,678 and \$46,546 at March 31, 2007 and December 31, 2006, respectively	1,123,224	1,219,351
Distributions in excess of retained earnings	(75,565)	(74,844)

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Total shareholders' equity	1,048,178	1,145,066
Total liabilities and shareholders' equity	\$ 2,080,799	\$ 2,151,451

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**LASALLE HOTEL PROPERTIES****Consolidated Statements of Operations***(Dollars in thousands, except per share data)**(unaudited)*

	For the three months ended	
	March 31, 2007	2006
Revenues:		
Hotel operating revenues:		
Room revenue	\$ 80,715	\$ 65,463
Food and beverage revenue	35,154	30,618
Other operating department revenue	9,338	7,395
Total hotel operating revenues	125,207	103,476
Participating lease revenue	5,517	5,227
Other income	1,198	26
Total revenues	131,922	108,729
Expenses:		
Hotel operating expenses:		
Room	20,841	16,767
Food and beverage	26,149	22,405
Other direct	4,827	4,482
Other indirect	38,461	32,331
Total hotel operating expenses	90,278	75,985
Depreciation and amortization	22,140	16,660
Real estate taxes, personal property taxes and insurance	8,146	5,219
Ground rent (Note 5)	1,441	1,394
General and administrative	3,910	3,174
Other expenses	575	262
Total operating expenses	126,490	102,694
Operating income	5,432	6,035
Interest income	824	677
Interest expense	(11,443)	(9,014)
Loss before income tax benefit, minority interest, equity in earnings of joint venture and discontinued operations	(5,187)	(2,302)
Income tax benefit (Note 10)	3,381	3,660
Minority interest of common units in Operating Partnership	(74)	(80)
Minority interest of preferred units in Operating Partnership	(1,526)	(1,064)
Equity in earnings of joint venture (Note 2)		38,411
(Loss) income from continuing operations	(3,406)	38,625

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Discontinued operations:

Income from operations of properties disposed of, including gain on disposal of assets of \$30,262	30,325	43
Minority interest, net of tax	(1)	
Income tax benefit	73	203
 Net income from discontinued operations	 30,397	 246
 Net income	 26,991	 38,871
Distributions to preferred shareholders	(7,471)	(5,611)
Issuance costs of redeemed preferred shares	(3,868)	
 Net income applicable to common shareholders	 \$ 15,652	 \$ 33,260

Table of Contents**LASALLE HOTEL PROPERTIES****Consolidated Statements of Operations - Continued***(Dollars in thousands, except per share data)**(unaudited)*

	For the three months ended March 31,	
	2007	2006
Earnings per Common Share - Basic:		
(Loss) income applicable to common shareholders before discontinued operations and after dividends paid on unvested restricted shares	\$ (0.37)	\$ 0.86
Discontinued operations	0.76	0.01
Net income applicable to common shareholders after dividends paid on unvested restricted shares	\$ 0.39	\$ 0.87
Earnings per Common Share - Diluted:		
(Loss) income applicable to common shareholders before discontinued operations	\$ (0.37)	\$ 0.86
Discontinued operations	0.76	0.01
Net income applicable to common shareholders	\$ 0.39	\$ 0.87
Weighted average number of common shares outstanding:		
Basic	39,843,954	38,052,908
Diluted	40,112,872	38,431,801

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**LASALLE HOTEL PROPERTIES****Consolidated Statements of Cash Flows***(Dollars in thousands, except per share data)**(unaudited)*

	For the three months ended March 31,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 26,991	\$ 38,871
Adjustments to reconcile net income to net cash flow provided by operating activities:		
Depreciation and amortization	22,191	17,159
Amortization of deferred financing costs and mortgage premium	477	580
Minority interest in Operating Partnership	1,600	1,144
Gain on sale of property disposed of	(30,262)	
Income tax benefit	(3,798)	(3,398)
Deferred compensation	885	381
Allowance for doubtful accounts	(50)	(513)
Equity in earnings of unconsolidated entities		(38,411)
Changes in assets and liabilities:		
Rent receivable	255	(162)
Hotel receivables	(3,247)	(3,450)
Prepaid expenses and other assets	(14,193)	(15,930)
Accounts payable and accrued expenses	1,335	3,562
Advance deposits	2,906	2,612
Accrued interest	76	273
Net cash flow provided by operating activities	5,166	2,718
Cash flows from investing activities:		
Improvements and additions to hotel properties	(28,996)	(8,397)
Acquisition of hotel properties		(360,216)
Distributions from joint venture		37,059
Purchase of office furniture and equipment	(7)	(7)
Funding of restricted cash reserves	(6,464)	(4,056)
Proceeds from restricted cash reserves	7,795	2,732
Proceeds from sale of investments in hotel properties	71,465	
Net cash flow provided by (used in) investing activities	43,793	(332,885)
Cash flows from financing activities:		
Borrowings under credit facilities	45,468	243,922
Repayments under credit facilities	(18,678)	(223,577)
Proceeds from mortgage loans		140,000
Repayments of mortgage loans	(1,048)	(958)
Payment of deferred financing costs	(6)	(473)
Proceeds from exercise of stock options	247	247
Proceeds from issuance of preferred shares		87,500
Proceeds from issuance of common shares		143,100
Payment of preferred offering costs		(2,191)

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Payment of common offering costs		(5,222)
Redemption of preferred shares	(99,797)	
Purchase of treasury shares	(1,038)	(1,016)
Distributions-preferred shares/units	(10,395)	(5,683)
Distributions-common shares/units	(16,883)	(11,236)
Net cash flow (used in) provided by financing activities	(102,130)	364,413
Net change in cash and cash equivalents	(53,171)	34,246
Cash and cash equivalents, beginning of period	63,026	10,153
Cash and cash equivalents, end of period	\$ 9,855	\$ 44,399

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

LASALLE HOTEL PROPERTIES

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

(unaudited)

1. Organization

LaSalle Hotel Properties (the Company), a Maryland real estate investment trust (REIT), buys, owns and leases upscale and luxury full-service hotels located in convention, resort and major urban business markets. The Company is a self-administered and self-managed REIT as defined in the Internal Revenue Code of 1986, as amended (the Code). As a REIT, the Company generally is not subject to federal corporate income tax on that portion of its net income that is currently distributed to shareholders.

As of March 31, 2007, the Company owned interests in 31 hotels with approximately 8,500 suites/rooms located in 11 states and the District of Columbia. Each hotel is leased under a participating lease that provides for rental payments equal to the greater of (i) a base rent or (ii) a participating rent based on hotel revenues. An independent hotel operator manages each hotel. Two of the hotels are leased to unaffiliated lessees (affiliates of whom also operate these hotels) and 29 of the hotels are leased to the Company's taxable-REIT subsidiary, LaSalle Hotel Lessee, Inc. (LHL), or a wholly owned subsidiary of LHL (see Note 9). Lease revenue from LHL and its wholly-owned subsidiaries is eliminated in consolidation.

Substantially all of the Company's assets are held by, and all of its operations are conducted through, LaSalle Hotel Operating Partnership, L.P. (the Operating Partnership). The Company is the sole general partner of the Operating Partnership. The Company owned 99.7% of the common units of the Operating Partnership at March 31, 2007. At March 31, 2007, the remaining 0.3% was held by limited partners who held 103,530 limited partnership common units. Common units of the Operating Partnership are redeemable for cash or, at the option of the Company, for a like number of common shares of beneficial interest, par value \$0.01 per share, of the Company. A limited partner owns 2,348,888 Series C Preferred Units of limited partnership interest in the Operating Partnership having an aggregate liquidation value of \$58,722 and bearing an annual cumulative distribution of 7.25% on the liquidation preference. The Series C Preferred Units are redeemable for cash or, at the election of the Company, 7.25% Series C Cumulative Redeemable Preferred Shares of beneficial interest of the Company. In addition, a limited partner owns 1,098,348 Series F Preferred Units of limited interest in the Operating Partnership, having an aggregate liquidation value of \$27,459 and bearing an annual cumulative distribution based on a floating rate equal to the London Interbank Offered Rate (LIBOR) plus 150 basis points on the liquidation preference. The Series F Preferred Units are redeemable for cash or, at the election of the Company, common shares of beneficial interest of the Company in accordance with the terms of the partnership agreement.

2. Summary of Significant Accounting Policies

The accompanying unaudited interim consolidated financial statements and related notes have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and in conformity with the rules and regulations of the Securities and Exchange Commission (SEC) applicable to interim financial information. As such, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the SEC. These unaudited consolidated financial statements, in the opinion of management, include all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the consolidated balance sheets, consolidated statements of operations, and consolidated statements of cash flows for the periods presented. Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007 due to seasonal and other factors. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. Certain prior period amounts have been reclassified to conform to the current period presentation.

Table of Contents

Basis of Presentation

The consolidated financial statements include the accounts of the Company, the Operating Partnership, LHL and their subsidiaries in which they have a controlling interest. All significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and the amounts of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Substantially all of the Company's revenues and expenses are generated by the operations of the individual hotels. The Company records revenues and expenses that are estimated and projected by the hotel operators to produce quarterly financial statements because the management contracts do not require the hotel operators to submit actual results within a time frame that permits the Company to use actual results when preparing its quarterly reports on Form 10-Q for filing by the deadline prescribed by the SEC. Generally, the Company records actual revenue and expense amounts for the first two months of each quarter and revenue and expense estimates for the last month of each quarter. Each quarter, the Company reviews the estimated revenue and expense amounts provided by the hotel operators for reasonableness based upon historical results for prior periods and internal Company forecasts. The Company records any differences between recorded estimated amounts and actual amounts in the following quarter; historically these differences have not been material. The Company believes the aggregate estimate of quarterly revenues and expenses recorded on the Company's consolidated statements of operations are materially correct.

Investment in Joint Venture

Investment in joint venture represents the Company's non-controlling 9.9% equity interest in each of (i) the joint venture that owned the Chicago Marriott Downtown (Chicago 540 Hotel Venture) and (ii) Chicago 540 Lessee, Inc., both of which were associated with the Chicago Marriott Downtown. The Company accounted for its investment in joint venture under the equity method of accounting, and received an annual preferred return in addition to its pro rata share of annual cash flow.

On February 22, 2006, Chicago 540 Hotel Venture refinanced its existing mortgage and furniture, fixtures, and equipment credit facility into a new \$220,000 mortgage loan. Proceeds from the refinancing in excess of the amounts to pay off the previous loans were distributed to the owners in accordance with the partnership agreement. On March 25, 2006, Chicago 540 Hotel Venture sold the Chicago Marriott Downtown for an aggregate purchase price of \$306,000 and recognized a gain on the sale of \$152,590. Proceeds from the sale were used to pay off the refinanced mortgage, make a distribution to the owners, and the remaining amount was retained to settle any post closing adjustments. The remaining cash was distributed to the owners in accordance with the partnership agreement after post-closing adjustments were settled. Chicago 540 Hotel Venture incurred interest expense of zero and \$3,439 for the three months ended March 31, 2007 and 2006, respectively. The Company recognized its share of the gain on sale of \$38,402 in 2006, which is included in equity in earnings of joint venture in the consolidated statements of operations. The Company received a preferential distribution of the sale proceeds above its 9.9% equity interest due to the joint venture achieving certain return thresholds.

Stock-Based Compensation

From time to time, the Company awards nonvested shares under the 1998 Share Option and Incentive Plan to trustees, executive officers and employees, which vest over three to five years. The Company recognizes compensation expense for nonvested shares on a straight-line basis over the vesting period based upon the fair market value of the shares on the date of issuance, adjusted for estimated forfeitures. Effective January 1, 2006, the Company adopted SFAS No. 123R (revised 2004), Share-Based Payment which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the consolidated statement of operations based at their fair values. Adoption did not have a material effect on the Company.

