

LASALLE HOTEL PROPERTIES

Form 10-Q

October 18, 2006

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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 September 30, 2006

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,

36-4219376
(IRS Employer

Identification No.)

20814

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Bethesda, Maryland
(Address of principal executive offices)

301/941-1500

(Zip Code)

(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 October 18, 2006
Common Shares of Beneficial Interest (\$0.01 par value)	39,973,724
10 ¹ / ₄ % Series A Cumulative Redeemable Preferred Shares (\$0.01 par value)	3,991,900
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

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

	September 30, 2006 (unaudited)	December 31, 2005
Assets:		
Investment in hotel properties, net	\$ 1,831,167	\$ 1,392,344
Property under development	58,861	11,681
Investment in joint venture (Note 2)	320	978
Cash and cash equivalents	3,198	10,153
Restricted cash reserves (Note 6)	18,831	20,845
Rent receivable	4,660	2,238
Hotel receivables (net of allowance for doubtful accounts of approximately \$678 and \$987, respectively)	29,885	17,678
Deferred financing costs, net	3,868	4,504
Deferred tax asset	17,257	18,176
Prepaid expenses and other assets	53,613	21,021
Total assets	\$ 2,021,660	\$ 1,499,618
Liabilities and Shareholders' Equity:		
Borrowings under credit facilities (Note 5)	\$ 69,861	\$ 30,655
Bonds payable (Note 5)	42,500	42,500
Mortgage loans (including unamortized premium of \$1,077 and \$615, respectively) (Note 5)	687,681	489,660
Accounts payable and accrued expenses	77,705	47,992
Advance deposits	8,746	4,623
Accrued interest	3,412	2,531
Distributions payable	11,970	8,239
Total liabilities	901,875	626,200
Minority interest of common units in Operating Partnership (Note 1)	655	2,597
Minority interest of preferred units in Operating Partnership (Note 1)	59,739	59,739
Commitments and contingencies (Note 6)		
Shareholders' Equity:		
Preferred shares, \$.01 par value, 20,000,000 shares authorized, (Note 7)		
10 ¹ / ₄ % Series A (liquidation preference \$99,797) - 3,991,900 shares issued and outstanding at September 30, 2006 and December 31, 2005	40	40
8 ³ / ₈ % Series B (liquidation preference \$27,500) - 1,100,000 shares issued and outstanding at September 30, 2006 and December 31, 2005	11	11
7 ¹ / ₂ % Series D (liquidation preference \$79,250) - 3,170,000 shares issued and outstanding at September 30, 2006 and December 31, 2005	32	32
8% Series E (liquidation preference \$87,500) - 3,500,000 and 0 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	35	
Common shares of beneficial interest, \$.01 par value, 100,000,000 shares authorized and 39,973,724 and 36,053,809 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively (Note 7)	399	361

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Additional paid-in capital, including offering costs of \$44,061 and \$36,790 at September 30, 2006 and December 31, 2005, respectively	1,121,352	894,976
Accumulated other comprehensive income (Note 13)		1,353
Distributions in excess of retained earnings	(62,478)	(85,691)
Total shareholders' equity	1,059,391	811,082
Total liabilities and shareholders' equity	\$ 2,021,660	\$ 1,499,618

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 September 30,		For the nine months ended September 30,	
	2006	2005	2006	2005
Revenues:				
Hotel operating revenues:				
Room revenue	\$ 109,777	\$ 63,683	\$ 286,287	\$ 163,242
Food and beverage revenue	43,897	29,125	122,798	80,246
Other operating department revenue	13,108	9,375	33,640	21,963
Total hotel operating revenues	166,782	102,183	442,725	265,451
Participating lease revenue	8,888	8,097	20,640	17,511
Other income (Notes 4 and 9)	1,218	191	4,048	807
Total revenues	176,888	110,471	467,413	283,769
Expenses:				
Hotel operating expenses:				
Room	23,469	14,538	64,489	38,770
Food and beverage	29,897	20,069	84,713	55,177
Other direct	6,522	4,872	17,722	12,781
Other indirect (Note 10)	44,865	28,582	123,331	74,925
Total hotel operating expenses	104,753	68,061	290,255	181,653
Depreciation and amortization	20,528	12,430	57,241	33,699
Real estate taxes, personal property taxes and insurance	7,665	4,137	20,914	11,088
Ground rent (Note 6)	1,978	1,255	4,925	3,024
General and administrative	3,395	2,911	9,386	8,171
Lease termination expense	800		800	1,000
Other expenses	671	17	1,926	188
Total operating expenses	139,790	88,811	385,447	238,823
Operating income	37,098	21,660	81,966	44,946
Interest income	282	224	1,308	429
Interest expense	(11,484)	(6,569)	(30,721)	(16,405)
Income before income tax (expense) benefit, minority interest, equity in earnings of joint venture and discontinued operations	25,896	15,315	52,553	28,970
Income tax (expense) benefit (Note 11)	(1,102)	27	(345)	(18)
Minority interest of common units in Operating Partnership	(16)	(120)	(108)	(284)
Minority interest of preferred units in Operating Partnership	(1,064)	(355)	(3,193)	(355)
Equity in earnings of joint venture (Note 2)		275	38,411	461
Income from continuing operations	23,714	15,142	87,318	28,774

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Discontinued operations:				
Loss from operations of properties disposed of				(45)
Income tax benefit				19
Net loss from discontinued operations				(26)
Net income	23,714	15,142	87,318	28,748
Distributions to preferred shareholders	(6,369)	(3,744)	(18,349)	(10,010)
Net income applicable to common shareholders	\$ 17,345	\$ 11,398	\$ 68,969	\$ 18,738

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2006	2005	2006	2005
Earnings per Common Share - Basic:				
Income applicable to common shareholders before discontinued operations and after dividends paid on unvested restricted shares	\$ 0.43	\$ 0.38	\$ 1.75	\$ 0.62
Discontinued operations				
Net income applicable to common shareholders after dividends paid on unvested restricted shares	\$ 0.43	\$ 0.38	\$ 1.75	\$ 0.62
Earnings per Common Share - Diluted:				
Income applicable to common shareholders before discontinued operations	\$ 0.43	\$ 0.37	\$ 1.74	\$ 0.62
Discontinued operations				
Net income applicable to common shareholders	\$ 0.43	\$ 0.37	\$ 1.74	\$ 0.62
Weighted average number of common shares outstanding:				
Basic	39,786,308	30,022,302	39,211,490	29,853,499
Diluted	40,175,387	30,492,289	39,605,575	30,329,567

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)**(unaudited)*

	For the nine months ended September 30,	
	2006	2005
Cash flows from operating activities:		
Net income	\$ 87,318	\$ 28,748
Adjustments to reconcile net income to net cash flow provided by operating activities:		
Depreciation and other amortization	57,241	33,699
Amortization of deferred financing costs and mortgage premium	1,744	1,876
Minority interest in the Operating Partnership	3,301	284
Income tax expense (benefit)	919	(1,322)
Deferred compensation	1,193	899
Equity in earnings of unconsolidated entities	(38,411)	(461)
Changes in assets and liabilities:		
Rent receivable	(2,422)	(3,634)
Hotel receivables	(10,778)	(9,938)
Prepaid expenses and other assets	(30,039)	(7,438)
Accounts payable and accrued expenses	19,354	9,818
Advance deposits	3,176	703
Accrued interest	881	(240)
Net cash flow provided by operating activities	93,477	52,994
Cash flows from investing activities:		
Improvements and additions to hotel properties	(35,964)	(35,759)
Acquisition of hotel properties	(485,618)	(199,439)
Distributions from joint venture	39,069	638
Purchase of office furniture and equipment	(142)	(68)
Funding of restricted cash reserves	(16,374)	(16,130)
Proceeds from restricted cash reserves	18,592	2,226
Net cash flow used in investing activities	(480,437)	(248,532)
Cash flows from financing activities:		
Borrowings under credit facilities	450,860	277,156
Repayments under credit facilities	(411,654)	(212,915)
Proceeds from mortgage loans	241,780	59,600
Repayments of mortgage loans	(59,888)	(2,436)
Payment of deferred financing costs	(847)	(2,557)
Proceeds from exercise of stock options	465	2,736
Proceeds from issuance of preferred shares	87,500	79,250
Proceeds from issuance of common shares	143,100	
Payment of preferred offering costs	(2,144)	(2,314)
Payment of common offering costs	(5,126)	(167)
Purchase of treasury shares	(1,016)	(1,046)
Distributions-preferred shares/units	(19,792)	(9,399)
Distributions-common shares/units	(43,233)	(23,052)

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Net cash flow provided by financing activities	380,005	164,856
Net change in cash and cash equivalents	(6,955)	(30,682)
Cash and cash equivalents, beginning of period	10,153	32,102
Cash and cash equivalents, end of period	\$ 3,198	\$ 1,420

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

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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 September 30, 2006, the Company owned 100% equity interests in 30 hotels with approximately 8,700 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) base rent or (ii) 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 28 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 10). 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 approximately 99.9% of the common units of the Operating Partnership at September 30, 2006. At September 30, 2006, the remaining 0.1% was held by a limited partner who held 33,530 common limited partnership 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 of the Company. In addition, another limited partner owns 2,348,888 Series C preferred units in the Operating Partnership having an aggregate liquidation value of approximately \$58,722 and bearing an annual cumulative distribution of 7.25% on the liquidation preference and are redeemable for 7.25% Series C Cumulative Redeemable Preferred Shares of Beneficial Interest of the Company or cash at the Company's election.

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 and nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006 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, 2005. Certain prior period amounts have been reclassified to conform to the current period presentation.

Basis of Presentation

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

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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.