Table of Contents**Recently Issued Accounting Pronouncements**

In March 2006, FASB Emerging Issues Task Force issued Issue 06-03 (EITF 06-03), How Sales Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement. A consensus was reached that entities may adopt a policy of presenting sales taxes in the income statement on either a gross or net basis. If taxes are significant, an entity should disclose its policy of presenting taxes. The guidance is effective for periods beginning after December 15, 2006. The Company presents sales net of sales taxes. Adoption on January 1, 2007 did not have an effect on the Company's policy related to sales taxes and therefore, did not have an effect on the Company's consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 is an interpretation of FASB Statement No. 109, Accounting for Income Taxes, and it seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, and accounting in interim periods and requires expanded disclosure with respect to the uncertainty in income taxes. FIN 48 is effective as of the beginning of the Company's 2007 fiscal year. The cumulative effect, if any, of applying FIN 48 is to be reported as an adjustment to the opening balance of retained earnings in the year of adoption. Adoption on January 1, 2006 did not have a material effect on the Company.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this statement does not require any new fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company does not believe adoption will have a material effect on the Company.

3. Investment in Hotel Properties

The following condensed pro forma financial information is presented as if the following acquisitions had been consummated and leased as of January 1, 2006:

Property	Acquisition Date
Le Parc Suite Hotel	January 27, 2006
House of Blues Hotel	March 1, 2006
Westin Michigan Avenue	March 1, 2006
Alexis Hotel	June 15, 2006
Hotel Solamar	August 1, 2006
Holiday Inn Manhattan Wall Street District	November 17, 2006
The Graciela Burbank	December 19, 2006

The following condensed pro forma financial information is not necessarily indicative of what actual results of operations of the Company would have been assuming the acquisitions had been consummated and the hotels had been leased at the beginning of the respective periods presented, nor does it purport to represent the results of operations for future periods.

Table of Contents

	For the three months ended	
	March 31,	
	2007	2006
Total revenues	\$ 131,922	\$ 128,536
Net income applicable to common shareholders of beneficial interest	\$ 15,652	\$ 29,850
Net income applicable to common shareholders of beneficial interest per common share:	\$ 0.39	\$ 0.75
basic (after dividends paid on unvested restricted shares)		
diluted (before dividends paid on unvested restricted shares)	\$ 0.39	\$ 0.74
Common shares outstanding		
basic	39,853,954	39,853,954
diluted	40,122,872	40,122,872
<i>Discontinued Operations</i>		

Effective January 10, 2007, the Company entered into a contract to sell the LaGuardia Airport Marriott. The asset was classified as held for sale at that time, and, accordingly, depreciation was suspended. Based on initial pricing expectations, the Company expected to recognize a gain on the sale; therefore, no impairment was recognized. The LaGuardia Airport Marriott was sold on January 26, 2007 for \$69,000, resulting in a gain of \$30,262. The gain is recorded in discontinued operations in the accompanying consolidated statement of operations. The Company utilized the sale of the hotel as the disposition property in the reverse 1031 exchange established in conjunction with the Hotel Solamar acquisition in August 2006. As a result, the Company's gain will be deferred for tax purposes. Total revenues related to the asset of \$1,988 and \$6,668 for March 31, 2007 and 2006, respectively, comprised primarily of hotel operating revenues, and income before income tax benefit related to the asset of \$63 and \$43 for the three months ended March 31, 2007 and 2006, respectively, are included in discontinued operations. Revenues and expenses for the period ended March 31, 2006 have been reclassified to conform to the current presentation.

As of March 31, 2007, the Company had unsettled assets and liabilities of \$44 and zero, respectively, related to the sale of the LaGuardia Airport Marriott property. The Company expects all assets and liabilities to be settled before the end of 2007. At March 31, 2007, the Company had no assets or liabilities for assets held for sale.

Table of Contents**4. Long-Term Debt**

Debt at March 31, 2007 and December 31, 2006, consisted of the following (dollars in thousands):

Debt	Interest Rate at March 31, 2007	Maturity Date	Balance Outstanding at	
			March 31, 2007	December 31, 2006
Credit facilities				
Senior Unsecured Credit Facility	Floating	June 2008	\$ 12,000	\$
LHL Unsecured Credit Facility	Floating	June 2008	14,790	
Massport bonds				
Harborside Hyatt Conference Center & Hotel (taxable) (b)				
Harborside Hyatt Conference Center & Hotel (taxable) (b)	Floating (a)	March 2018	5,400	5,400
Harborside Hyatt Conference Center & Hotel (tax exempt)(b)				
Harborside Hyatt Conference Center & Hotel (tax exempt)(b)	Floating (a)	March 2018	37,100	37,100
Total bonds payable			42,500	42,500
Mortgage loans				
Le Parc Suite Hotel	7.78%	May 2008	15,185	15,295
Holiday Inn Manhattan Wall Street District	Floating (c)	November 2008	20,000	20,000
Sheraton Bloomington Hotel Minneapolis South and Westin City Center Dallas	8.10%	July 2009	40,482	40,744
San Diego Paradise Point Resort	5.25%	February 2009	60,815	61,182
Hilton Alexandria Old Town	4.98%	September 2009	32,608	32,802
Le Montrose Suite Hotel	8.08%	July 2010	13,567	13,629
Hilton San Diego Gaslamp Quarter	5.35%	June 2012	59,600	59,600
Hotel Solamar	5.49%	December 2013	60,900	60,900
Hotel Deca	6.28%	August 2014	10,514	10,567
Westin Copley Place	5.28%	August 2015	210,000	210,000
Westin Michigan Avenue	5.75%	April 2016	140,000	140,000
Indianapolis Marriott Downtown	5.99%	July 2016	101,780	101,780
Mortgage Loans			765,451	766,499
Unamortized Loan Premium (d)			888	978
Total mortgage loans			766,339	767,477
Total debt			\$ 835,629	\$ 809,977

- (a) Variable interest rate based on a weekly floating rate. The interest rate at March 31, 2007 was 5.35% and 3.69% for the \$5,400 and \$37,100 bonds, respectively. The interest rate at December 31, 2006 was 5.38% and 4.01% for the \$5,400 and \$37,100 bonds, respectively. The Company also incurs a 1.35% annual maintenance fee.
- (b) The Massport bonds are secured by letters of credit issued by the Royal Bank of Scotland that expire in 2009. The Royal Bank of Scotland letters of credit are secured by the Harborside Hyatt Conference Center & Hotel.
- (c) Mortgage debt bears interest at London InterBank Offered Rate plus 0.75%. The interest rates at March 31, 2007 and December 31, 2006 were 6.07% and 6.10%, respectively.
- (d) Mortgage debt includes unamortized loan premiums of \$352 and \$536 for Le Parc Suite Hotel and Hotel Deca, respectively, as of March 31, 2007, and \$428 and \$550, respectively, as of December 31, 2006.

The Company incurred interest expense of \$11,443 and \$9,014 for the three months ended March 31, 2007 and 2006, respectively. Included in interest expense are amortization of deferred financing fees of \$566 and \$639 for the three months ended March 31, 2007 and 2006, respectively. Interest was capitalized in the amount of \$789 and \$367 for the three months ended March 31, 2007 and 2006, respectively.

Credit Facilities

The Company has a senior unsecured credit facility from a syndicate of banks that provides for a maximum borrowing of up to \$300,000. On June 9, 2005, the Company amended the credit facility to extend the credit

Table of Contents

facility's maturity date to June 9, 2008 with a one-year extension option and to reduce the applicable margin pricing by a range of 0.25% to 0.5%. The senior unsecured credit facility contains certain financial covenants relating to debt service coverage, net worth and total funded indebtedness and contains financial covenants that, assuming no continuing defaults, allow the Company to make shareholder distributions which, when combined with the distributions to shareholders in the three immediately preceding fiscal quarters, do not exceed the greater of (i) 90% of the funds from operations from the preceding four-quarter rolling period or (ii) the greater of (a) the amount of distributions required for the Company to maintain its status as a REIT or (b) the amount required to ensure the Company will avoid imposition of an excise tax for failure to make certain minimum distributions on a calendar year basis. Borrowings under the credit facility bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate plus an applicable margin. As of March 31, 2007, the Company was in compliance with all debt covenants and was not otherwise in default under the credit facility. For the three months ended March 31, 2007, the weighted average interest rate for borrowings under the senior unsecured credit facility was 6.8%. The Company did not have any Adjusted Base Rate borrowings outstanding at March 31, 2007. Additionally, the Company is required to pay a variable unused commitment fee determined from a ratings or leverage based pricing matrix, currently set at 0.2% of the unused portion of the senior unsecured credit facility. The Company incurred an unused commitment fee of \$142 for the three months ended March 31, 2007. At March 31, 2007 and December 31, 2006, the Company had \$12,000 and zero, respectively, of outstanding borrowings under the senior unsecured credit facility.

LHL has a \$25,000 unsecured revolving credit facility to be used for working capital and general lessee corporate purposes. On June 9, 2005, LHL amended the credit facility to extend the credit facility maturity date to June 9, 2008 with a one-year extension option and to reduce the applicable margin pricing by a range of 0.25% to 0.5%. Borrowings under the LHL credit facility bear interest at floating rates equal to, at LHL's option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate plus an applicable margin. As of March 31, 2007, the Company was in compliance with all debt covenants and was not otherwise in default under the credit facility. The weighted average interest rate for the borrowings under the LHL credit facility for the three months ended March 31, 2007 was 6.8%. LHL is required to pay a variable unused commitment fee determined from a ratings or leverage based pricing matrix, currently set at 0.2% of the unused portion of the LHL credit facility. LHL incurred an unused commitment fee of \$10 for the three months ended March 31, 2007. At March 31, 2007 and December 31, 2006, the Company had \$14,790 and zero, respectively, of outstanding borrowings under the LHL credit facility.

5. Commitments and Contingencies**Ground and Air Rights Leases**

Five of the Company's hotels, San Diego Paradise Point Resort, Harborside Hyatt Conference Center & Hotel, Indianapolis Marriott Downtown, Hilton San Diego Resort, and Hotel Solamar and the parking lot at Sheraton Bloomington Hotel Minneapolis South, are subject to ground leases under non-cancelable operating leases expiring from October 2014 to December 2102. The Westin Copley Place is subject to a long term air rights lease which expires on December 14, 2077 and requires no payments through maturity. In addition, one of the two golf courses, the Pines, at Seaview Resort and Spa is subject to a ground lease, which expires on December 31, 2012 and may be renewed for 15 successive periods of 10 years. The ground leases related to the Pines golf course and the Indianapolis Marriott Downtown require future ground rent of one dollar per year. Total ground lease expense for the three months ended March 31, 2007 and 2006 was \$1,441 and \$1,394, respectively.

Reserve Funds

Certain of the Company's agreements with its hotel managers, franchisors and lenders have provisions for the Company to provide funds, generally 3.0% to 5.5% of hotel revenues, sufficient to cover the cost of (a) certain non-routine repairs and maintenance to the hotels; and (b) replacements and renewals to the hotels' furniture, fixtures, and equipment. Certain agreements require that the Company reserve cash. As of March 31, 2007 and December 31, 2006, \$7,767 and \$12,767, respectively, were available in restricted cash reserves for future capital expenditures.

Table of Contents

Restricted Cash Reserves

At March 31, 2007, the Company held \$13,558 in restricted cash reserves. Included in such amounts are (i) \$7,767 of reserve funds relating to the hotels with agreements requiring the Company to maintain restricted cash to fund future capital expenditures, and (ii) \$5,791 deposited in mortgage escrow accounts pursuant to mortgage obligations to pre-fund a portion of certain hotel expenses and debt payments.

Litigation

The nature of the operations of the hotels exposes the hotels to the risk of claims and litigation in the normal course of their business. Although the outcome of these matters cannot be determined, management does not expect the ultimate resolution of these matters to have a material adverse effect on the financial position, operations or liquidity of the hotels.

The Company has engaged Starwood Hotels & Resorts Worldwide, Inc. to manage and operate its Dallas hotel under the Westin brand affiliation. Meridien Hotels, Inc. (Meridien) affiliates had been operating the Dallas property as a wrongful holdover tenant, until the Westin brand conversion occurred on July 14, 2003 under court order.