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 approximately \$152,587. 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 will be distributed to the owners in accordance with the partnership agreement after post-closing adjustments have been settled. Chicago 540 Hotel Venture incurred interest expense of zero and \$2,899 for the three months ended September 30, 2006 and 2005, respectively, and \$3,202 and \$5,618 for the nine months ended September 30, 2006 and 2005, respectively. The Company recognized its share of the gain on sale of \$38,393 in March 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 restricted shares under the 1998 Share Option and Incentive Plan to trustees, executive officers and employees, which vest over three or four years. The Company recognizes compensation expense for restricted 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.

Recently Issued Accounting Pronouncements

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. The Company is currently evaluating the impact, if any, that FIN 48 will have on the Company's financial statements.

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In June 2005, the FASB ratified the EITF's consensus on Issue No. 04-5 Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights. This consensus established the presumption that general partners in a limited partnership control that limited partnership regardless of the extent of the general partners ownership interest in the limited partnership. The consensus further establishes that the rights of the limited partners can overcome the presumption of control by the general partners, if the limited partners have either (a) the substantive ability to dissolve (liquidate) the limited partnership or otherwise remove the general partners without cause or (b) substantive participating rights. Whether the presumption of control is overcome is a matter of judgment based on the facts and circumstances, for which the consensus provides additional guidance. This consensus applies to limited partnerships or similar entities, such as limited liability companies that have governing provisions that are the functional equivalent of a limited partnership. Adoption on January 1, 2006 did not have a material effect on the Company.

3. Acquisition and Renovation of Hotel Properties

On January 27, 2006, the Company acquired a 100% interest in the Le Parc Suite Hotel, a 154-room, upscale, full-service hotel located in West Hollywood, California, for \$47,000. The source of the funding for the acquisition was the Company's senior unsecured credit facility and assumption of debt. The property is leased to LHL and Outrigger Lodging Services continues to manage the property under a new management agreement.

On February 21, 2006, the Washington Grande Hotel was closed for renovations. After completion of the renovation and repositioning in 2007, the hotel will be operated as a luxury high-style, independent hotel. The property is included in property under development on the accompanying consolidated balance sheet.

On March 1, 2006, the Company acquired a 100% interest in the Westin Michigan Avenue, a 751-room, upscale, full-service hotel located in Chicago, Illinois, for \$214,700. The source of the funding for the acquisition was proceeds from two equity offerings by the Company in February 2006 and the Company's senior unsecured credit facility. The property is leased to LHL and Starwood Hotels & Resorts continues to manage the property.

On March 1, 2006, the Company acquired a 100% interest in the House of Blues Hotel, a 367-room, full-service hotel and related Marina City retail and parking facilities, located in Chicago, Illinois, for \$114,500. The source of the funding for the acquisition was proceeds from two equity offerings by the Company in February 2006 and the Company's senior unsecured credit facility. The property is leased to LHL and Gemstone Resorts International, LLC was retained to manage the property under a new management agreement.

On June 15, 2006, the Company acquired a 100% interest in the Alexis Hotel, a 109-room, upscale, full-service hotel located in Seattle, Washington, for \$38,005. The source of the funding for the acquisition was the Company's senior unsecured credit facility. The property is leased to LHL and Kimpton Hotel & Restaurant Group continues to manage the property under a new management agreement.

On August 1, 2006, the Company acquired a 100% interest in the Hotel Solamar, a 235-room, upscale, full-service hotel located in San Diego, California, for \$87,000. The hotel is subject to a ground lease which expires on December 30, 2102. The source of the funding for the acquisition was the Company's senior unsecured credit facility. The property is leased to LHL and Kimpton Hotel & Restaurant Group continues to manage the property.

4. Disposition of Land

On March 15, 2005, the Company sold approximately eight acres of land located at the Lansdowne Resort for \$1,500 resulting in income of approximately \$418, net of closing cost, which is included in other income on the consolidated financial statements. At the time the Company purchased the Lansdowne Resort, the seller had entered into a contract with a third party for the sale of the eight acres. The eight acre contract was assigned to the Company at closing and the purchase/sale agreement related to the acquisition of the resort required the Company to pay the seller upon completion of the sale \$1,080 of net sale proceeds which represented the expected sales price for the land. On March 21, 2005, the Company made the \$1,080 payment to the seller resulting in the gain of \$418.

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5. Long-Term Debt

Debt at September 30, 2006 and December 31, 2005, consisted of the following (in thousands):

	Interest Rate at September 30, 2006	Maturity Date	Balance Outstanding at September 30,	
Debt			2006	December 31, 2005
Credit facilities				
Senior Unsecured Credit Facility	Floating	June 2008	\$ 65,000	\$ 30,000
LHL Unsecured Credit Facility	Floating	June 2008	4,861	655
Massport bonds				
Harborside Hyatt Conference Center & Hotel (b)	Floating(a)	March 2018	5,400	5,400
Harborside Hyatt Conference Center & Hotel (b)	Floating(a)	March 2018	37,100	37,100
Total bonds payable			42,500	42,500
Mortgage debt				
Indianapolis Marriott Downtown (c)				57,000
Le Parc Suite Hotel (d)	7.78%	May 2008	15,908	
Sheraton Bloomington Hotel Minneapolis South and Westin City Center Dallas	8.10%	July 2009	41,002	41,744
San Diego Paradise Point Resort	5.25%	February 2009	61,531	62,559
Hilton Alexandria Old Town	4.98%	September 2009	32,990	33,534
Le Montrose Suite Hotel	8.08%	July 2010	13,685	13,847
Hilton San Diego Gaslamp Quarter	5.35%	June 2012	59,600	59,600
University Tower Hotel (d)	6.28%	August 2014	11,185	11,376
Westin Copley Place	5.28%	August 2015	210,000	210,000
Westin Michigan Avenue	5.75%	April 2016	140,000	
Indianapolis Marriott Downtown	5.99%	July 2016	101,780	
Total mortgage debt			687,681	489,660
Total debt			\$ 800,042	\$ 562,815

- (a) Variable interest rate based on a weekly floating rate. The interest rate at September 30, 2006 was 5.39% and 3.75% 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) This note was repaid in June 2006.
- (d) Mortgage debt includes unamortized premiums of \$509 and \$568 for Le Parc Suite Hotel and University Tower Hotel, respectively, as of September 30, 2006, and \$615 for University Tower Hotel as of December 31, 2005.

The Company incurred interest expense of \$11,484 and \$30,721 in the three and nine months ended September 30, 2006, respectively, and \$6,569 and \$16,405 in the three and nine months ended September 30, 2005, respectively. Included in interest expense are amortization of deferred financing fees of \$559 and \$1,995 in the three and nine months ended September 30, 2006, respectively, and \$649 and \$1,876 in the three and nine months ended September 30, 2005, respectively. Interest was capitalized in the amount of \$735 and \$1,826 in the three and nine months ended September 30, 2006, respectively, and \$326 and \$1,096 in the three and nine months ended September 30, 2005, respectively. Interest paid, net of capitalized interest, was \$10,377 and \$27,846 in the three and nine months ended September 30, 2006, respectively, and \$6,477 and \$15,865 in the three and nine months ended September 30, 2005, respectively.

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Credit Facilities

The Company has a senior unsecured bank 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 bank 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 bank 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. As of September 30, 2006, the Company was in compliance with the financial covenants and was not otherwise in default under the credit facility. Borrowings under the senior unsecured bank facility bear interest at floating rates equal to, at the Company's option, either (i) London InterBank Offered Rate plus an applicable margin, or (ii) an Adjusted Base Rate plus an applicable margin. For the three and nine months ended September 30, 2006, the weighted average interest rate for borrowings under the senior unsecured bank facility was approximately 7.3% and 6.9%, respectively. The Company did not have any Adjusted Base Rate borrowings outstanding at September 30, 2006. 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 bank facility. The Company incurred an unused commitment fee of approximately \$122 and \$391 for the three and nine months ended September 30, 2006, respectively. At September 30, 2006 and December 31, 2005, the Company had \$65,000 and \$30,000, respectively, of outstanding borrowings under the senior unsecured bank 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 bank 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) London InterBank Offered Rate plus an applicable margin, or (ii) an Adjusted Base Rate plus an applicable margin. As of September 30, 2006, the Company was in compliance with the financial covenants and was not otherwise in default under the credit facility. The weighted average interest rate under the LHL credit facility for the three and nine months ended September 30, 2006 was 7.0% and 6.7%, respectively. 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 approximately \$9 and \$25 for the three and nine months ended September 30, 2006. At September 30, 2006 and December 31, 2005, the Company had \$4,861 and \$655, respectively, of outstanding borrowings under the LHL credit facility.

Massport Bonds

On February 15, 2006, the tax-exempt special project revenue refunding bonds and the taxable special project revenue refunding bonds, issued by the Massachusetts Port Authority, were remarketed with the supporting letters of credit being provided by the Royal Bank of Scotland, replacing General Electric Capital Corporation. The annual maintenance fee for the supporting letters of credit was reduced from 2% to 1.35%. The bonds are secured by the letters of credit and the letters of credit are secured by the Harborside Hyatt Conference Center & Hotel.

Mortgage Loans

On January 27, 2006, in connection with the acquisition of the Le Parc Suite Hotel, the Company assumed a \$15,667 mortgage secured by the Le Parc Suite Hotel. The mortgage loan matures on May 1, 2008 and does not allow prepayment without penalty. The mortgage loan bears interest at 7.78% and has monthly interest and principal payments of \$136. The Company recorded the mortgage loan at its fair value, and recorded a loan premium of \$713 which was recorded as an increase in the carrying value of the loan. The loan premium is amortized as an adjustment to interest expense over the remaining life of the loan.

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On March 3, 2006, the Company entered into a \$140,000 10-year mortgage loan that is secured by the Westin Michigan Avenue. The mortgage loan matures on April 1, 2016 and does not allow for prepayment without penalty prior to January 1, 2016. The mortgage loan bears interest at a fixed rate of 5.75% and requires interest only payments for the first five years and payments on a 30-year amortization schedule for the last five years.

On June 8, 2006, the Company entered into a \$101,780 10-year mortgage loan that is secured by the Indianapolis Marriott Downtown. The mortgage loan matures on July 1, 2016 and does not allow prepayment without penalty prior to December 31, 2015. The mortgage loan bears interest at a fixed rate of 5.99% and requires interest only payments for the first five years and interest plus principal payments on a 30-year amortization schedule for the last five years. Proceeds from the loan were used to pay-off the previous \$57,000 mortgage secured by the hotel and reduce the Company's outstanding balance on its credit facility.

6. 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 2016 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. Total ground lease expense for the three and nine months ended September 30, 2006 was \$1,978 and \$4,925, respectively. Total ground lease expense for the three and nine months ended September 30, 2005 was \$1,255 and \$3,024, 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 September 30, 2006, \$13,467 was available in restricted cash reserves for future capital expenditures.

Restricted Cash Reserves

At September 30, 2006, the Company held \$18,831 in restricted cash reserves. Included in such amounts are (i) \$13,467 of reserve funds relating to the hotels with agreements requiring the Company to maintain restricted cash to fund future capital expenditures, (ii) \$500 for future renovations and conversion costs expected to be incurred related to the Bloomington, Minnesota property re-branding under the Sheraton brand affiliation and (iii) \$4,864 deposited in mortgage escrow accounts pursuant to mortgage obligations to pre-fund a portion of certain hotel expenses and debt payments.

Litigation

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.

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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 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 approximately \$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.

On April 22, 2005, the Company filed suit against Meridien in Delaware state court alleging certain defaults, including non-payment of rent and other breaches in connection with the transition at the New Orleans hotel. The Delaware Court determined that the dispute should be litigated in Louisiana, and dismissed the claims on this basis.

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 financial statements. 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 entitled to for the Dallas property. These amounts were recorded as other income in the Company's December 31, 2003 consolidated financial statements. 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 September 30, 2006	Cumulative Expense Recognized as of September 30, 2006
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

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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 approximately \$2,055 as of September 30, 2006, 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 approximately \$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.

Meridien also sued the Company and one of the Company's officers alleging that certain actions taken in anticipation of re-branding the Dallas and New Orleans hotels under the Westin brand affiliation constituted unfair trade practices, false advertising, trademark infringement, trademark dilution and tortious interference. The parties reached an agreement to settle this matter through dismissal of all claims with prejudice, with no consideration to be paid from either party to the other. Pursuant to this agreement, the Court dismissed all of Meridien's claims with prejudice.

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.

7. Shareholders' Equity and Minority Interest

Common Shares of Beneficial Interest

On January 1, 2006, the Company repurchased 27,675 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 these 27,675 treasury shares related to (i) compensation for the Board of Trustees and (ii) conversions of units into common shares of beneficial interest in January 2006.

On January 1, 2006, the Company issued an aggregate of 10,680 common shares of beneficial interest, including 4,798 deferred shares to the independent members of its Board of Trustees for their 2005 compensation. The common shares were issued in lieu of cash at the Trustee's election. These common shares were issued under the 1998 Share Option and Incentive Plan.

On January 13, 2006, the Company declared monthly cash distributions to shareholders of the Company and common unitholders of the Operating Partnership, in the amount of \$0.10 per common share of beneficial interest/unit for each of the months of January, February and March 2006.

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On January 13, 2006, the Company paid its December 2005 monthly distribution of \$0.10 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 31, 2005.

On January 27, 2006, the Company granted 34,697 restricted common shares of beneficial interest to the Company's executive officers. The restricted shares granted vest over four years. These common shares were issued under the 1998 Share Option and Incentive Plan.

On February 7, 2006, the Company completed an underwritten public offering of 3,250,000 common shares of beneficial interest, par value \$0.01 per share. After deducting the underwriters discounts and commissions and other offering costs, the Company raised net proceeds of approximately \$119,758. The net proceeds were used to repay existing indebtedness under the Company's senior unsecured credit facility and for general corporate purposes including acquisitions. On February 27, 2006, the Company issued an additional 487,500 common shares pursuant to an over-allotment option for approximately \$17,982 after deducting underwriters discounts and commissions.

On February 15, 2006, the Company paid its January 2006 monthly distribution of \$0.10 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, 2006.

On March 8, 2006, the Company repurchased 298 common shares of beneficial interest related to the forfeiture of restricted shares by employees leaving the Company. The Company re-issued 298 treasury shares in connection with the conversion of units into common shares of beneficial interest in March 2006.

On March 15, 2006, the Company paid its February 2006 monthly distribution of \$0.10 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, 2006.

During the three months ended March 31, 2006, executives of the Company exercised 28,968 options to purchase common shares of beneficial interest. These common shares were issued under the 1998 Share Option and Incentive Plan.

On April 13, 2006, the Company declared monthly distributions to shareholders of the Company and on common units of the Operating Partnership, in the amount of \$0.14 per common share of beneficial interest/unit for each of the months of April, May, and June 2006.

On April 14, 2006, the Company paid its March 2006 monthly distribution of \$0.10 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 31, 2006.

On April 18, 2006, the Company granted 7,930 restricted common shares of beneficial interest to the Company's employees. The restricted shares granted vest over three to four years, starting January 1, 2007. These common shares of beneficial interest were issued under the 1998 Share Option and Incentive Plan.

On May 15, 2006, the Company paid its April 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 April 28, 2006.

On June 15, 2006, the Company paid its May 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 May 31, 2006.

During the three months ended June 30, 2006, executives of the Company exercised 23,099 options to purchase common shares of beneficial interest. These common shares were issued under the 1998 Share Option and Incentive Plan.

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On July 14, 2006, the Company declared monthly distributions to shareholders of the Company and on common units of the Operating Partnership, in the amount of \$0.14 per common share of beneficial interest/unit for each of the months of July, August, and September 2006.

On July 14, 2006, the Company paid its June 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 June 30, 2006.

On August 15, 2006, the Company paid its July 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 July 31, 2006.

On September 15, 2006, the Company paid its August 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 August 31, 2006.

During the three months ended September 30, 2006, employees of the Company exercised 2,333 options to purchase common shares of beneficial interest. The 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, 2006, the Company repurchased 27,675 common shares of beneficial interest related to executives and employees surrendering shares to pay taxes at the time restricted shares vested and acquired 298 common shares of beneficial interest related to the forfeiture of restricted shares by employees leaving the Company. The Company re-issued 27,973 treasury shares in connection with (i) shares issued for the Board of Trustees 2005 compensation; and (ii) conversions of units into common shares of beneficial interest in January and March 2006.

During the quarter ended June 30, 2006, the Company received 2,081 common shares of beneficial interest related to the forfeiture of restricted shares by employees leaving the Company.

During the quarter ended September 30, 2006, the Company reissued 2,081 shares in connection with options exercised by employees.

At September 30, 2006, there were no common shares of beneficial interest in treasury.

Preferred Shares

The Series A Preferred Shares, Series B Preferred Shares, Series C Preferred Shares, Series D Preferred Shares, and Series E 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. No Series C Preferred Shares are currently outstanding. 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 A Preferred Shares, Series B Preferred Shares, Series D Preferred Shares or Series E Preferred Shares prior to March 6, 2007, September 30, 2008, August 24, 2010, and February 8, 2011, respectively, except in limited circumstances relating to the Company's continuing qualification as a REIT or as discussed below. In addition, the Series E Preferred Shares may be redeemed prior to February 8, 2011, if the Company is both: 1) not listed on the New York Stock Exchange, American Stock Exchange, or NASDAQ Stock Market; and 2) not subject to the reporting requirements of Section 13 or 15(d) of the Security Exchange Act of 1934, as amended. The Company may not optionally redeem the Series C Preferred Shares 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,

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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.

On February 8, 2006, the Company completed an underwritten public offering of 3,050,000 shares of 8.0% Series E Cumulative Redeemable Preferred Shares (the Series E Preferred Shares) par value \$0.01 per share (liquidation preference \$25.00 per share). After deducting underwriting discounts and commissions and other offering costs, the Company raised net proceeds of approximately \$74,325. The net proceeds were used to repay existing indebtedness under the Company's senior unsecured credit facility and for general corporate purposes including acquisitions. On February 16, 2006, the Company issued an additional 450,000 Series E Preferred Shares pursuant to an over-allotment option for approximately \$10,984 after deducting underwriters discounts and commissions.

On January 13, 2006, the Company paid its preferred distribution of \$0.64 per Series A Preferred Share for the quarter ended December 31, 2005 to Series A preferred shareholders of record at the close of business on January 1, 2006.

On January 13, 2006, the Company paid its preferred distribution of \$0.52 per Series B Preferred Share for the quarter ended December 31, 2005 to Series B preferred shareholders of record at the close of business on January 1, 2006.

On January 13, 2006, the Company paid its preferred distribution of \$0.47 per Series D Preferred Share for the quarter ended December 31, 2005 to Series D preferred shareholders of record at the close of business on January 1, 2006.

On April 14, 2006, the Company paid its preferred distribution of \$0.64 per Series A Preferred Share for the quarter ended March 31, 2006 to Series A preferred shareholders of record at the close of business on April 3, 2006.

On April 14, 2006, the Company paid its preferred distribution of \$0.52 per Series B Preferred Share for the quarter ended March 31, 2006 to Series B preferred shareholders of record at the close of business on April 3, 2006.