On December 20, 2002, affiliates of Meridien abandoned the Company's New Orleans hotel. The Company entered into a lease with a wholly-owned subsidiary of LHL and an interim management agreement with Interstate Hotels & Resorts, Inc., and re-named the hotel the New Orleans Grande Hotel. The New Orleans property thereafter was sold on April 21, 2003 for \$92,500.

In connection with the termination of the Meridien affiliates at these hotels, the Company is currently in litigation with Meridien and related affiliates. The Company understands that Lehman Brothers is now the real party in interest after having acquired a controlling stake in the Meridien entities that are parties to the Dallas and New Orleans lawsuits. The Company believes its sole potential obligation in connection with the termination of the leases is to pay fair market value of the leases, if any. With respect to the Dallas hotel, the Company has obtained a judgment from the court that Meridien defaulted and that Meridien is not entitled to the payment of fair market value. The Company's damage claims against Meridien went to trial in March 2005, and a final judgment was entered for the Company in the amount of \$3,903, plus post-judgment interest. Meridien has noticed an appeal and the Company has noticed an appeal as well. With respect to the New Orleans hotel, arbitration of the fair market value of the New Orleans lease commenced in October 2002. On December 19, 2002, the arbitration panel determined that Meridien was entitled to an award of \$5,700, subject to adjustment (reduction) by the courts to account for Meridien's holdover. In order to dispute the arbitration decision, the Company was required to post a \$7,800 surety bond, which was secured by \$5,900 of restricted cash. The Company successfully challenged the award on appeal, and the dispute was remanded to the trial court. Meridien's request for rehearing was denied on March 31, 2004, and Meridien did not petition to the Louisiana Supreme Court. In June 2004, the \$7,800 surety bond was released and the \$5,900 restricted cash securing it was returned to the Company. The issue of default by the lessee and the Company's wrongful holdover claim, as well as Meridien's damage claims arising from the termination of its leasehold, among other claims, went to trial in February 2005. On June 9, 2005, the trial court issued its judgment denying the Company's default claim as well as Meridien's fraud claim, and re-determined fair market value to be \$8,572, plus interest. On July 18, 2005, the Company posted a \$8,633 surety bond, which was secured by \$8,980 of restricted cash. On May 26, 2006, the trial court entered judgment awarding Meridien attorney's fees of \$4,130. The Company has noticed an appeal from the trial court's judgment. On July 11, 2006, the Company posted a \$4,174 bond which is collateralized by a letter of credit. On August 15, 2006, the Company replaced the restricted cash collateral on the \$8,633 bond and obtained a new \$12,807 letter of credit which serves as collateral for the \$8,633 bond and the \$4,174 bond. The Louisiana court of appeals heard argument on the Company's appeal from the trial court's judgment on April 3, 2007, and a decision is pending.

In 2002, the Company recognized a net \$2,520 contingent lease termination expense and reversed previously deferred assets and liabilities related to the termination of both the New Orleans property and Dallas property leases and recorded a corresponding contingent liability included in accounts payable and accrued expenses in the accompanying consolidated balance sheet. The Company believes, however, it is owed holdover rent per the lease terms due to Meridien's failure to vacate the properties as required under the leases. The contingent lease termination expense was, therefore, net of the holdover rent the Company believes it is entitled to for both properties. In 2003, the Company adjusted this liability by additional holdover rent of \$827 that it believes it is

Table of Contents

entitled to for the Dallas property. These amounts were recorded as other income in the Company's December 31, 2003 consolidated statement of operations. The contingent lease termination expense recognized cumulatively since 2002 is comprised of (dollars in thousands):

	Expense Recognized Quarter Ended December 31, 2002	Expense Recognized Year Ended December 31, 2004	Expense Recognized Year Ended December 31, 2005	Expense Recognized Period Ended December 31, 2006	Cumulative Expense Recognized as of March 31, 2007
Estimated arbitration award	\$ 5,749	\$	\$	\$	\$ 5,749
Legal fees related to litigation	2,610	1,350	1,000	800	5,760
Holdover rent	(4,844)				(4,844)
Expected reimbursement of legal fees	(995)	(500)			(1,495)
Net contingent lease termination expense	\$ 2,520	\$ 850	\$ 1,000	\$ 800	\$ 5,170

In September 2004, after evaluating the ongoing Meridien litigation, the Company accrued additional net legal fees of \$850 due to litigation timeline changes. In June 2005, after further evaluation of the ongoing Meridien litigation, the Company accrued an additional \$1,000 in legal fees due to timeline changes. In September 2006, after further evaluation of the ongoing Meridien litigation, the Company accrued an additional \$800 in legal fees due to timeline changes in order to conclude this matter. As a result, the net contingent lease termination liability has a balance of \$1,823 as of March 31, 2007, which is included in accounts payable and accrued expenses in the accompanying consolidated balance sheet. Based on the claims the Company has against Meridien, the Company is and will continue to challenge Meridien's claim that it is entitled to the payment of fair market value, and will continue to seek reimbursement of legal fees and damages. These amounts may exceed or otherwise may be used to offset any amounts potentially owed to Meridien, and therefore, ultimately may offset or otherwise reduce any contingent lease termination expense. Additionally, the Company cannot provide any assurances that the holdover rents or any damages will be collectible from Meridien or that the amounts due will not be greater than the recorded contingent lease termination expense.

The Company maintained a lien on Meridien's security deposit on both disputed properties with an aggregate value of \$3,300, in accordance with the lease agreements. The security deposits were liquidated in May 2003 with the proceeds used to partially satisfy Meridien's outstanding obligations. The judgment entered by the Dallas Court already incorporates a set-off in the amount of \$989 attributable to the security deposit for the Dallas property.

The Company does not believe that the amount of any fees or damages it may be required to pay on any of the litigation related to Meridien will have a material adverse effect on the Company's financial condition or results of operations, taken as a whole. The Company's management has discussed this contingency and the related accounting treatment with the audit committee of its Board of Trustees.

The Company accrues for future legal fees related to contingent liabilities based upon management's estimate. The Company is not presently subject to any other material litigation nor, to the Company's knowledge, is any other litigation threatened against the Company, other than routine actions for negligence or other claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance and all of which collectively are not expected to have a material adverse effect on the liquidity, results of operations or business or financial condition of the Company.

6. Shareholders' Equity and Minority Interest**Common Shares of Beneficial Interest**

On January 1, 2007, the Company repurchased 22,649 common shares of beneficial interest related to executives and employees surrendering shares to pay taxes at the time restricted shares vested. The Company re-issued 18,607 treasury shares related to (i) compensation for the Board of Trustees and (ii) options exercised by a member of the Board to purchase common shares of beneficial interest in March 2007.

Table of Contents

On January 1, 2007, the Company issued an aggregate of 7,274 common shares of beneficial interest, including 3,667 deferred shares to the independent members of its Board of Trustees for their 2006 compensation. These common shares were issued under the 1998 Share Option and Incentive Plan.

On January 12, 2007, the Company declared monthly cash distributions to shareholders of the Company and common unitholders of the Operating Partnership, in the amount of \$0.14 per common share of beneficial interest/unit for each of the months of January, February and March 2007.

On January 12, 2007, the Company paid its December 2006 monthly distribution of \$0.14 per share/unit on its common shares of beneficial interest and common units of limited partnership interest to shareholders and unitholders of record as of December 29, 2006.

On February 15, 2007, the Company paid its January 2007 monthly distribution of \$0.14 per share/unit on its common shares of beneficial interest and units of limited partnership interest to shareholders and unitholders of record as of January 31, 2007.

On March 15, 2007, the Company paid its February 2007 monthly distribution of \$0.14 per share/unit on its common shares of beneficial interest and units of limited partnership interest to shareholders and unitholders of record as of February 28, 2007.

During the three months ended March 31, 2007, a member of the Board of the Company exercised 15,000 options to purchase common shares of beneficial interest. These common shares were issued under the 1998 Share Option and Incentive Plan.

Treasury Shares

Treasury shares are accounted for under the cost method. During the quarter ended March 31, 2007, the Company repurchased 22,649 common shares of beneficial interest related to executives and employees surrendering shares to pay taxes at the time restricted shares vested. The Company re-issued 18,607 treasury shares in connection with (i) shares issued for the Board of Trustees 2006 compensation; and (ii) options exercised by a member of the Board to purchase common shares of beneficial interest in March 2007.

At March 31, 2007, there were 4,042 common shares of beneficial interest in treasury.

Preferred Shares

The Series B Preferred Shares, Series C Preferred Shares (if and when issued), Series D Preferred Shares, Series E Preferred Shares, and Series G Preferred Shares (collectively, the Preferred Shares) rank senior to the common shares of beneficial interest and on parity with each other with respect to payment of distributions; the Company will not pay any distributions, or set aside any funds for the payment of distributions, on its common shares of beneficial interest unless it has also paid (or set aside for payment) the full cumulative distributions on the Preferred Shares for the current and all past dividend periods. The outstanding Preferred Shares do not have any maturity date, and are not subject to mandatory redemption. The difference between the carrying value and the redemption amount of the Preferred Shares are the offering costs. In addition, the Company is not required to set aside funds to redeem the Preferred Shares. The Company may not optionally redeem the Series B Preferred Shares, Series D Preferred Shares, Series E Preferred Shares or Series G Preferred Shares, prior to September 30, 2008, August 24, 2010, February 8, 2011 and November 17, 2011, respectively, except in limited circumstances relating to the Company's continuing qualification as a REIT or as discussed below. The Company may not optionally redeem the Series C Preferred Shares, if and when issued, prior to January 1, 2021 except in limited circumstances relating to the Company's continuing qualification as a REIT and during the period from January 1, 2016 to and including December 31, 2016 upon giving notice as specified. After those dates, the Company may, at its option, redeem the Preferred Shares, in whole or from time to time in part, by payment of \$25.00 per share, plus any accumulated, accrued and unpaid distributions to and including the date of redemption. Accordingly, the Preferred Shares will remain outstanding indefinitely unless the Company decides to redeem them.

Table of Contents

On March 6, 2007, the Company redeemed all 3,991,900 outstanding Series A Preferred shares for \$99,798 (\$25.00 per share) plus accrued distributions through March 6, 2007 of \$1,847. The fair value of the Series A Preferred shares exceeded the carrying value of the Series A Preferred Shares by \$3,868 which is included in the determination of net income available to common shareholders. The \$3,868 represents the offering costs related to the Series A Preferred Shares.

On January 12, 2007, the Company paid its preferred distribution of \$0.64 per Series A Preferred Share for the quarter ended December 31, 2006 to Series A preferred shareholders of record at the close of business on January 2, 2007.

On January 12, 2007, the Company paid its preferred distribution of \$0.52 per Series B Preferred Share for the quarter ended December 31, 2006 to Series B preferred shareholders of record at the close of business on January 2, 2007.

On January 12, 2007, the Company paid its preferred distribution of \$0.47 per Series D Preferred Share for the quarter ended December 31, 2006 to Series D preferred shareholders of record at the close of business on January 2, 2007.

On January 12, 2007, the Company paid its preferred distribution of \$0.50 per Series E Preferred Share for the quarter ended December 31, 2006 to Series E preferred shareholders of record at the close of business on January 2, 2007.

On January 12, 2007, the Company paid its prorated preferred distribution of \$0.22 per Series G Preferred Share for the quarter ended December 31, 2006 to Series G preferred shareholders of record at the close of business on January 2, 2007.

Common Operating Partnership Units

As of March 31, 2007, the Operating Partnership had 103,530 common units outstanding, representing a 0.3% partnership interest held by the limited partners.

Preferred Operating Partnership Units

On January 12, 2007, the Company paid its preferred distribution of \$0.45 per Series C Preferred Unit for the quarter ended December 31, 2006 to Series C preferred unitholders of record at the close of business on January 2, 2007.

On January 12, 2007, the Company paid its prorated preferred distribution of \$0.21 per Series F Preferred Unit for the quarter ended December 31, 2006 to Series F preferred unitholders of record at the close of business on January 2, 2007.

7. Share Option and Incentive Plan

In April 1998, the Board of Trustees adopted and the then current shareholders approved the 1998 Share Option and Incentive Plan (Plan) that is currently administered by the Compensation Committee of the Board of Trustees. The Company's employees and the hotel operators and their employees generally are eligible to participate in the Plan. At March 31, 2007, 2,800,000 shares were authorized for issuance under the Plan. At March 31, 2007, there were 900,185 common shares available for future grant under the Plan.

The Plan authorizes, among other things: (i) the grant of share options that qualify as incentive options under the Code, (ii) the grant of share options that do not so qualify, (iii) the grant of share options in lieu of cash trustees' fees, (iv) grants of common shares of beneficial interest in lieu of cash compensation, and (v) the making of loans to acquire common shares of beneficial interest in lieu of compensation. The exercise price of share options is

Table of Contents

determined by the Compensation Committee of the Board of Trustees, but may not be less than 100% of the fair market value of the common shares of beneficial interest on the date of grant. Options under the Plan vest over a period determined by the Compensation Committee of the Board of Trustees, which is generally a three-year period. The duration of each option is also determined by the Compensation Committee; however, the duration of each option shall not exceed 10 years from date of grant. As of March 31, 2007, the Company had no unvested stock options outstanding.

From time to time, the Company awards nonvested shares under the Plan to members of the Board of Trustees, executives, and employees. The nonvested shares generally vest over three to five years. The Company measures compensation cost for the nonvested shares based upon the fair market value of its common shares at the date of grant, adjusted for estimated forfeitures. Compensation cost is recognized on a straight-line basis over the vesting period and is included in general and administrative expense in the accompanying consolidated statement of operations.

A summary of the Company's nonvested service condition share awards as of March 31, 2007 is as follows (dollars in thousands):

	Number of shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2007	318,539	\$ 34.81
Granted		
Vested	(68,366)	23.17
Forfeited		
Nonvested at March 31, 2007	250,173	\$ 38.90

As of March 31, 2007, there was \$8,549 of total unrecognized compensation costs related to nonvested service condition share awards granted under the Plan. That cost is expected to be recognized over a weighted average period of 1.8 years. The total fair value of shares vested during the three months ended March 31, 2007 was \$3,135. The compensation cost, net of estimated forfeitures, for the nonvested service condition share awards under the Plan that has been included in general and administrative expenses in the accompanying statement of operations was \$807 and \$381 for the three months ended March 31, 2007 and 2006, respectively.

A summary of the Company's long-term performance based share awards as of March 31, 2007 is as follows (dollars in thousands):

	Number of shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2007	31,490	\$ 49.53
Granted		
Vested		
Forfeited		
Nonvested at March 31, 2007	31,490	\$ 49.53

As of March 31, 2007, there was \$1,472 of total unrecognized compensation costs related to long-term performance based share awards granted under the Plan. That cost is expected to be recognized over a weighted average period of 3.8 years. No long-term performance based share awards were vested as of March 31, 2007. The compensation cost related to long-term performance based share awards that has been included in general and administrative expenses in the accompanying statement of operations was \$77 and zero for the three months ended March 31, 2007 and 2006, respectively.

Table of Contents**8. Financial Instruments: Derivatives and Hedging**

The Company uses interest rate swaps to hedge against interest rate fluctuations. Unrealized gains and losses are reported in other comprehensive income with no effect recognized in earnings as long as the characteristics of the swap and the hedged item are matched. On February 27, 2004, the Company entered into a three-year fixed interest rate swap that fixed the LIBOR at 2.56% for the \$57,000 balance outstanding on the Company's mortgage loan secured by the Indianapolis Marriott Downtown, and therefore, fixed the mortgage interest rate at 3.56%. On June 8, 2006, the Company paid off the mortgage loan which was being hedged and, concurrently, terminated the interest rate swap. The Company received \$1,053 in proceeds from the termination of the swap and reclassified \$1,053 into earnings from accumulated other comprehensive income in June 2006. As of March 31, 2007, the Company does not have any outstanding interest rate swaps.

9. LHL

A significant portion of the Company's revenue is derived from operating revenues generated by the hotels leased by LHL.

Included in other indirect hotel operating expenses, including indirect operating expenses related to discontinued operations, are the following expenses incurred by the hotels leased by LHL (dollars in thousands):

	For the three Months Ended March 31,	
	2007	2006
General and administrative	\$ 11,483	\$ 9,695
Sales and marketing	9,242	7,867
Repairs and maintenance	6,034	5,342
Utilities and insurance	6,697	6,115
Management and incentive fees	4,069	3,809
Franchise fees	1,348	1,431
Other expenses	249	387
Total other indirect expenses	39,122	34,646
Other indirect hotel operating expenses related to discontinued operations	(661)	(2,315)
Total other indirect expenses related to continuing operations	\$ 38,461	\$ 32,331

As of March 31, 2007, LHL leases the following 29 hotels owned by the Company:

Seaview Resort and Spa	Hilton San Diego Gaslamp Quarter
Harborside Hyatt Conference Center & Hotel	Grafton on Sunset
Hotel Viking	Onyx Hotel
Topaz Hotel	Westin Copley Place
Hotel Rouge	Hotel Deca (formerly University Tower Hotel)
Hotel Madera	Hilton San Diego Resort
Hotel Helix	Washington Grande Hotel
Holiday Inn on the Hill	Le Parc Suite Hotel
Sheraton Bloomington Hotel Minneapolis South	House of Blues Hotel
Lansdowne Resort	Westin Michigan Avenue
Westin City Center Dallas	Alexis Hotel
Hotel George	Hotel Solamar
Indianapolis Marriott Downtown	Holiday Inn Manhattan Wall Street District
Hilton Alexandria Old Town	The Graciela Burbank
Chaminade Resort and Conference Center	

The two remaining hotels, Le Montrose Suite Hotel and San Diego Paradise Point Resort, in which the Company owns an interest, are leased directly to affiliates of the third-party hotel operators of those respective hotels.

Table of Contents

On March 11, 2005, the Company notified Marriott International (Marriott) that it was terminating the management agreement at the Seaview Resort and Spa due to Marriott's failure to meet certain hotel operating performance thresholds in 2004 as defined in the management agreement. Pursuant to the management agreement, Marriott had the right to avoid termination by making payment of \$2,394 within 60 days of notification. On April 28, 2005, Marriott International made a cure payment of \$2,394 to avoid termination. On March 9, 2006, the Company notified Marriott again that it was terminating the management agreement at the Seaview Resort and Spa due to Marriott's failure to meet certain hotel operating performance thresholds in 2005 as defined in the management agreement. On May 2, 2006, Marriott International made an additional cure payment of \$3,715 to avoid termination. Marriott may recoup these amounts in the event certain future operating performance thresholds are attained. Marriott has recouped \$280 and \$1,540 in 2006 and 2005, respectively. The remaining amount may still be recouped; therefore, the Company maintains a deferred liability of \$4,289 as of March 31, 2007 and December 31, 2006, which is included in accounts payable and accrued expenses on the accompanying balance sheets.

On February 22, 2007, the Company notified Marriott that it was again terminating the management agreement at the Seaview Resort and Spa due to Marriott's failure to meet certain hotel operating performance thresholds in 2006 as defined in the management agreement. Pursuant to the management agreement, Marriott has the right to avoid termination by making payment of \$3,083 within 60 days of notification. On April 5, 2007, Marriott made the cure payment to avoid termination and the Company recognized a deferred liability for this amount at that time. Marriott may recoup this amount in the event certain future operating performance thresholds are attained.

10. Income Taxes

For the three months ended March 31, 2007, income tax benefit of \$3,454 is comprised of a net state and local tax expense of \$81 on the Operating Partnership, and federal, state and local tax benefit of \$3,535 on LHL's loss of \$9,151 before income tax benefit.

The components of the LHL income tax expense (benefit) were as follows (dollars in thousands):

	For the three months ended	
	March 31,	
	2007	2006
Federal		
Current	\$ 160	\$
Deferred	(2,819)	(2,522)
State & local		
Current	103	3
Deferred	(979)	(876)
Total income tax benefit	\$ (3,535)	\$ (3,395)

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as a result of the following difference (dollars in thousands):

Table of Contents

	For the three months ended March 31,	
	2007	2006
"Expected" federal tax benefit at 34.5%	\$ (3,157)	\$ (2,825)
State income tax benefit, net of federal income tax effect	(641)	(570)
Other, net	263	
Income tax benefit	\$ (3,535)	\$ (3,395)

The Company has estimated its income tax benefit using a combined federal and state rate of 41.5%. As of March 31, 2007, the Company had a deferred tax asset of \$20,498 primarily due to current and past years' tax net operating losses. These loss carryforwards will expire in 2021 through 2025 if not utilized by then. Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax asset and has determined that no valuation allowance is required. Reversal of the deferred tax asset in the subsequent year cannot be reasonably estimated.

11. Earnings Per Common Share

The limited partners' outstanding common limited partnership units in the Operating Partnership (which may be converted to common shares of beneficial interest) have been excluded from the diluted earnings per share calculation as there would be no effect on the amounts since the limited partners' share of income would also be added back to net income. The computation of basic and diluted earnings per common share is presented below (dollars in thousands except per share data):

Table of Contents

	For the three months ended March 31,	
	2007	2006
Numerator:		
Net (loss) income applicable to common shareholders before discontinued operations and dividends paid on unvested restricted shares	\$ (14,745)	\$ 33,014
Discontinued operations	30,397	246
Net income applicable to common shareholders before dividends paid on unvested restricted shares	15,652	33,260
Dividends paid on unvested restricted shares	(105)	(55)
Net income applicable to common shareholders, after dividends paid on unvested restricted shares	\$ 15,547	\$ 33,205
Denominator:		
Weighted average number of common shares basic	39,843,954	38,052,908
Effect of dilutive securities:		
Unvested restricted shares	65,705	172,771
Common stock options	203,213	206,122
Weighted average number of common shares diluted	40,112,872	38,431,801
Basic Earnings Per Common Share:		
Net (loss) income applicable to common shareholders per weighted average common share before discontinued operations and after dividends paid on unvested restricted shares	\$ (0.37)	\$ 0.86
Discontinued operations	0.76	0.01
Net income applicable to common shareholders per weighted average common share, after dividends paid on unvested restricted shares	\$ 0.39	\$ 0.87
Diluted Earnings Per Common Share:		
Net (loss) income applicable to common shareholders per weighted average common share before discontinued operations	\$ (0.37)	\$ 0.86
Discontinued operations	0.76	0.01
Net income applicable to common shareholders per weighted average common share	\$ 0.39	\$ 0.87

Table of Contents**12. Supplemental Information to Statements of Cash Flows**

	For the three months ended March 31,	
	2007	2006
Interest paid, net of capitalized interest	\$ 10,741	\$ 8,470
Interest capitalized	789	367
Income taxes paid, net of refunds	64	(250)
Distributions payable (common shares)	5,629	3,997
Distributions payable (preferred shares)	5,624	5,611
Redemption of Operating Partnership Units for common shares		2,010
Issuance of restricted shares to employee and executives, net		1,340
Issuance of common shares for board of trustees compensation	165	216
Repurchase of common shares (treasury)	(1,038)	(1,016)
In conjunction with the hotel dispositions, the Company disposed of the following assets and liabilities:		
Proceeds on sale, net of closing costs	\$ (67,053)	\$
Other assets	(5,614)	
Liabilities	1,202	
Total proceeds from sale of investments in hotel properties	(\$ 71,465)	\$
In conjunction with the hotel acquisitions, the Company assumed the following assets and liabilities:		
Purchase of real estate	\$	\$ 380,042
Assumption of mortgage at fair value		(16,380)
Other assets		1,905
Liabilities		(5,351)
Acquisition of hotel properties	\$	\$ 360,216

13. Subsequent Events

On April 13, 2007, the Company amended the senior unsecured credit facility with a syndicate of banks. The amended credit facility reduced the applicable margin pricing by a range of 80 to 100 basis points and extended the maturity date to April 13, 2011 with a one-year extension option. In addition, certain loan covenants were amended and the unused commitment fee was reduced to 0.125%. The majority of the terms and the participating banks remained the same.