On April 14, 2006, the Company paid its preferred distribution of \$0.47 per Series D Preferred Share for the quarter ended March 31, 2006 to Series D preferred shareholders of record at the close of business on April 3, 2006.

On April 17, 2006, the Company paid its prorated preferred distribution of \$0.28 per Series E Preferred Share for the quarter ended March 31, 2006 to Series E preferred shareholders of record at the close of business on April 3, 2006.

On July 14, 2006, the Company paid its preferred distribution of \$0.64 per Series A Preferred Share for the quarter ended June 30, 2006 to Series A preferred shareholders of record at the close of business on July 3, 2006.

On July 14, 2006, the Company paid its preferred distribution of \$0.52 per Series B Preferred Share for the quarter ended June 30, 2006 to Series B preferred shareholders of record at the close of business on July 3, 2006.

On July 14, 2006, the Company paid its preferred distribution of \$0.47 per Series D Preferred Share for the quarter ended June 30, 2006 to Series D preferred shareholders of record at the close of business on July 3, 2006.

On July 14, 2006, the Company paid its preferred distribution of \$0.50 per Series E Preferred Share for the quarter ended June 30, 2006 to Series E preferred shareholders of record at the close of business on July 3, 2006.

Common Operating Partnership Units

On January 27, 2006, 92,893 common units of limited partnership interest in the Operating Partnership were redeemed for an equal number of common shares of beneficial interest in the Company.

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On March 29, 2006, 16,667 common units of limited partnership interest in the Operating Partnership were redeemed for an equal number of common shares of beneficial interest in the Company.

As of September 30, 2006, the Operating Partnership had 33,530 common units outstanding, representing a 0.1% partnership interest held by the limited partner.

Preferred Operating Partnership Units

On January 13, 2006, the Company paid its preferred distribution of \$0.45 per Series C Preferred Unit for the quarter ended December 31, 2005 to Series C preferred unitholders of record at the close of business on January 1, 2006.

On April 14, 2006, the Company paid its preferred distribution of \$0.45 per Series C Preferred Unit for the quarter ended March 31, 2006 to Series C preferred unitholders of record at the close of business on April 3, 2006.

On July 14, 2006, the Company paid its preferred distribution of \$0.45 per Series C Preferred Unit for the quarter ended June 30, 2006 to Series C preferred unitholders of record at the close of business on July 3, 2006.

8. 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 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 1998 Share Option and Incentive Plan (the "Plan"). At September 30, 2006, 2,800,000 shares were authorized for issuance under the Plan. At September 30, 2006, there were 1,040,297 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 awards is 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. Awards 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 award is also determined by the Compensation Committee; however, the duration of each award shall not exceed 10 years from date of grant. As of September 30, 2006, 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 or four years based on continued employment. 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 financial statements. A summary of the Company's nonvested shares as of September 30, 2006 is as follows:

	Number of shares	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2006	233,370	\$ 15.03
Granted	42,627	39.10
Vested	(87,191)	14.06
Forfeited	(2,379)	32.32
Nonvested at September 30, 2006	186,427	\$ 27.42

As of September 30, 2006, there was \$3,904 of total unrecognized compensation costs related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a

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weighted average period of 1.3 years. The total fair value of shares vested during the three and nine months ended September 30, 2006 was zero and \$3,216, respectively. The compensation cost for the Plan that has been included in general and administrative expenses in the accompanying statement of operations was \$411 and \$1,193 for the three and nine months ended September 30, 2006, respectively.

9. 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 London InterBank Offered Rate at 2.56% for the \$57,000 balance outstanding on the Company's mortgage loan secured by the Indianapolis hotel, 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 which is included in other income in the accompanying consolidated statement of operations.

10. 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 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2006	2005	2006	2005
General and administrative	\$ 12,315	\$ 8,558	\$ 34,092	\$ 22,681
Sales and marketing	9,887	6,281	27,464	17,090
Repairs and maintenance	6,069	3,847	17,752	10,940
Utilities and insurance	6,780	4,080	18,881	10,327
Management and incentive fees	8,230	4,267	19,757	9,328
Franchise fees	1,038	1,014	4,027	3,099
Other expenses	546	535	1,358	1,505
Total other indirect expenses	44,865	28,582	123,331	74,970
Other indirect hotel operating expenses related to discontinued operations				(45)
Total other indirect expenses related to continuing operations	\$ 44,865	\$ 28,582	\$ 123,331	\$ 74,925

As of September 30, 2006, LHL leases the following 28 hotels owned by the Company:

Seaview Resort and Spa

House of Blues Hotel

LaGuardia Airport Marriott

Westin Michigan Avenue

Harborside Hyatt Conference Center & Hotel

Hotel George

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Hotel Viking	Indianapolis Marriott Downtown
Topaz Hotel	Hilton Alexandria Old Town
Hotel Rouge	Chaminade Resort and Spa
Hotel Madera	Hilton San Diego Gaslamp Quarter
Hotel Helix	Grafton on Sunset
Holiday Inn on the Hill	Onyx Hotel
Sheraton Bloomington Hotel Minneapolis South	Westin Copley Place
Lansdowne Resort	University Tower Hotel
Westin City Center Dallas	Hilton San Diego Resort
Washington Grande Hotel	Alexis Hotel
Le Parc Suite Hotel	Hotel Solamar

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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 current third-party hotel operators of those respective 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 approximately \$2,394 within 60 days of notification. On April 28, 2005, Marriott International made a payment of approximately \$2,394 to avoid termination. Marriott may recoup this amount in the event certain future operating performance thresholds are attained. Certain hotel operating performance thresholds were attained in the third quarter of 2005, which allowed Marriott to recoup \$1,540 of the 2004 cure payment. The remaining \$854 may still be recouped; therefore, the Company maintains a deferred liability of \$854 related to the 2004 payment, which is included in accounts payable and accrued expenses on the accompanying consolidated balance sheet.

On March 9, 2006, the Company notified 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 2005 as defined in the management agreement. Pursuant to the management agreement, Marriott had the right to avoid termination by making a cure payment within 60 days of notification. On May 2, 2006, Marriott International made a payment of approximately \$3,715 to avoid termination. Marriott may recoup this amount in the event certain future operating performance thresholds are attained. Certain hotel operating performance thresholds were attained in the third quarter of 2006, which allowed Marriott to recoup approximately \$300 of the 2005 cure payment. The remaining \$3,415 may still be recouped; therefore, the Company maintains a deferred liability of \$3,415 related to the 2005 payment which is included in accounts payable and accrued expenses on the accompanying balance sheet. The total deferred liability related to the 2004 and 2005 payments was \$4,269 at September 30, 2006.

11. Income Taxes

For the nine months ended September 30, 2006, income tax expense of \$345 is comprised of a net state and local tax benefit of \$228 on the Operating Partnership, and federal, state and local tax expense of \$573 on LHL's income of \$2,215 before income tax expense. For the three months ended September 30, 2006, income tax expense of \$1,102 is comprised of a net state and local tax expense of \$107 on the Operating Partnership, and federal, state and local tax expense of \$995 on LHL's income of \$3,230 before income tax expense.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2006	2005	2006	2005
Federal				
Current	\$	\$	\$	\$
Deferred	995	(235)	682	(1,100)
State & local				
Current	(346)	(48)	(346)	(32)
Deferred	346	25	237	(223)
Total income tax expense (benefit)	\$ 995	\$ (258)	\$ 573	\$ (1,355)

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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 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2006	2005	2006	2005
Expected federal tax expense (benefit) at 34.5%	\$ 1,115	\$ (235)	\$ 764	\$ (1,100)
State income tax expense (benefit), net of federal income tax effect	226	(23)	155	(255)
Other, net	(346)		(346)	
Income tax expense (benefit)	\$ 995	\$ (258)	\$ 573	\$ (1,355)

The Company has estimated its income tax benefit using a combined federal and state rate of 41.5%. As of September 30, 2006, the Company had a deferred tax asset of \$17,257 primarily due to 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 deferred tax asset in the subsequent year cannot be reasonably estimated.

Table of Contents**12. 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:

	For the three months ended September 30,		For the nine months ended September 30,	
	2006	2005	2006	2005
Numerator:				
Net income applicable to common shareholders before discontinued operations and dividends paid on unvested restricted shares	\$ 17,345	\$ 11,398	\$ 68,969	\$ 18,764
Discontinued operations				(26)
Net income applicable to common shareholders before dividends paid on unvested restricted shares	17,345	11,398	68,969	18,738
Dividends paid on unvested restricted shares	(78)	(59)	(212)	(155)
Net income applicable to common shareholders, after dividends paid on unvested restricted shares	\$ 17,267	\$ 11,339	\$ 68,757	\$ 18,583
Denominator:				
Weighted average number of common shares - basic	39,786,308	30,022,302	39,211,490	29,853,499
Effect of dilutive securities:				
Unvested restricted shares	186,427	197,943	182,037	195,031
Common stock options	202,652	272,044	212,048	281,037
Weighted average number of common shares - diluted	40,175,387	30,492,289	39,605,575	30,329,567
Basic Earnings Per Common Share:				
Net income applicable to common shareholders per weighted average common share before discontinued operations and after dividends paid on unvested restricted shares	\$ 0.43	\$ 0.38	\$ 1.75	\$ 0.62
Discontinued operations				
Net income applicable to common shareholders per weighted average common share, after dividends paid on unvested restricted shares	\$ 0.43	\$ 0.38	\$ 1.75	\$ 0.62
Diluted Earnings Per Common Share:				
Net income applicable to common shareholders per weighted average common share before discontinued operations	\$ 0.43	\$ 0.37	\$ 1.74	\$ 0.62
Discontinued operations				
Net income applicable to common shareholders per weighted average common share	\$ 0.43	\$ 0.37	\$ 1.74	\$ 0.62

13. Comprehensive Income

For the nine months ended September 30, 2006, comprehensive income was \$85,965. As of September 30, 2006 and December 31, 2005, the Company's accumulated other comprehensive income was zero and \$1,353, respectively. The change in accumulated other comprehensive income was entirely due to the Company's interest rate derivative. For the nine months ended September 30, 2006, the Company reclassified

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\$1,053 of accumulated other comprehensive income to earnings upon termination of the interest rate swap, which is included in other income in the accompanying consolidated statement of operations. For the nine months ended September 30, 2005, the Company reclassified \$218 of accumulated other comprehensive income to earnings as interest expense.