On April 13, 2007, LHL amended the unsecured revolving credit facility. The amended credit facility reduced the applicable margin pricing by a range of 0.8% to 1.0% and extended the maturity date to April 13, 2011 with a one-year extension option. In addition, certain loan covenants were amended and the unused commitment fee was reduced to 0.125%. The majority of the terms remained the same.

On April 13, 2007, the Company declared monthly distributions to shareholders of the Company and on common units of the Operating Partnership, in the amount of \$0.17 per common share of beneficial interest/unit for each of the months of April, May, and June 2007.

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On April 13, 2007, the Company paid its March 2007 monthly distribution of \$0.14 per share/unit on its common shares of beneficial interest and common units of limited partnership interest to shareholders and unitholders of record as of March 30, 2007.

On April 13, 2007, the Company paid its preferred distribution of \$0.52 per Series B Preferred Share for the quarter ended March 31, 2007 to Series B preferred shareholders of record at the close of business on April 2, 2007.

Table of Contents

On April 13, 2007, the Company paid its preferred distribution of \$0.45 per Series C Preferred Unit for the quarter ended March 31, 2007 to Series C preferred unitholders of record at the close of business on April 2, 2007.

On April 13, 2007, the Company paid its preferred distribution of \$0.47 per Series D Preferred Share for the quarter ended March 31, 2007 to Series D preferred shareholders of record at the close of business on April 2, 2007.

On April 13, 2007, the Company paid its preferred distribution of \$0.50 per Series E Preferred Share for the quarter ended March 31, 2007 to Series E preferred shareholders of record at the close of business on April 2, 2007.

On April 13, 2007, the Company paid its preferred distribution of \$0.42 per Series F Preferred Unit for the quarter ended March 31, 2007 to Series F preferred unitholders of record at the close of business on April 2, 2007.

On April 13, 2007, the Company paid its preferred distribution of \$0.45 per Series G Preferred Share for the quarter ended March 31, 2007 to Series G preferred shareholders of record at the close of business on April 2, 2007.

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

The following should be read in conjunction with the consolidated financial statements and notes thereto appearing in Item 1 of this report.

Forward-Looking Statements

This report, together with other statements and information publicly disseminated by the Company, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and includes this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe the Company's future plans, strategies and expectations, are generally identifiable by use of the words believe, expect, intend, anticipate, estimate, project or similar expressions. Forward-looking statements in this report include, among others, statements about the Company's business strategy, including its acquisition and development strategies, industry trends, estimated revenues and expenses, ability to realize deferred tax assets, expected liquidity needs and sources (including capital expenditures and the ability to obtain financing or raise capital), and anticipated outcomes and consequences of pending litigation. You should not rely on forward-looking statements since they involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond the Company's control and which could materially affect actual results, performances or achievements. Factors that may cause actual results to differ materially from current expectations include, but are not limited to:

the Company's dependence on third-party managers of its hotels, including its inability to implement strategic business decisions directly;

risks associated with the hotel industry, including competition, increases in wages, energy costs and other operating costs, actual or threatened terrorist attacks, any type of flu or disease-related pandemic, downturns in general and local economic conditions;

the availability and terms of financing and capital and the general volatility of securities markets;

risks associated with the real estate industry, including environmental contamination and costs of complying with the Americans with Disabilities Act and similar laws;

interest rate increases;

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the possible failure of the Company to qualify as a REIT and the risk of changes in laws affecting REITs;

the possibility of uninsured losses; and

the risk factors discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, as updated elsewhere in this report.

Accordingly, there is no assurance that the Company's expectations will be realized. Except as otherwise required by the federal securities laws, the Company disclaims any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Table of Contents

Overview

The Company intends to acquire upscale and luxury, full-service hotels in convention, resort and major urban markets where the Company perceives strong demand growth or significant barriers to entry. The Company measures hotel performance by evaluating financial metrics such as room revenue per available room (RevPAR), funds from operations (FFO) and earnings before interest, taxes, depreciation and amortization (EBITDA).

The Company evaluates the hotels in its portfolio and potential acquisitions using the measures discussed above to determine each portfolio hotel 's contribution or acquisition hotel 's potential contribution toward reaching the Company 's goal of maintaining a reliable stream of income and moderate growth to shareholders. The Company invests in capital improvements throughout the portfolio to continue to increase the competitiveness of its hotels and improve their financial performance. The Company actively seeks to acquire new hotel properties that meet its investment criteria. However, due to a high level of competitive capital resources, the Company continues to face significant competition for acquisitions that meet its investment criteria.

The first quarter of 2007 was another good quarter for the economy, the travel industry and the lodging business. For the lodging industry, the first quarter was not as robust as prior quarters, due primarily to difficult post-Katrina comparisons, disruptive weather in mid-quarter, and below trend economic growth typical of a mid-cycle pause. For LaSalle Hotel Properties, it was a perfect quarter to undertake the large volume of major repositionings and renovations in our portfolio that resulted from our successful acquisition program over the last two years. As expected, our overall results were significantly impacted by our extensive renovations, repositionings and refurbishments. Although a few of these renovations and the associated disruptions will continue into the second quarter, the negative impact is forecasted to be significantly reduced from the first three months.

For the first quarter of 2007, the Company had net income applicable to common shareholders of \$15.7 million or \$0.39 per diluted share. FFO was \$7.6 million, or \$0.19 per diluted share and EBITDA was \$58.8 million. RevPAR for our hotel portfolio was \$119.30, which is an increase of 1.8% compared to the prior year period. Average Daily Rate increased 5.4% to \$180.94, while occupancy declined by 3.4% to 65.9%. The Company 's EBITDA decreased by \$4.1 million, or 6.5% decrease over 2006 EBITDA during the same period, which is solely attributable to a \$38.4 million gain recognized in the first three months of 2006 for the sale of investments in joint venture. The Company 's hotel portfolio EBITDA declined 0.8% and hotel portfolio EBITDA margins declined 43 basis points. FFO, EBITDA, RevPAR and hotel EBITDA were all negatively impacted by disruptive major renovations at a substantial portion of the Company 's hotels.

Please refer to **Non-GAAP Financial Measures** for a detailed discussion of the Company 's use of FFO and EBITDA and a reconciliation of FFO and EBITDA to net income, a GAAP measurement.

Critical Accounting Estimates

A significant portion of the Company 's revenues and expenses are generated by the operations of the individual hotels. The Company records revenues and expenses that are estimated and projected by the hotel operators to produce quarterly financial statements since the management contracts do not require the hotel operators to submit actual results within a time frame that permits the Company to use actual results when preparing its quarterly reports on Form 10-Q for filing with the SEC by the filing deadline prescribed by the SEC. Generally, the Company records actual revenue and expense amounts for the first two months of each quarter and revenue and expense estimates for the last month of each quarter. Each quarter, the Company reviews the estimated revenue and expense amounts provided by the hotel operators for reasonableness based upon historical results for prior periods and internal Company forecasts. The Company records any differences between recorded estimated amounts and actual amounts in the following quarter; historically these differences have not been material. The Company believes the aggregate estimate of quarterly revenues and expenses recorded on the Company 's consolidated statements of operations are materially correct.

Table of Contents

An estimated contingent lease liability related to the Company's litigation with Meridien Hotels, Inc. is reported in accounts payable and accrued expenses in the accompanying consolidated financial statements.

The Company's management has discussed the policy of using estimated hotel operating revenues and expenses and the contingent lease liability with its audit committee of its Board of Trustees. The audit committee has reviewed the Company's disclosure relating to the estimates in this Management's Discussion and Analysis of Financial Conditions and Results of Operations section.

Comparison of the Three Months Ended March 31, 2007 to the Three Months Ended March 31, 2006

Industry travel levels improved in the first quarter from continued strength in business travel, driven by growth in both group and business transient travel. However, on a year-over-year basis, overall industry supply growth outpaced demand for rooms in the quarter, primarily due to difficult post-Katrina comparisons, disruptive weather in mid-quarter, and below trend economic growth typical of a mid-cycle pause. Occupancies at the Company's hotel properties leased to LHL were negatively impacted by the disruptive weather, below trend economic growth and the significant renovations, repositionings and refurbishments at 13 of the 29 hotels. Comparable occupancies declined an average 3.6% from the prior year, while comparable ADR increased 5.1% over the prior year.

Hotel operating revenues

Hotel operating revenues from the hotels leased to LHL (29 hotels as of March 31, 2007), including room revenue, food and beverage revenue and other operating department revenues (which includes golf, telephone, parking and other ancillary revenues) increased \$21.7 million, from \$103.5 million in 2006 to \$125.2 million in 2007. This increase includes amounts that are not comparable year-over-year as follows:

\$7.0 million increase from Westin Michigan Avenue, which was purchased in March 2006;

\$5.2 million increase from Hotel Solamar, which was purchased in August 2006;

\$2.2 million increase from Holiday Inn Manhattan Wall Street District, which was purchased in November 2006;

\$1.9 million increase from The Graciela Burbank, which was purchased in December 2006;

\$1.8 million increase from Alexis Hotel, which was purchased in June 2006;

\$0.9 million increase from House of Blues Hotel, which was purchased in March 2006; and

\$0.8 million increase from Le Parc Suite Hotel, which was purchased in January 2006.

The remaining increase of \$1.9 million is attributable to a \$1.2 million increase in room revenue and \$0.7 million increase in food and beverage, golf and other ancillary revenue from the remaining hotels leased to LHL. The increase in room revenue was a result of 1.4% increase in RevPAR which was primarily attributable to an increase in ADR of 5.1% at the remaining hotels.

Participating lease revenue

Participating lease revenue from hotels leased to third party lessees (two hotels as of March 31, 2007) increased \$0.3 million from \$5.2 million in 2006 to \$5.5 million in 2007. Participating lease revenue includes (i) base rent and (ii) participating rent based on fixed percentages of hotel revenues pursuant to the respective participating lease. The increase of \$0.3 million is a result of a \$0.2 million increase from Le Montrose Suite Hotel due to a 12.5% increase in RevPar in 2007. The remaining increase of \$0.1 million is due to a 3.8% increase in RevPar in 2007 at San Diego Paradise Point Resort.

Other income

Other income increased \$1.2 million from approximately zero in 2006 to \$1.2 million in 2007. This increase is primarily due to income from the retail leases at the Alexis Hotel and the Marina City Complex of which House of Blues Hotel is a part.

Table of Contents

Hotel operating expenses

Hotel operating expenses increased \$14.3 million from \$76.0 million in 2006 to \$90.3 million in 2007. This increase includes amounts that are not comparable year-over-year as follows:

\$4.9 million increase from Westin Michigan Avenue, which was purchased in March 2006;

\$3.1 million increase from Hotel Solamar, which was purchased in August 2006;

\$1.6 million increase from Alexis Hotel, which was purchased in June 2006;

\$1.4 million increase from House of Blues Hotel, which was purchased in March 2006;

\$1.3 million increase from Holiday Inn Manhattan Wall Street District, which was purchased in November 2006;

\$1.1 million increase from The Graciela Burbank, which was purchased in December 2006; and

\$0.4 million increase from Le Parc Suite Hotel, which was purchased in January 2006.

The remaining increase of \$0.5 million is due to above-inflation increases in payroll and related employee costs and benefits, sales and marketing and property maintenance expenses at the remaining hotels.