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14. Supplemental Information to Statements of Cash Flows

	For the nine months ended September 30,	
	2006	2005
Interest paid, net of capitalized interest	\$ 27,846	\$ 15,865
Interest capitalized	1,826	1,096
Income taxes paid (received), net of refunds	(209)	964
Distributions payable (common shares)	5,601	3,046
Distributions payable (preferred shares)	6,369	3,744
Issuance of common shares for board of trustees compensation	216	7
Repurchase of common shares (treasury)	(1,093)	(1,121)
Issuance of common shares from treasury	1,026	1,121
In conjunction with the hotel acquisitions, the Company assumed the following assets and liabilities:		
Purchase of real estate	\$ 504,567	\$ 467,811
Assumption of mortgage at fair value	(16,380)	(210,000)
Issuance of preferred units		(58,722)
Other assets	5,802	7,422
Liabilities	(8,371)	(7,072)
Acquisition of hotel properties	\$ 485,618	\$ 199,439
Exchange of units for common shares:		
Minority interest in operating partnership	\$ (2,009)	\$
Common shares of beneficial interest		1
Treasury shares	809	
Additional paid-in capital	1,607	
Retained earnings	(408)	
	\$	\$

15. Pro Forma Financial Information

The following condensed pro forma financial information is presented as if the Hilton San Diego Gaslamp Quarter, Grafton on Sunset, Onyx Hotel, Westin Copley Place, University Tower Hotel, Hilton San Diego Resort, Washington Grande Hotel, Le Parc Suite Hotel, House of Blues Hotel, Westin Michigan Avenue, Alexis Hotel, and Hotel Solamar acquisitions had been consummated and leased as of January 1, 2005.

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.

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	For the three months ended September 30,		For the nine months ended September 30,	
	2006	2005	2006	2005
Total revenues	\$ 178,986	\$ 167,625	\$ 492,835	\$ 448,852
Net income applicable to common shareholders of beneficial interest	\$ 15,540	\$ 16,005	\$ 66,981	\$ 17,214
Net income applicable to common shareholders of beneficial interest per weighted average common share:				
basic (after dividends paid on unvested restricted shares)	\$ 0.39	\$ 0.40	\$ 1.70	\$ 0.44
diluted (before dividends paid on unvested restricted shares)	\$ 0.39	\$ 0.40	\$ 1.69	\$ 0.43
Weighted average number of common shares outstanding				
basic	39,786,308	39,786,308	39,211,490	39,211,490
diluted	40,175,387	40,175,387	39,605,575	39,605,575

16. Subsequent Events

On October 13, 2006, the Company declared monthly distributions to shareholders of the Company and on common units of the Operating Partnership, in the amount of \$0.14 per common share of beneficial interest/unit for each of the months of October, November, and December 2006.

On October 13, 2006, the Company paid its September 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 September 29, 2006.

On October 13, 2006, the Company paid its preferred distribution of \$0.64 per Series A Preferred Share for the quarter ended September 30, 2006 to Series A preferred shareholders of record at the close of business on October 2, 2006.

On October 13, 2006, the Company paid its preferred distribution of \$0.52 per Series B Preferred Share for the quarter ended September 30, 2006 to Series B preferred shareholders of record at the close of business on October 2, 2006.

On October 13, 2006, the Company paid its preferred distribution of \$0.45 per Series C Preferred Unit for the quarter ended September 30, 2006 to Series C preferred unitholders of record at the close of business on October 2, 2006.

On October 13, 2006, the Company paid its preferred distribution of \$0.47 per Series D Preferred Share for the quarter ended September 30, 2006 to Series D preferred shareholders of record at the close of business on October 2, 2006.

On October 13, 2006, the Company paid its preferred distribution of \$0.50 per Series E Preferred Share for the quarter ended September 30, 2006 to Series E preferred shareholders of record at the close of business on October 2, 2006.

On October 16, 2006, the Company granted 11,275 restricted common shares of beneficial interest to non-executive employees. The restricted shares granted vest over three years, starting January 1, 2008. These common shares of beneficial interest were issued under the 1998 Share Option and Incentive Plan.

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.

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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 and 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;

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, 2005, 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.

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).

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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 third quarter of 2006 was a very good quarter for the economy, the travel industry, the lodging business, and LaSalle Hotel Properties. Demand from business, group and leisure travelers continue to be strong; although overall demand has moderated from the early part of 2006, mirroring the moderation in the economy's growth rate. Management believes the lodging business fundamentals continue to be positive with low supply growth enabling Average Daily Rate (ADR) growth.

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For the third quarter of 2006, the Company had net income applicable to common shareholders of \$17.3 million, or \$0.43 per diluted share. FFO was \$37.8 million, or \$0.94 per diluted share/unit and EBITDA was \$57.9 million. RevPAR was \$157.58. RevPAR for the total portfolio increased 9.0% for the third quarter of 2006. The RevPAR increase is attributable to an Average Daily Rate increase of 10.8% to \$197.90, while occupancy declined by 1.6% to 79.6%. The Company's EBITDA increase of \$22.9 million, or 65.3% increase over 2005 EBITDA, was due to property acquisitions, higher ADR and expense margins. The Company's hotel portfolio EBITDA increased 11.3% due to higher ADR and expense management.

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.

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 September 30, 2006 to the Three Months Ended September 30, 2005

Hotel operating revenues

Hotel operating revenues from the hotels leased to LHL (28 hotels as of September 30, 2006), including room revenue, food and beverage revenue and other operating department revenues (which includes golf, telephone, parking and other ancillary revenues) increased approximately \$64.6 million, from \$102.2 million in 2005 to \$166.8 million in 2006. This increase includes amounts that are not comparable year-over-year as follows:

\$18.4 million increase from Westin Michigan Avenue, which was purchased in March 2006;

\$14.7 million increase from Westin Copley Place, which was purchased in August 2005;

\$9.4 million increase from Hilton San Diego Resort, which was purchased in December 2005;

\$5.9 million increase from House of Blues Hotel, which was purchased in March 2006;

\$3.7 million increase from Hotel Solamar, which was purchased in August 2006;

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\$2.9 million increase from Alexis Hotel, which was purchased in June 2006;

\$2.5 million increase from Le Parc Suite Hotel, which was purchased in January 2006; and

\$1.9 million increase from University Tower Hotel, which was purchased in December 2005.

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The remaining increase of \$5.2 million, or 5.1% is attributable to a 5.0% increase in RevPAR for the remaining properties leased to LHL. The increase in RevPAR was primarily attributable to an increase in ADR of 7.9%.

Industry travel levels improved in the third quarter from continued strength in business travel, driven by healthy growth in both group and business transient travel. The industry also experienced positive levels of leisure demand in the quarter. On a year-over-year basis, overall industry demand for hotel rooms outpaced supply growth this quarter. With respect to the Company's hotels, occupancies at properties leased to LHL were down an average of 1.6% in the quarter. With strong demand and historically low supply, the industry and the Company continued to have an opportunity to raise prices. ADR growth for the Company in the third quarter was robust, with every hotel type (urban, resort & convention) and region of the country experiencing significant ADR increases.

Participating lease revenue

Participating lease revenue from hotels leased to third party lessees (two hotels) increased \$0.8 million from \$8.1 million in 2005 to \$8.9 million in 2006. Participating lease revenue includes (i) base rent and (ii) participating rent based on fixed percentages of hotel revenues pursuant to the respective participating lease. Approximately \$0.5 million of this increase is from San Diego Paradise Point Resort due to a 12.6% increase in RevPar in 2006. The remaining increase of \$0.3 million is due to a 30.4% increase in RevPar in 2006 at Le Montrose Suite Hotel.

Hotel operating expenses

Hotel operating expenses increased approximately \$36.7 million from \$68.1 million in 2005 to \$104.8 million in 2006. This increase includes amounts that are not comparable year-over-year as follows:

\$10.4 million increase from Westin Michigan Avenue, which was purchased in March 2006;

\$9.3 million increase from Westin Copley Place, which was purchased in August 2005;

\$6.0 million increase from Hilton San Diego Resort, which was purchased in December 2005;

\$2.9 million increase from House of Blues Hotel, which was purchased in March 2006;

\$2.2 million increase from Hotel Solamar, which was purchased in August 2006;

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

\$1.4 million increase from Le Parc Suite Hotel, which was purchased in January 2006; and

\$0.8 million increase from University Tower Hotel, which was purchased in December 2005.

The remaining increase of \$1.9 million, or 2.8%, is a result of above-inflation increases in payroll and related employee costs and benefits, sales and marketing, franchise and management fees, property maintenance expenses, energy costs and operator incentive fees at the remaining hotels.