Depreciation and amortization

Depreciation and amortization expense increased \$5.4 million from \$16.7 million in 2006 to \$22.1 million in 2007. This increase includes amounts that are not comparable year-over-year as follows:

\$1.6 million increase from Westin Michigan Avenue, which was purchased in March 2006;

\$0.9 million increase from Hotel Solamar, which was purchased in August 2006;

\$0.8 million increase from House of Blues Hotel, which was purchased in March 2006;

\$0.3 million increase from Alexis Hotel, which was purchased in June 2006;

\$0.3 million increase from Holiday Inn Manhattan Wall Street District, which was purchased in November 2006;

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\$0.3 million increase from The Graciela Burbank, which was purchased in December 2006; and

\$0.1 million increase from Le Parc Suite Hotel, which was purchased in January 2006.

The remaining change is an increase of \$1.1 million related to building improvements and purchases of furniture, fixtures and equipment at the remaining hotels during 2007.

Real estate taxes, personal property taxes, insurance and ground rent

Real estate taxes, personal property taxes, insurance and ground rent expenses increased \$3.0 million from \$6.6 million in 2006 to \$9.6 million in 2007. This increase includes amounts that are not comparable year-over-year as follows:

\$0.9 million increase from Westin Michigan Avenue, which was purchased in March 2006;

\$0.5 million increase from House of Blues Hotel, which was purchased in March 2006;

\$0.4 million increase from Hotel Solamar, which was purchased in August 2006;

\$0.2 million increase from Holiday Inn Manhattan Wall Street District, which was purchased in November 2006;

\$0.1 million increase from Alexis Hotel, which was purchased in June 2006; and

\$0.1 million increase from The Graciela Burbank, which was purchased in December 2006.

The remaining increase of \$0.8 million is a result of an increase in real estate taxes, insurance premiums and personal property taxes at the remaining hotels.

General and administrative expenses

General and administrative expense increased \$0.7 million from \$3.2 million in 2006 to \$3.9 million in 2007 primarily as a result of increases in compensation costs, audit fees and other consulting costs.

Table of Contents

Interest expense

Interest expense increased \$2.4 million from \$9.0 million in 2006 to \$11.4 million in 2007 due to an increase in the Company's weighted average debt and an increase in the weighted average interest rate, partly offset by an increase in capitalized interest. The Company's weighted average debt outstanding related to continuing operations increased from \$639.8 million in 2006 to \$826.2 million in 2007, which includes increases from:

assumption of the mortgage and additional borrowing to purchase the Le Parc Suite Hotel in January 2006;

additional borrowing to purchase the House of Blues Hotel in March 2006;

additional borrowing to purchase the Westin Michigan Avenue in March 2006;

additional borrowing to purchase the Hotel Solamar in August 2006; and

assumption of the mortgage on the Holiday Inn Manhattan Wall Street District in November 2006.

The above borrowings are offset by paydowns of the line of credit from proceeds from:

a February 2006 common share offering;

a February 2006 preferred share offering;

a November 2006 preferred share offering; and

operating cash flows.

The Company's weighted average interest rate related to continuing operations increased from 5.2% in 2006 to 5.3% in 2007. Capitalized interest increased \$0.4 million, from \$0.4 million in 2006 to \$0.8 million in 2007, primarily due to the closing and the on-going renovation of the Washington Grande Hotel.

Income taxes

Income tax benefit decreased \$0.3 million from \$3.7 million in 2006 to \$3.4 million in 2007. For the three months ended March 31, 2007, the REIT incurred state and local income tax expense of \$0.1 million. LHL's net loss before income tax benefit increased \$1.0 million from a net loss of \$8.2 million in 2006 to \$9.2 million in 2007. Accordingly, for the three months ended March 31, 2007, LHL recorded a federal income tax benefit of \$2.7 million and a state and local tax benefit of \$0.9 million. The following table summarizes the income tax benefit (dollars in thousands):

For the three months ended March 31,	
2007	2006

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REIT state and local tax expense (benefit)	\$	81		\$	(468)
LHL federal, state and local tax benefit		(3,535)			(3,395)
Total tax benefit		(3,454)			(3,863)
Less: LHL federal, state and local tax benefit related to discontinued operations		73			203
Total tax benefit from continuing operations		\$ (3,381)			\$ (3,660)

As of March 31, 2007, the Company had a deferred tax asset of \$20.5 million primarily due to current and past years tax net operating losses. These loss carryforwards will expire in 2021 through 2025 if not utilized by then. Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax asset and has determined that no valuation allowance is required.

Minority interest

Minority interest of common units in the Operating Partnership represents the common unit limited partners proportionate share of the equity in the Operating Partnership. Income is allocated to common units minority interest based on the weighted average percentage ownership throughout the year. At March 31, 2007, the limited partners held 0.3% of the common units of the Operating Partnership.

Table of Contents

The minority interest of preferred units in the Operating Partnership represents the allocation of income of the Operating Partnership to the preferred units held by third parties. The increase in minority interest of preferred units in the Operating Partnership from \$1.1 million in 2006 to \$1.5 million in 2007 is a result of the Preferred F Units which were issued on November 17, 2006.

Discontinued Operations

Net income from discontinued operations increased \$30.2 million from \$0.2 million in 2006 to \$30.4 million in 2007. Net income from discontinued operations is a result of the sale of the LaGuardia Airport Marriott in January 2007. The following table summarizes net income from discontinued operations for 2007 and 2006 (dollars in thousands):

	For the three months ended March 31,	
	2007	2006
Net lease income from LaGuardia Airport Marriott	\$ 240	\$ 533
Net operating loss from LaGuardia Airport Marriott	(177)	(490)
Gain on sale of LaGuardia Airport Marriott	30,262	
Minority interest expense related to LaGuardia Airport Marriott	(1)	
Income tax benefit related to LaGuardia Airport Marriott	73	203
Net income from discontinued operations	\$ 30,397	\$ 246

Distributions to preferred shareholders

Distributions to preferred shareholders increased \$1.9 million, from \$5.6 million in 2006 to \$7.5 million in 2007 due to \$0.8 million and \$1.8 million increases in distributions on Series E Preferred Shares and Series G Preferred Shares, respectively, which were issued on February 8, 2006 and November 17, 2006, respectively, and were outstanding for a full quarter in 2007, offset by a \$0.7 million decrease due to the redemption of the Series A Preferred Shares on March 6, 2007.

Non-GAAP Financial Measures*Funds from Operations and EBITDA*

The Company considers the non-GAAP measures of FFO and EBITDA to be key supplemental measures of the Company's performance and should be considered along with, but not as alternatives to, net income as a measure of the Company's operating performance. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, most real estate industry investors consider FFO and EBITDA to be helpful in evaluating a real estate company's operations.

The White Paper on FFO approved by NAREIT in April 2002 defines FFO as net income or loss (computed in accordance with GAAP), excluding gains or losses from sales of properties and items classified by GAAP as extraordinary, plus real estate-related depreciation and amortization (excluding amortization of deferred finance costs) and after comparable adjustments for the Company's portion of these items related to unconsolidated entities and joint ventures. The Company computes FFO consistent with standards established by NAREIT, which may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than the Company.

With respect to FFO, the Company believes that excluding the effect of extraordinary items, real estate-related depreciation and amortization, and the portion of these items related to unconsolidated entities, all of which are based on historical cost accounting and which may be of limited significance in evaluating current performance, can

Table of Contents

facilitate comparisons of operating performance between periods and between REITs, even though FFO does not represent an amount that accrues directly to common shareholders. However, FFO may not be helpful when comparing the Company to non-REITs.

With respect to EBITDA, the Company believes that excluding the effect of non-operating expenses and non-cash charges, and the portion of these items related to unconsolidated entities, all of which are also based on historical cost accounting and may be of limited significance in evaluating current performance, can help eliminate the accounting effects of depreciation and amortization, and financing decisions and facilitate comparisons of core operating profitability between periods and between REITs, even though EBITDA also does not represent an amount that accrues directly to common shareholders.

Neither FFO nor EBITDA represents cash generated from operating activities determined by GAAP and should not be considered as alternatives to net income, cash flow from operations or any other operating performance measure prescribed by GAAP. Neither FFO nor EBITDA is a measure of the Company's liquidity, nor is FFO or EBITDA indicative of funds available to fund the Company's cash needs, including its ability to make cash distributions. Neither measurement reflects cash expenditures for long-term assets and other items that have been and will be incurred. FFO and EBITDA may include funds that may not be available for management's discretionary use due to functional requirements to conserve funds for capital expenditures, property acquisitions, and other commitments and uncertainties. To compensate for this, management considers the impact of these excluded items to the extent they are material to operating decisions or the evaluation of the Company's operating performance.

The following is a reconciliation between net income applicable to common shareholders and FFO for the three months ended March 31, 2007 and 2006 (dollars in thousands, except share data):

	For the three months ended	
	March 31,	
	2007	2006
Funds From Operations (FFO):		
Net income applicable to common shareholders	\$ 15,652	\$ 33,260
Depreciation	22,016	17,075
Equity in depreciation of joint venture		178
Amortization of deferred lease costs	124	36
Minority interest:		
Minority interest of common units in Operating Partnership	74	80
Minority interest in discontinued operations	1	
Less: Equity in gain on sale of property		(38,393)
Net gain on sale of property disposed of	(30,262)	
FFO	\$ 7,605	\$ 12,236
Weighted average number of common shares and units outstanding:		
Basic	39,947,484	38,129,385
Diluted	40,216,403	38,508,278

Table of Contents

The following is a reconciliation between net income applicable to common shareholders and EBITDA for the three months ended March 31, 2007 and 2006 (dollars in thousands):

	For the three months ended March 31,	
	2007	2006
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA):		
Net income applicable to common shareholders	\$ 15,652	\$ 33,260
Interest	11,443	9,014
Equity in interest expense of joint venture		317
Income tax benefit:		
Income tax benefit	(3,381)	(3,660)
Income tax benefit from discontinued operations	(73)	(203)
Depreciation and amortization	22,191	17,159
Equity in depreciation/amortization of joint venture		201
Minority interest:		
Minority interest of common units in Operating Partnership	74	80
Minority interest of preferred units in Operating Partnership	1,526	1,064
Minority interest in discontinued operations	1	
Distributions to preferred shareholders including issuance costs of redeemed preferred shares	11,339	5,611
EBITDA	\$ 58,772	\$ 62,843

Off-Balance Sheet Arrangements*Tax Indemnification Agreement*

Pursuant to the acquisition of the Westin Copley Place, the Company entered into a Tax Reporting and Protection Agreement (the Tax Agreement) with SCG Copley Square LLC (SCG). Under the Tax Agreement, the Company is required, among other things, to indemnify SCG (and its affiliates) for certain income tax liabilities that such entities would incur if the Westin Copley Place was transferred by the Company in a taxable transaction or if the Company fails to maintain a certain level of indebtedness with respect to the Westin Copley Place or its operations. The obligations of the Company under the Tax Protection Agreement (i) do not apply in the case of a foreclosure of the Westin Copley Place, if certain specified requirements are met, (ii) are limited to \$20.0 million (although a limitation of \$10.0 million is applicable to certain specified transactions), and (iii) terminates on the earlier of the tenth anniversary of the Company's acquisition of the Westin Copley Place or January 1, 2016. The Company believes that the likelihood that the Company will be required to pay under this Tax Agreement is remote, and therefore, a liability has not been recorded.

Reserve Funds

Certain of the Company's agreements with its hotel managers, franchisors and lenders have provisions for the Company to provide funds, generally 3.0% to 5.5% of hotel revenues, sufficient to cover the cost of (a) certain non-routine repairs and maintenance to the hotels; and (b) replacements and renewals to the hotels' furniture, fixtures and equipment. Certain agreements require that the Company reserve cash. As of March 31, 2007, \$7.8 million was available in restricted cash reserves for future capital expenditures.

The Company has no other off-balance sheet arrangements.