Depreciation and other amortization

Depreciation and other amortization expense increased by approximately \$8.1 million from \$12.4 million in 2005 to \$20.5 million in 2006. This increase includes amounts that are not comparable year-over-year as follows:

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\$2.2 million increase from Westin Copley Place, which was purchased in August 2005;

\$2.2 million increase from Westin Michigan Avenue, which was purchased in March 2006;

\$0.9 million increase from Hilton San Diego Resort, which was purchased in December 2005;

\$0.7 million increase from House of Blues Hotel, which was purchased in March 2006;

\$0.6 million increase from Hotel Solamar, which was purchased in August 2006;

\$0.3 million increase from Le Parc Suite Hotel, which was purchased in January 2006;

\$0.2 million increase from University Tower Hotel, which was purchased in December 2005; and

\$0.2 million increase from Alexis Hotel, which was purchased in June 2006.

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The remaining increase of \$0.8 million is due to purchases of building improvements, furniture, fixtures and equipment at the remaining hotels.

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

Real estate taxes, personal property taxes, insurance and ground rent expenses increased approximately \$4.2 million from \$5.4 million in 2005 to \$9.6 million in 2006. This increase includes amounts that are not comparable year-over-year as follows:

\$1.2 million increase from Westin Michigan Avenue, which was purchased in March 2006;

\$1.0 million increase from Hilton San Diego Resort, which was purchased in December 2005;

\$0.8 million increase from Westin Copley Place, which was purchased in August 2005;

\$0.7 million increase from House of Blues Hotel, which was purchased in March 2006;

\$0.3 million increase from Hotel Solamar, which was purchased in August 2006; and

\$0.2 million increase from Le Parc Suite Hotel, which was purchased in January 2006.

General and administrative expenses

General and administrative expense increased approximately \$0.5 million from \$2.9 million in 2005 to \$3.4 million in 2006 primarily as a result of increases in payroll related expenses, executive compensation, accounting and professional service fees, and legal fees.

Interest expense

Interest expense increased by approximately \$4.9 million from \$6.6 million in 2005 to \$11.5 million in 2006 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 \$470.1 million in 2005 to \$789.6 million in 2006, which includes increases from:

assumption of the mortgage and additional borrowing to purchase the Westin Copley Place in August 2005;

assumption of the mortgage and additional borrowing to purchase the University Tower Hotel in December 2005;

additional borrowing to purchase the Hilton San Diego Resort in December 2005;

additional borrowing to purchase the Washington Grande Hotel in December 2005;

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;

refinancing of the mortgage on the Indianapolis Marriott Downtown in June 2006;

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

additional borrowings under the Company's bank facility to finance other capital improvements during 2006.

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

an August 2005 preferred share offering;

an October 2005 common share offering;

a December 2005 common share offering;

a February 2006 common share offering;

a February 2006 preferred share offering; and

operating cash flows.

The Company's weighted average interest rate related to continuing operations increased from 4.9% in 2005 to 5.4% in 2006. Capitalized interest increased by approximately \$0.4 million, from \$0.3 million in 2005 to \$0.7 million in 2006, primarily due to the closing and the on-going renovation of the Washington Grande Hotel.

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Income taxes

Income tax expense increased approximately \$1.1 million from approximately zero in 2005 to \$1.1 million in 2006. For the three months ended September 30, 2006, the REIT incurred state and local income tax expense of approximately \$0.1 million. LHL's net income before income tax expense increased by approximately \$3.9 million from a net loss of approximately \$0.7 million in 2005 to a net income of \$3.2 million in 2006. Accordingly, for the three months ended September 30, 2006, LHL recorded federal income tax expense of approximately \$1.0 million and a state and local tax expense of approximately zero. The following table summarizes the income tax expense (dollars in thousands):

	For the three months ended September 30,	
	2006	2005
REIT state and local tax expense	\$ 107	\$ 231
LHL federal, state and local tax expense (benefit)	995	(258)
Total tax expense (benefit) from continuing operations	\$ 1,102	\$ (27)

As of September 30, 2006, the Company had a deferred tax asset of \$17.3 million primarily due to 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 limited partners' proportionate share of the equity in the Operating Partnership. Income is allocated to minority interest based on the weighted average percentage ownership throughout the year. At September 30, 2006, the aggregate weighted average partnership interest held by the limited partners in the Operating Partnership was approximately 0.1%.

Minority interest of preferred units in the Operating Partnership represents distributions to Series C Preferred Unitholders. The increase in minority interest of preferred units in the Operating Partnership from \$0.4 million in 2005 to \$1.1 million in 2006 was due to the units being issued in August 2005.

Distributions to preferred shareholders

Distributions to preferred shareholders increased \$2.7 million, from \$3.7 million in 2005 to \$6.4 million in 2006 due to \$0.9 million and \$1.8 million increases in distributions on Series D Preferred Shares and Series E Preferred Shares, respectively, which were issued on August 24, 2005 and February 16, 2006, respectively.

Comparison of the Nine Months Ended September 30, 2006 to the Nine Months Ended September 30, 2005

Hotel operating revenues

Hotel operating revenues from the hotels leased to LHL (28 hotels as of September 30, 2006), including room revenue, food and beverage revenue and other operating department revenues (which includes golf, telephone, parking and other ancillary revenues) increased approximately \$177.2 million, from \$265.5 million in 2005 to \$442.7 million in 2006. This increase includes amounts that are not comparable year-over-year as follows:

\$58.5 million increase from Westin Copley Place, which was purchased in August 2005;

\$41.6 million increase from Westin Michigan Avenue, which was purchased in March 2006;

\$24.2 million increase from Hilton San Diego Resort, which was purchased in December 2005;

\$14.2 million increase from House of Blues Hotel, which was purchased in March 2006;

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\$7.0 million increase from Le Parc Suite Hotel, which was purchased in January 2006;

\$4.6 million increase from University Tower Hotel, which was purchased in December 2005;

\$3.7 million increase from Hotel Solamar, which was purchased in August 2006;

\$3.4 million increase from Alexis Hotel, which was purchased in June 2006; and

\$0.3 million increase from Washington Grande Hotel, which was purchased in December 2005.

The remaining increase of \$19.7 million, or 7.4% is attributable to a 7.7% increase in RevPAR for the remaining properties leased to LHL. The increase in RevPAR was primarily attributable to an increase in ADR of 7.9%.

Industry travel levels improved in the third quarter from continued strength in business travel, driven by healthy growth in both group and business transient travel. The industry also experienced positive levels of leisure demand in the quarter. On a year-over-year basis, overall industry demand for hotel rooms outpaced supply growth this quarter. With respect to the Company's hotels, occupancies at properties leased to LHL were up an average of 1.1% for the nine months ended September 30, 2006. With strong demand and historically low supply, the industry and the Company continued to have an opportunity to raise prices. ADR growth for the Company in the nine months ended September 30, 2006 was robust, with every hotel type (urban, resort & convention) and region of the country experiencing significant ADR increases.

Participating lease revenue

Participating lease revenue from hotels leased to third party lessees (two hotels) increased \$3.1 million from \$17.5 million in 2005 to \$20.6 million in 2006. Participating lease revenue includes (i) base rent and (ii) participating rent based on fixed percentages of hotel revenues pursuant to the respective participating lease. Approximately \$2.2 million of this increase is from San Diego Paradise Point Resort due to a 14.4% increase in RevPar in 2006. The remaining increase of \$0.9 million is due to a 28.6% increase in RevPar in 2006 at Le Montrose Suite Hotel.

Hotel operating expenses

Hotel operating expenses increased approximately \$108.6 million from \$181.7 million in 2005 to \$290.3 million in 2006. This increase includes amounts that are not comparable year-over-year as follows:

\$38.4 million increase from Westin Copley Place, which was purchased in August 2005;

\$24.1 million increase from Westin Michigan Avenue, which was purchased in March 2006;

\$16.6 million increase from Hilton San Diego Resort, which was purchased in December 2005;

\$7.2 million increase from House of Blues Hotel, which was purchased in March 2006;

\$3.5 million increase from Le Parc Hotel Suite, which was purchased in January 2006;

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\$2.2 million increase from University Tower Hotel, which was purchased in December 2005;

\$2.2 million increase from Hotel Solamar, which was purchased in August 2006;

\$2.0 million increase from Alexis Hotel, which was purchased in June 2006; and

\$0.5 million increase from Washington Grande Hotel, which was purchased in December 2005.

The remaining increase of \$11.9 million, or 6.5%, is a result of higher occupancies at the remaining hotels as well as above-inflation increases in payroll and related employee costs and benefits, sales and marketing, franchise and management fees, general liability insurance, property maintenance expenses, energy costs and operator incentive fees.

Depreciation and other amortization

Depreciation and other amortization expense increased by approximately \$23.5 million from \$33.7 million in 2005 to \$57.2 million in 2006. This increase includes amounts that are not comparable year-over-year as follows:

\$8.8 million increase from Westin Copley Place, which was purchased in August 2005;

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\$5.1 million increase from Westin Michigan Avenue, which was purchased in March 2006;

\$2.4 million increase from Hilton San Diego Resort, which was purchased in December 2005;

\$1.8 million increase from House of Blues Hotel, which was purchased in March 2006;

\$0.9 million increase from Le Parc Suite Hotel, which was purchased in January 2006;

\$0.6 million increase from Hotel Solamar, which was purchased in August 2006;

\$0.5 million increase from University Tower Hotel, which was purchased in December 2005;

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

\$0.1 million increase from Washington Grande Hotel, which was purchased in December 2005.

The remaining increase of \$3.0 million is due to purchases of building improvements, furniture, fixtures and equipment at the remaining hotels.

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

Real estate taxes, personal property taxes, insurance and ground rent expenses increased approximately \$11.7 million from \$14.1 million in 2005 to \$25.8 million in 2006. This increase includes amounts that are not comparable year-over-year as follows:

\$3.0 million increase from Westin Copley Place, which was purchased in August 2005;

\$2.8 million increase from Westin Michigan Avenue, which was purchased in March 2006;

\$2.6 million increase from Hilton San Diego Resort, which was purchased in December 2005;

\$1.7 million increase from House of Blues Hotel, which was purchased in March 2006;

\$0.5 million increase from Le Parc Suite Hotel, which was purchased in January 2006;

\$0.3 million increase from Hotel Solamar, which was purchased in August 2006;

\$0.1 million increase from University Tower Hotel, which was purchased in December 2005;

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

\$0.1 million increase from Washington Grande Hotel, which was purchased in December 2005.

The remaining increase of \$0.5 million is a result of increases in insurance, real estate taxes and ground rent at the remaining hotels.

General and administrative expenses

General and administrative expense increased approximately \$1.2 million from \$8.2 million in 2005 to \$9.4 million in 2006 primarily as a result of increases in payroll related expenses, executive compensation, and accounting and professional service fees, offset by a decrease in legal fees.

Interest expense

Interest expense increased by approximately \$14.3 million from \$16.4 million in 2005 to \$30.7 million in 2006 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 \$401.5 million in 2005 to \$718.3 million in 2006, which includes increases from:

assumption of the mortgage and additional borrowing to purchase the Westin Copley Place in August 2005;

assumption of the mortgage and additional borrowing to purchase the University Tower Hotel in December 2005;

additional borrowing to purchase the Hilton San Diego Resort in December 2005;

additional borrowing to purchase the Washington Grande Hotel in December 2005;

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;

refinancing of the mortgage on the Indianapolis Marriott Downtown in June 2006;

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

additional borrowings under the Company's bank facility to finance other capital improvements during 2006.

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

an August 2005 preferred share offering;

an October 2005 common share offering;

a December 2005 common share offering;

a February 2006 common share offering;

a February 2006 preferred share offering; and

operating cash flows.

The Company's weighted average interest rate related to continuing operations increased from 4.8% in 2005 to 5.3% in 2006. Capitalized interest increased by approximately \$0.7 million from \$1.1 million in 2005 to \$1.8 million in 2006, primarily due to the closing and the on-going renovation of the Washington Grande Hotel.

Income taxes

Income tax expense increased approximately \$0.3 million from approximately zero in 2005 to an income tax expense of \$0.3 million in 2006. For the nine months ended September 30, 2006, the REIT incurred state and local income tax benefit of approximately \$0.2 million. LHL had a net loss before income tax benefit of approximately \$3.2 million in 2005 and a net income before income tax expense of approximately \$2.2 million in 2006. Accordingly, for the nine months ended September 30, 2006, LHL recorded federal income tax expense of approximately \$0.7 million and a state and local tax benefit of \$0.1 million. The following table summarizes the income tax expense (dollars in thousands):

	For the nine months ended	
	September 30, 2006	2005
REIT state and local tax (benefit) expense	\$ (228)	\$ 1,354
LHL federal, state and local tax expense (benefit)	573	(1,355)
Total tax expense (benefit)	345	(1)
Less: LHL federal, state and local tax benefit related to discontinued operations		19
Total tax expense from continuing operations	\$ 345	\$ 18

As of September 30, 2006, the Company had a deferred tax asset of \$17.3 million primarily due to 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

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Minority interest of common units in the Operating Partnership represents the limited partners' proportionate share of the equity in the Operating Partnership. Income is allocated to minority interest based on the weighted average percentage ownership throughout the year. At September 30, 2006, the aggregate weighted average partnership interest held by the limited partners in the Operating Partnership was approximately 0.1%.

Minority interest of preferred units in the Operating Partnership represents distributions to Series C Preferred Unitholders. The increase in minority interest of preferred units in the Operating Partnership from \$0.4 million in 2005 to \$3.2 million in 2006 was due to the units being issued in August 2005.

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Distributions to preferred shareholders

Distributions to preferred shareholders increased \$8.3 million, from \$10.0 million in 2005 to \$18.3 million in 2006 due to \$3.8 million and \$4.5 million increases in distributions on Series D Preferred Shares and Series E Preferred Shares, respectively, which were issued on August 24, 2005 and February 16, 2006, respectively.

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 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.

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The following is a reconciliation between net income applicable to common shareholders and FFO for the three and nine months ended September 30, 2006 and 2005 (dollars in thousands, except share data):

	For the three months ended September 30,		For the nine months ended September 30,	
	2006	2005	2006	2005
Funds From Operations (FFO):				
Net income applicable to common shareholders	\$ 17,345	\$ 11,398	\$ 68,969	\$ 18,738
Depreciation	20,346	12,375	56,735	33,539
Equity in depreciation of joint venture		202	178	613
Amortization of deferred lease costs	136	13	368	36
Minority interest:				
Minority interest of common units in Operating Partnership	16	120	108	284
Less: Equity in gain on sale of property			(38,393)	
FFO	\$ 37,843	\$ 24,108	\$ 87,965	\$ 53,210

Weighted average number of common shares and units outstanding:

Basic	39,819,838	30,195,827	39,259,179	30,150,728
Diluted	40,208,917	30,665,814	39,653,264	30,626,796

The following is a reconciliation between net income applicable to common shareholders and EBITDA for the three and nine months ended September 30, 2006 and 2005 (dollars in thousands, except share data):

	For the three months ended		For the nine months ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA):				
Net income applicable to common shareholders	\$ 17,345	\$ 11,398	\$ 68,969	\$ 18,738
Interest	11,484	6,569	30,721	16,405
Equity in interest expense of joint venture		215	317	556
Income tax benefit:				
Income tax expense (benefit)	1,102	(27)	345	18
Income tax benefit from discontinued operations				(19)
Depreciation and other amortization	20,528	12,430	57,241	33,699
Equity in depreciation/amortization of joint venture		224	201	680
Minority interest:				
Minority interest of common units in Operating Partnership	16	120	108	284
Minority interest of preferred units in Operating Partnership	1,064	355	3,193	355
Distributions to preferred shareholders	6,369	3,744	18,349	10,010
EBITDA	\$ 57,908	\$ 35,028	\$ 179,444	\$ 80,726

Off-Balance Sheet Arrangements

The Company is a party to a joint venture arrangement with The Carlyle Group (the "Joint Venture"), that owned the 1,192-room Chicago Marriott Downtown in Chicago, Illinois. The Company owns a non-controlling 9.9% equity interest in the Joint Venture. On March 25, 2006, the Joint Venture sold the Chicago Marriott Downtown. As of September 30, 2006, the Joint Venture had total unsettled assets and liabilities of approximately \$1.0 million and zero, respectively. After final post-closing adjustments, the Joint Venture will distribute any remaining assets to partners and dissolve.

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Tax Indemnification

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 September 30, 2006, \$13.5 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 bank 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 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.

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Debt at September 30, 2006 and December 31, 2005, consisted of the following (in thousands):

Debt	Interest	Maturity	Balance Outstanding at	
	Rate at		September 30,	December 31,
	September 30,	Date	2006	2005
Credit facilities				
Senior Unsecured Credit Facility	Floating	June 2008	\$ 65,000	\$ 30,000
LHL Unsecured Credit Facility	Floating	June 2008	4,861	655
Massport bonds				
Harborside Hyatt Conference Center & Hotel (b)	Floating(a)	March 2018	5,400	5,400
Harborside Hyatt Conference Center & Hotel (b)	Floating(a)	March 2018	37,100	37,100
Total bonds payable			42,500	42,500
Mortgage debt				
Indianapolis Marriott Downtown (c)				57,000
Le Parc Suite Hotel (d)	7.78%	May 2008	15,908	
Sheraton Bloomington Hotel Minneapolis South and Westin City Center Dallas	8.10%	July 2009	41,002	41,744
San Diego Paradise Point Resort	5.25%	February 2009	61,531	62,559
Hilton Alexandria Old Town	4.98%	September 2009	32,990	33,534
Le Montrose Suite Hotel	8.08%	July 2010	13,685	13,847
Hilton San Diego Gaslamp Quarter	5.35%	June 2012	59,600	59,600
University Tower Hotel (d)	6.28%	August 2014	11,185	11,376
Westin Copley Place	5.28%	August 2015	210,000	210,000
Westin Michigan Avenue	5.75%	April 2016	140,000	
Indianapolis Marriott Downtown	5.99%	July 2016	101,780	
Total mortgage debt			687,681	489,660
Total debt			\$ 800,042	\$ 562,815

(a) Variable interest rate based on a weekly floating rate. The interest rate at September 30, 2006 was 5.39% and 3.75% 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) This note was repaid in June 2006.

(d) Mortgage debt includes unamortized premiums of \$509 and \$568 for Le Parc Suite Hotel and University Tower Hotel, respectively, as of September 30, 2006, and \$615 for University Tower Hotel as of December 31, 2005.

The Company incurred interest expense of \$11.5 million and \$30.7 million in the three and nine months ended September 30, 2006, respectively, and \$6.6 million and \$16.4 million in the three and nine months ended September 30, 2005, respectively. Included in interest expense are amortization of deferred financing fees of \$0.6 million and \$2.0 million in the three and nine months ended September 30, 2006, respectively, and \$0.6 million and \$1.9 million in the three and nine months ended September 30, 2005, respectively. Interest was capitalized in the amount of \$0.7 million and \$1.8 million in the three and nine months ended September 30, 2006, respectively, and \$0.3 million and \$1.1 million in the three and nine months ended September 30, 2005, respectively. Interest paid, net of capitalized interest, was \$10.4 million and \$27.8 million in the three and nine months ended September 30, 2006, respectively, and \$6.5 million and \$15.9 million in the three and nine months ended September 30, 2005, respectively.