Liquidity and Capital Resources

The Company's principal source of cash to meet its cash requirements, including distributions to shareholders, is its pro rata share of hotel operating cash flow distributed by LHL and the Operating Partnership's cash flow from the participating leases. The Company's senior unsecured credit facility contains certain financial covenants relating to debt service coverage, net worth and total funded indebtedness and contains financial covenants that, assuming no continuing defaults, allow the Company to make shareholder distributions. There are currently no other contractual or other arrangements limiting payment of distributions by the Operating Partnership. Similarly, LHL is a wholly owned subsidiary

of the Operating Partnership. Payments to the Operating Partnership are required pursuant to the

Table of Contents

terms of the lease agreements between LHL and the Operating Partnership relating to the properties owned by the Operating Partnership and leased by LHL. Except for the security deposits required under the participating leases for the two hotels not leased by LHL, the lessees obligations under the participating leases are unsecured and the lessees' abilities to make rent payments to the Operating Partnership, and the Company's liquidity, including its ability to make distributions to shareholders, are dependent on the lessees' abilities to generate sufficient cash flow from the operations of the hotels.

Debt at March 31, 2007 and December 31, 2006, consisted of the following (dollars in thousands):

Debt	Interest Rate at		Maturity	Balance Outstanding at	
	March 31,			March 31,	December 31,
	2007		Date	2007	2006
Credit facilities					
Senior Unsecured Credit Facility	Floating		June 2008	\$ 12,000	\$
LHL Unsecured Credit Facility	Floating		June 2008	14,790	
Massport bonds					
Harborside Hyatt Conference Center & Hotel (taxable) (b)					
Harborside Hyatt Conference Center & Hotel (tax exempt)(b)	Floating	(a)	March 2018	5,400	5,400
Harborside Hyatt Conference Center & Hotel (tax exempt)(b)	Floating	(a)	March 2018	37,100	37,100
Total bonds payable				42,500	42,500
Mortgage loans					
Le Parc Suite Hotel	7.78%		May 2008	15,185	15,295
Holiday Inn Manhattan Wall Street District	Floating	(c)	November 2008	20,000	20,000
Sheraton Bloomington Hotel Minneapolis South and Westin City Center Dallas	8.10%		July 2009	40,482	40,744
San Diego Paradise Point Resort	5.25%		February 2009	60,815	61,182
Hilton Alexandria Old Town	4.98%		September 2009	32,608	32,802
Le Montrose Suite Hotel	8.08%		July 2010	13,567	13,629
Hilton San Diego Gaslamp Quarter	5.35%		June 2012	59,600	59,600
Hotel Solamar	5.49%		December 2013	60,900	60,900
Hotel Deca	6.28%		August 2014	10,514	10,567
Westin Copley Place	5.28%		August 2015	210,000	210,000
Westin Michigan Avenue	5.75%		April 2016	140,000	140,000
Indianapolis Marriott Downtown	5.99%		July 2016	101,780	101,780
Mortgage Loans				765,451	766,499
Unamortized Loan Premium (d)				888	978
Total mortgage loans				766,339	767,477
Total debt				\$ 835,629	\$ 809,977

- (a) Variable interest rate based on a weekly floating rate. The interest rate at March 31, 2007 was 5.35% and 3.69% for the \$5,400 and \$37,100 bonds, respectively. The interest rate at December 31, 2006 was 5.38% and 4.01% for the \$5,400 and \$37,100 bonds, respectively. The Company also incurs a 1.35% annual maintenance fee.
- (b) The Massport bonds are secured by letters of credit issued by the Royal Bank of Scotland that expire in 2009. The Royal Bank of Scotland letters of credit are secured by the Harborside Hyatt Conference Center & Hotel.
- (c) Mortgage debt bears interest at London InterBank Offered Rate plus 0.75%. The interest rates at March 31, 2007 and December 31, 2006 were 6.07% and 6.10%, respectively.

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(d) Mortgage debt includes unamortized loan premiums of \$352 and \$536 for Le Parc Suite Hotel and Hotel Deca, respectively, as of March 31, 2007, and \$428 and \$550, respectively, as of December 31, 2006. The Company incurred interest expense of \$11.4 million and \$9.0 million for the three months ended March 31, 2007 and 2006, respectively. Included in interest expense are amortization of deferred financing fees of \$0.6 million and \$0.6 million for the three months ended March 31, 2007 and 2006, respectively. Interest was capitalized in the amount of \$0.8 million and \$0.4 million for the three months ended March 31, 2007 and 2006, respectively.

Table of Contents*Credit Facilities*

The Company has a senior unsecured credit facility from a syndicate of banks that provides for a maximum borrowing of up to \$300.0 million. On June 9, 2005, the Company amended the credit facility to extend the credit facility's maturity date to June 9, 2008 with a one-year extension option and to reduce the applicable margin pricing by a range of 0.25% to 0.5%. The senior unsecured credit facility contains certain financial covenants relating to debt service coverage, net worth and total funded indebtedness and contains financial covenants that, assuming no continuing defaults, allow the Company to make shareholder distributions which, when combined with the distributions to shareholders in the three immediately preceding fiscal quarters, do not exceed the greater of (i) 90% of the funds from operations from the preceding four-quarter rolling period or (ii) the greater of (a) the amount of distributions required for the Company to maintain its status as a REIT or (b) the amount required to ensure the Company will avoid imposition of an excise tax for failure to make certain minimum distributions on a calendar year basis. Borrowings under the credit facility bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate plus an applicable margin. As of March 31, 2007, the Company was in compliance with all debt covenants and was not otherwise in default under the credit facility. For the three months ended March 31, 2007, the weighted average interest rate for borrowings under the senior unsecured credit facility was 6.8%. The Company did not have any Adjusted Base Rate borrowings outstanding at March 31, 2007. Additionally, the Company is required to pay a variable unused commitment fee determined from a ratings or leverage based pricing matrix, currently set at 0.2% of the unused portion of the senior unsecured credit facility. The Company incurred an unused commitment fee of \$0.1 million for the three months ended March 31, 2007. At March 31, 2007 and December 31, 2006, the Company had \$12.0 million and zero, respectively, of outstanding borrowings under the senior unsecured credit facility.

LHL has a \$25.0 million unsecured revolving credit facility to be used for working capital and general lessee corporate purposes. On June 9, 2005, LHL amended the credit facility to extend the credit facility maturity date to June 9, 2008 with a one-year extension option and to reduce the applicable margin pricing by a range of 0.25% to 0.5%. Borrowings under the LHL credit facility bear interest at floating rates equal to, at LHL's option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate plus an applicable margin. As of March 31, 2007, the Company was in compliance with all debt covenants and was not otherwise in default under the credit facility. The weighted average interest rate for the borrowings under the LHL credit facility for the three months ended March 31, 2007 was 6.8%. LHL is required to pay a variable unused commitment fee determined from a ratings or leverage based pricing matrix, currently set at 0.2% of the unused portion of the LHL credit facility. LHL incurred an unused commitment fee of an immaterial amount for the three months ended March 31, 2007. At March 31, 2007 and December 31, 2006, the Company had \$14.8 million and zero, respectively, of outstanding borrowings under the LHL credit facility.

Sources and Uses Of Cash

At March 31, 2007, the Company had \$9.9 million of cash and cash equivalents, \$13.6 million of restricted cash reserves and \$274.8 million available under the senior unsecured credit facility.

Net cash provided by operating activities was \$5.2 million for the three months ended March 31, 2007, primarily due to the distribution of available hotel operating cash by LHL and participating lease revenues, which were offset by payments for real estate taxes, personal property taxes, insurance and ground rent.

Net cash provided by investing activities was \$43.8 million for the three months ended March 31, 2007, due to proceeds from the sale of the LaGuardia Airport Marriott and proceeds from restricted cash reserves offset by the outflows for improvements and additions at the hotels and the funding of restricted cash reserves.

Net cash used in financing activities was \$102.1 million for the three months ended March 31, 2007, due to the redemption of the Series A Preferred Shares on March 6, 2007, payment of distributions to the common shareholders and unitholders, payment of distributions to preferred shareholders and unitholders, repurchase of treasury shares and mortgage loan repayments. These uses were offset by net borrowings from the senior unsecured credit facility and proceeds from the exercise of share options.

Table of Contents

The Company has considered its short-term (one year or less) liquidity needs and the adequacy of its estimated cash flow from operations and other expected liquidity sources to meet these needs. The Company believes that its principal short-term liquidity needs are to fund normal recurring expenses, debt service requirements, distributions on the preferred shares and the minimum distribution required to maintain the Company's REIT qualification under the Code. The Company anticipates that these needs will be met with cash flows provided by operating activities and using availability under the senior unsecured credit facility. The Company also considers capital improvements and property acquisitions as short-term needs that will be funded either with cash flows provided by operating activities, utilizing availability under the senior unsecured credit facility, the issuance of other indebtedness, or the issuance of additional equity securities.

The Company expects to meet long-term (greater than one year) liquidity requirements such as property acquisitions, scheduled debt maturities, major renovations, expansions and other nonrecurring capital improvements utilizing availability under the senior unsecured credit facility, estimated cash flows from operations, the issuance of long-term unsecured and secured indebtedness and the issuance of additional equity securities. The Company expects to acquire or develop additional hotel properties only as suitable opportunities arise, and the Company will not undertake acquisition or development of properties unless stringent acquisition/development criteria have been achieved.

Reserve Funds

The Company is obligated to maintain reserve funds for capital expenditures at the hotels (including the periodic replacement or refurbishment of furniture, fixtures and equipment) as determined pursuant to the operating agreements. Please refer to "Off-Balance Sheet Arrangements" for a discussion of the Reserve Funds.

Contractual Obligations

The following is a summary of the Company's obligations and commitments as of March 31, 2007 (dollars in thousands):

Contractual Obligations	Total Amounts Committed	Amount of Commitment Expiration Per Period			
		Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years
Mortgage loans ⁽¹⁾	\$ 1,058,819	\$ 48,786	\$ 244,593	\$ 81,810	\$ 683,630
Borrowings under credit facilities ⁽¹⁾	28,999	1,858	27,141		
Ground rent ⁽²⁾	200,035	4,698	9,395	9,395	176,547
Massport bonds ⁽¹⁾	60,597	1,658	3,316	3,316	52,307
Purchase commitments ⁽³⁾					
Purchase orders and letters of commitment	47,239	47,239			
Total obligations and commitments	\$ 1,395,689	\$ 104,239	\$ 284,445	\$ 94,521	\$ 912,484

- (1) Amounts include interest. Interest expense on fixed rate debt is computed based on the fixed interest rate of the debt. Interest expense on the variable rate debt is computed based on the rate at March 31, 2007.
- (2) Amounts computed based on the annual minimum future ground lease payments that extend through the term of the lease. Rents may be subject to adjustments based on future interest rates and hotel performance.
- (3) As of March 31, 2007, purchase orders and letters of commitment totaling approximately \$47.2 million had been issued for renovations at the hotels. The Company has committed to these projects and anticipates making similar arrangements with the existing hotels or any future hotels that it may acquire.

Table of Contents**The Hotels**

On March 11, 2005, the Company notified Marriott International (Marriott) that it was terminating the management agreement at the Seaview Resort and Spa due to Marriott's failure to meet certain hotel operating performance thresholds in 2004 as defined in the management agreement. Pursuant to the management agreement, Marriott had the right to avoid termination by making payment of \$2.4 million within 60 days of notification. On April 28, 2005, Marriott made a cure payment of \$2.4 million to avoid termination. On March 9, 2006, the Company notified Marriott again that it was terminating the management agreement at the Seaview Resort and Spa due to Marriott's failure to meet certain hotel operating performance thresholds in 2005 as defined in the management agreement. On May 2, 2006, Marriott made an additional cure payment of \$3.7 million to avoid termination. Marriott may recoup these amounts in the event certain future operating performance thresholds are attained. Marriott has recouped \$0.3 million and \$1.5 million in 2006 and 2005, respectively. The remaining amount may still be recouped; therefore, the Company maintains a deferred liability of \$4.3 million as of March 31, 2007 and December 31, 2006, which is included in accounts payable and accrued expenses on the accompanying balance sheets.