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Credit facilities

The Company has a senior unsecured bank 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 bank 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 bank 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. As of September 30, 2006, the Company was in compliance with the financial covenants and was not otherwise in default under the credit facility. Borrowings under the senior unsecured bank facility bear interest at floating rates equal to, at the Company's option, either (i) London InterBank Offered Rate plus an applicable margin, or (ii) an Adjusted Base Rate plus an applicable margin. For the three and nine months ended September 30, 2006, the weighted average interest rate for borrowings under the senior unsecured bank facility was approximately 7.3% and 6.9%, respectively. The Company did not have any Adjusted Base Rate borrowings outstanding at September 30, 2006. 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 bank facility. The Company incurred an unused commitment fee of approximately \$0.1 million and \$0.4 million for the three and nine months ended September 30, 2006, respectively. At September 30, 2006 and December 31, 2005, the Company had \$65.0 million and \$30.0 million, respectively, of outstanding borrowings under the senior unsecured bank 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 bank 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) London InterBank Offered Rate plus an applicable margin, or (ii) an Adjusted Base Rate plus an applicable margin. As of September 30, 2006, the Company was in compliance with the financial covenants and was not otherwise in default under the credit facility. The weighted average interest rate under the LHL credit facility for the three and nine months ended September 30, 2006 was 7.0% and 6.7%, respectively. 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 and nine months ended September 30, 2006. At September 30, 2006 and December 31, 2005, the Company had \$4.9 million and \$0.7 million, respectively, of outstanding borrowings under the LHL credit facility.

Sources and Uses Of Cash

At September 30, 2006, the Company had approximately \$3.2 million of cash and cash equivalents and approximately \$18.8 million of restricted cash reserves.

Net cash provided by operating activities was approximately \$93.5 million for the nine months ended September 30, 2006, 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 used in investing activities was approximately \$480.4 million for the nine months ended September 30, 2006, primarily due to the purchases of the Le Parc Suite Hotel, the House of Blues Hotel, Westin Michigan Avenue, Alexis Hotel, and Hotel Solamar, the outflows for improvements and additions at the hotels, and the funding of restricted cash reserves. These uses were offset by cash distributions from the Joint Venture and proceeds from the restricted cash reserves.

Net cash provided by financing activities was approximately \$380.0 million for the nine months ended September 30, 2006, comprised primarily of net borrowings from the senior unsecured bank facility, proceeds from the Westin Michigan Avenue mortgage note payable, proceeds from a new mortgage on the Indianapolis Marriott

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Downtown, proceeds from the February 8, 2006 and February 16, 2006 issuance of the Series E Preferred Shares, proceeds from the February 7, 2006 and February 27, 2006 issuance of common shares, offset by repayments of borrowings under the senior unsecured credit facility, repayment of the existing mortgage on the Indianapolis Marriott Downtown, payment of distributions to the common shareholders and unitholders, payment of distributions to preferred shareholders and unitholders, payments of offering costs associated with common shares and preferred shares issuances, and repurchase of treasury shares.

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 bank 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 bank 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 bank 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 detailed discussion of the Reserve Funds.

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Contractual Obligations

The following is a summary of the Company's obligations and commitments as of September 30, 2006 (in thousands):

	Total Amounts Committed	Amount of Commitment Expiration Per Period Less than			
		1 year	1 to 3 years	4 to 5 years	Over 5 years
Contractual Obligations					
Mortgage loans ⁽¹⁾	\$ 974,999	\$ 44,091	\$ 223,606	\$ 74,022	\$ 633,280
Ground rent ⁽²⁾	192,526	4,472	8,944	8,944	170,166
Massport bonds ⁽¹⁾	46,491	1,682	44,809		
Purchase commitments ⁽³⁾					
Purchase orders and letters of commitment	37,963	37,963			
Total contractual obligations	1,251,979	88,208	277,359	82,966	803,446
Commercial Commitments					
Borrowings under credit facilities ⁽¹⁾	86,362	18,017	68,345		
Dividends on Preferred Shares					
Dividends payable on preferred shares and units ⁽⁴⁾	483,522	126,235	64,781	193,339	99,167
Total obligations and commitments	\$ 1,821,863	\$ 232,460	\$ 410,485	\$ 276,305	\$ 902,613

- (1) Amounts include interest. Interest expense on fixed rate debt is computed on the fixed interest rate of the debt. Interest expense on the variable interest computed based upon the rate at September 30, 2006.
- (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 September 30, 2006, purchase orders and letters of commitment totaling approximately \$38.0 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.
- (4) The Series A, B, D and E preferred shares and the Series C preferred units are redeemable at the option of the Company for \$25.00 per share/unit after the respective optional redemption date. The future obligations include future dividends on preferred shares/units through the optional redemption date and the redemption amount on the optional redemption date.

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 approximately \$2.4 million within 60 days of notification. On April 28, 2005, Marriott International made a payment of approximately \$2.4 million to avoid termination. Marriott may recoup this amount in the event certain future operating performance thresholds are attained. Certain hotel operating performance thresholds were attained in the third quarter of 2005, which allowed Marriott to recoup \$1.5 million of the 2004 cure payment. The remaining \$0.9 million may still be recouped; therefore, the Company maintains a deferred liability of \$0.9 million related to the 2004 payment, which is included in accounts payable and accrued expenses on the accompanying consolidated balance sheet.

On March 9, 2006, the Company notified 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 2005 as defined in the management agreement. Pursuant to the management agreement, Marriott had the right to avoid termination by making a cure payment within 60 days of notification. On May 2, 2006, Marriott International made a payment of approximately \$3.7 million to avoid termination. Marriott may recoup this amount in the event certain future operating performance thresholds are attained. Certain hotel operating performance thresholds were attained in the third quarter of 2006, which allowed Marriott to recoup approximately \$0.3 million of the 2005 cure payment.

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The remaining \$3.4 million may still be recouped; therefore the Company maintains a deferred liability of \$3.4 million related to the 2005 payment, which is included in accounts payable and accrued expenses on the accompanying balance sheet. The total deferred liability related to the 2004 and 2005 payments was \$4.3 million at September 30, 2006.

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 and nine months ended September 30, 2006 and 2005, 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			For the nine months ended		
	2006	September 30, 2005	Variance	2006	September 30, 2005	Variance
Total Portfolio						
Occupancy	79.6%	81.0%	-1.6%	76.0%	75.2%	1.1%
ADR	\$ 197.90	\$ 178.60	10.8%	\$ 189.85	\$ 173.34	9.5%
RevPAR	\$ 157.58	\$ 144.59	9.0%	\$ 144.28	\$ 130.35	10.7%
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, liability insurance, property and casualty 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 hotels' operations historically have been seasonal. The hotels maintain higher occupancy rates during the second and third quarters. The Seaview Resort and Spa and Lansdowne Resort, which generate a portion of their revenues from golf-related business, and the Hotel Viking, have revenues that fluctuate according to the season and the weather. 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.

Litigation

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.

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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 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 approximately \$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.

On April 22, 2005, the Company filed suit against Meridien in Delaware state court alleging certain defaults, including non-payment of rent and other breaches in connection with the transition at the New Orleans hotel. The Delaware Court determined that the dispute should be litigated in Louisiana, and dismissed the claims on this basis.

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 financial statements. 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 financial statements. The contingent lease termination expense recognized cumulatively since 2002 is comprised of (dollars in thousands):

	Expense				
	Expense Recognized	Recognized	Expense Recognized	Expense Recognized	Cumulative Expense Recognized
	Quarter Ended	Year Ended	Year Ended	Period Ended	as of
	December 31, 2002	December 31, 2004	December 31, 2005	September 30, 2006	September 30, 2006
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

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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 approximately \$2.1 million as of September 30, 2006, 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 approximately \$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.

Meridien also sued the Company and one of the Company's officers alleging that certain actions taken in anticipation of re-branding the Dallas and New Orleans hotels under the Westin brand affiliation constituted unfair trade practices, false advertising, trademark infringement, trademark dilution and tortious interference. The parties reached an agreement to settle this matter through dismissal of all claims with prejudice, with no consideration to be paid from either party to the other. Pursuant to this agreement, the Court dismissed all of Meridien's claims with prejudice.

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

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 September 30, 2006, approximately \$112.4 million of the Company's aggregate indebtedness, 14.0% of total indebtedness, was subject to variable interest rates.

If market rates of interest on our variable rate long-term debt increase by 0.25%, the increase in interest expense on our variable long-term rate debt would decrease future earnings and cash flows by approximately \$0.3 million annually. On the other hand, if market rates of interest on our variable rate long-term debt decrease by 0.25%, the decrease in interest expense on our variable rate long-term debt would increase future earnings and cash flows by approximately \$0.3 million annually. This assumes that the amount outstanding under our variable rate debt remains at \$112.4 million, the balance at September 30, 2006.

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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 September 30, 2006. There were no changes to the Company's internal controls over financial reporting during the third quarter ended September 30, 2006, 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, 2005 or any subsequently filed Periodic Report on Form 10-Q. The risk factor below is disclosed on the Form 10-K and has been updated to provide debt and hotel related statistics as of September 30, 2006.

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

As of September 30, 2006, approximately \$112.4 million of aggregate indebtedness (14.0% 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.

Item 6. Exhibits

(a) Exhibits.

Exhibit

Number	Description of Exhibit
10.1	Form of Sixth Amendment to the Amended and Restated Agreement of Limited Partnership of LaSalle Hotel Operating Partnership, L.P. (1)
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

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- (1) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on September 28, 2006 and incorporated herein by reference.

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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: October 18, 2006

BY: /s/ HANS S. WEGER

Hans S. Weger

*Executive Vice President, Treasurer and Chief
Financial Officer (Principal Financial Officer*

and Principal Accounting Officer)

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EXHIBIT INDEX

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