On February 22, 2007, the Company notified Marriott that it was again terminating the management agreement at the Seaview Resort and Spa due to Marriott's failure to meet certain hotel operating performance thresholds in 2006 as defined in the management agreement. Pursuant to the management agreement, Marriott has the right to avoid termination by making payment of \$3.1 million within 60 days of notification. On April 5, 2007, Marriott made the cure payment to avoid termination and the Company recognized a deferred liability for this amount at that time. Marriott may recoup this amount in the event certain future operating performance thresholds are attained.

The following table sets forth historical comparative information with respect to occupancy, average daily rate (ADR) and room revenue per available room (RevPAR) for the total hotel portfolio for the three months ended March 31, 2007 and 2006, respectively. ADR is calculated as the quotient of room revenue divided by the number of rooms sold, and RevPAR is calculated as the product of occupancy and ADR.

	For the three months ended		
	2007	March 31, 2006	Variance
Total Portfolio			
Occupancy	65.9%	68.3%	-3.4%
ADR	180.94	171.65	5.4%
RevPAR	119.30	117.18	1.8%

Inflation

The Company's revenues come primarily from its pro rata share of the Operating Partnership's cash flow from the participating leases and the LHL hotel operating revenues, thus the Company's revenues will vary based on changes in the underlying hotels' revenues. Therefore, the Company relies entirely on the performance of the hotels and the lessees' abilities to increase revenues to keep pace with inflation. The hotel operators can change room rates quickly, but competitive pressures may limit the lessees' and hotel operators' abilities to raise rates faster than inflation or even at the same rate.

The Company's expenses (primarily real estate taxes, property and casualty insurance, administrative expenses and LHL hotel operating expenses) are subject to inflation. These expenses are expected to grow with the general rate of inflation, except for energy costs, property and casualty insurance, liability insurance, property tax rates, employee benefits, and some wages, which are expected to increase at rates higher than inflation, and except for instances in which the properties are subject to periodic real estate tax reassessments.

Seasonality

The Company's hotels' operations historically have been seasonal. Taken together, the hotels maintain higher occupancy rates during the second and third quarters. These seasonality patterns can be expected to cause fluctuations in the Company's quarterly lease revenue under the participating leases with third-party lessees and hotel operating revenue from LHL.

Table of Contents

Litigation

The nature of the operations of the hotels exposes the hotels to the risk of claims and litigation in the normal course of their business. Although the outcome of these matters cannot be determined, management does not expect the ultimate resolution of these matters to have a material adverse effect on the financial position, operations or liquidity of the hotels.

The Company has engaged Starwood Hotels & Resorts Worldwide, Inc. to manage and operate its Dallas hotel under the Westin brand affiliation. Meridien Hotels, Inc. (Meridien) affiliates had been operating the Dallas property as a wrongful holdover tenant, until the Westin brand conversion occurred on July 14, 2003 under court order.

On December 20, 2002, affiliates of Meridien abandoned the Company's New Orleans hotel. The Company entered into a lease with a wholly-owned subsidiary of LHL and an interim management agreement with Interstate Hotels & Resorts, Inc., and re-named the hotel the New Orleans Grande Hotel. The New Orleans property thereafter was sold on April 21, 2003 for \$92.5 million.

In connection with the termination of the Meridien affiliates at these hotels, the Company is currently in litigation with Meridien and related affiliates. The Company understands that Lehman Brothers is now the real party in interest after having acquired a controlling stake in the Meridien entities that are parties to the Dallas and New Orleans lawsuits. The Company believes its sole potential obligation in connection with the termination of the leases is to pay fair market value of the leases, if any. With respect to the Dallas hotel, the Company has obtained a judgment from the court that Meridien defaulted and that Meridien is not entitled to the payment of fair market value. The Company's damage claims against Meridien went to trial in March 2005, and a final judgment was entered for the Company in the amount of \$3.9 million, plus post-judgment interest. Meridien has noticed an appeal and the Company has noticed an appeal as well. With respect to the New Orleans hotel, arbitration of the fair market value of the New Orleans lease commenced in October 2002. On December 19, 2002, the arbitration panel determined that Meridien was entitled to an award of \$5.7 million, subject to adjustment (reduction) by the courts to account for Meridien's holdover. In order to dispute the arbitration decision, the Company was required to post a \$7.8 million surety bond, which was secured by \$5.9 million of restricted cash. The Company successfully challenged the award on appeal, and the dispute was remanded to the trial court. Meridien's request for rehearing was denied on March 31, 2004, and Meridien did not petition to the Louisiana Supreme Court. In June 2004, the \$7.8 million surety bond was released and the \$5.9 million restricted cash securing it was returned to the Company. The issue of default by the lessee and the Company's wrongful holdover claim, as well as Meridien's damage claims arising from the termination of its leasehold, among other claims, went to trial in February 2005. On June 9, 2005, the trial court issued its judgment denying the Company's default claim as well as Meridien's fraud claim, and re-determined fair market value to be \$8.6 million, plus interest. On July 18, 2005, the Company posted a \$8.6 million surety bond, which was secured by \$9.0 million of restricted cash. On May 26, 2006, the trial court entered judgment awarding Meridien attorney's fees of \$4.1 million. The Company has noticed an appeal from the trial court's judgment. On July 11, 2006, the Company posted a \$4.2 million bond which is collateralized by a letter of credit. On August 15, 2006, the Company replaced the restricted cash collateral on the \$8.6 million bond and obtained a new \$12.8 million letter of credit which serves as collateral for the \$8.6 million bond and the \$4.2 million bond. The Louisiana court of appeals heard argument on the Company's appeal from the trial court's judgment on April 3, 2007, and a decision is pending.

Table of Contents

In 2002, the Company recognized a net \$2.5 million contingent lease termination expense and reversed previously deferred assets and liabilities related to the termination of both the New Orleans property and Dallas property leases and recorded a corresponding contingent liability included in accounts payable and accrued expenses in the accompanying consolidated balance sheet. The Company believes, however, it is owed holdover rent per the lease terms due to Meridien's failure to vacate the properties as required under the leases. The contingent lease termination expense was, therefore, net of the holdover rent the Company believes it is entitled to for both properties. In 2003, the Company adjusted this liability by additional holdover rent of \$0.8 million that it believes it is entitled to for the Dallas property. These amounts were recorded as other income in the Company's December 31, 2003 consolidated statement of operations. The contingent lease termination expense recognized cumulatively since 2002 is comprised of (dollars in thousands):

	Expense Recognized Quarter Ended December 31, 2002	Expense Recognized Year Ended December 31, 2004	Expense Recognized Year Ended December 31, 2005	Expense Recognized Period Ended December 31, 2006	Cumulative Expense Recognized as of March 31, 2007
Estimated arbitration award	\$ 5,749	\$	\$	\$	\$ 5,749
Legal fees related to litigation	2,610	1,350	1,000	800	5,760
Holdover rent	(4,844)				(4,844)
Expected reimbursement of legal fees	(995)	(500)			(1,495)
Net contingent lease termination expense	\$ 2,520	\$ 850	\$ 1,000	\$ 800	\$ 5,170

In September 2004, after evaluating the ongoing Meridien litigation, the Company accrued additional net legal fees of \$0.9 million due to litigation timeline changes. In June 2005, after further evaluation of the ongoing Meridien litigation, the Company accrued an additional \$1.0 million in legal fees due to timeline changes. In September 2006, after further evaluation of the ongoing Meridien litigation, the Company accrued an additional \$0.8 million in legal fees due to timeline changes in order to conclude this matter. As a result, the net contingent lease termination liability has a balance of \$1.8 million as of March 31, 2007, which is included in accounts payable and accrued expenses in the accompanying consolidated balance sheet. Based on the claims the Company has against Meridien, the Company is and will continue to challenge Meridien's claim that it is entitled to the payment of fair market value, and will continue to seek reimbursement of legal fees and damages. These amounts may exceed or otherwise may be used to offset any amounts potentially owed to Meridien, and therefore, ultimately may offset or otherwise reduce any contingent lease termination expense. Additionally, the Company cannot provide any assurances that the holdover rents or any damages will be collectible from Meridien or that the amounts due will not be greater than the recorded contingent lease termination expense.

The Company maintained a lien on Meridien's security deposit on both disputed properties with an aggregate value of \$3.3 million, in accordance with the lease agreements. The security deposits were liquidated in May 2003 with the proceeds used to partially satisfy Meridien's outstanding obligations. The judgment entered by the Dallas Court already incorporates a set-off in the amount of \$1.0 million attributable to the security deposit for the Dallas property.

The Company does not believe that the amount of any fees or damages it may be required to pay on any of the litigation related to Meridien will have a material adverse effect on the Company's financial condition or results of operations, taken as a whole. The Company's management has discussed this contingency and the related accounting treatment with the audit committee of its Board of Trustees.

The Company accrues for future legal fees related to contingent liabilities based upon management's estimate. The Company is not presently subject to any other material litigation nor, to the Company's knowledge, is any other litigation threatened against the Company, other than routine actions for negligence or other claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance and all of which collectively are not expected to have a material adverse effect on the liquidity, results of operations or business or financial condition of the Company.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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The Company is exposed to market risk from changes in interest rates. We seek to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs by closely monitoring our variable rate debt and converting such debt to fixed rates when we deem such conversion advantageous. As of March 31, 2007, \$89.3 million of the Company's aggregate indebtedness (10.7% of total indebtedness) was subject to variable interest rates. In addition, the preferred distribution on the Series F Preferred Units with a liquidation value of \$27.5 million is subject to variable interest rates.

Table of Contents

If market rates of interest on our variable rate long-term debt and variable rate preferred units increase by 0.25%, the increase in interest expense on our variable long-term rate debt and minority interest on our variable rate preferred units would decrease future earnings and cash flows by \$0.3 million annually. On the other hand, if market rates of interest on the variable rate long-term debt and variable rate preferred units decrease by 0.25%, the decrease in interest expense on the variable rate long-term debt and minority interest on our variable rate preferred units would increase future earnings and cash flows by \$0.3 million annually. This assumes that the amount outstanding under the Company's variable rate debt remains at \$89.3 million, the balance at March 31, 2007.

Item 4. Controls and Procedures

Based on the most recent evaluation, the Company's Chief Executive Officer and Chief Financial Officer believe the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) were effective as of March 31, 2007. There were no changes to the Company's internal controls over financial reporting during the first quarter ended March 31, 2007, that materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

The Company and the Operating Partnership are subject to claims and actions in the ordinary course and, from time to time, to other litigation, including the Meridien litigation described elsewhere in this report and, with respect to the Meridien litigation previously reported in Part I of this report, is hereby incorporated by reference thereto in this Item 1 Part II. Some of these matters are expected to be covered by insurance. The ultimate resolution of these matters, in the opinion of the Company, is not expected to have a material adverse effect on the financial position, operations or liquidity of the Company and the Operating Partnership.

Item 1A. Risk Factors

Other than with respect to the risk factor below, there have been no material changes from the risk factors disclosed in the Risk Factors section of the Company's Annual Report on Form 10-K for the year ended December 31, 2006. The risk factor below is disclosed on the Form 10-K and has been updated to provide debt information as of March 31, 2007.

Increases in interest rates may increase the Company's interest expense.

As of March 31, 2007, \$89.3 million of aggregate indebtedness (10.7% of total indebtedness) was subject to variable interest rates. An increase in interest rates could increase the Company's interest expense and reduce its cash flow and may affect its ability to make distributions to shareholders and to service its indebtedness.

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

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

(a) *Exhibits.*

Exhibit Number	Description of Exhibit
3.1	Amended and Restated Bylaws of LaSalle Hotel Properties, Inc. (including all amendments thereto)
10.1	Form of time-based restricted stock award agreement
10.2	Form of performance-based restricted stock award agreement
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002

Table of Contents

SIGNATURES

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

LASALLE HOTEL PROPERTIES

Dated: April 18, 2007

BY: /s/ HANS S. WEGER

Hans S. Weger

Executive Vice President, Treasurer and Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

Table of Contents

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