

LaSalle Hotel Properties

Special Independence and Other Membership Criteria Applicable to Audit Committee Members

Audit committee members are subject to stricter independence standards as well as additional membership requirements. An individual will not be considered independent for audit committee purposes if he or she (i) accepts *any* compensation from the Company other than for service on the Board or a committee or (ii) is an “affiliated person” of the Company (i.e., a person who has a control position by virtue of his or her stock ownership or as an executive officer of the Company or its external manager). Securities lawyers typically follow a rule of thumb under which 10% ownership creates a presumption of control, although that presumption is rebuttable. Conversely, under SEC rules, any person who is not an executive officer and does not own 10% or more of a class of voting securities is deemed not to be in a control position.

The members of the audit committee also need to satisfy rules governing their background and expertise. The NYSE listing standards include a financial literacy requirement for audit committee members. Under this requirement, each member must be able to read and understand financial statements, and at least one member must have accounting or related financial management expertise.

In addition, SEC rules require the Company to disclose annually whether its audit committee includes an “audit committee financial expert,” and if so identifying each such person, or if it does not include any such persons, provide the reasons why it does not. The definition of audit committee financial expert is considerably narrower than the financial literacy requirements contained in the NYSE listing standards and generally will apply only to individuals who have experience in an accounting, auditing or financial reporting role involving publicly-traded companies, or who have substantial experience serving on an audit committee of a comparable public company.

To qualify as an audit committee financial expert, a trustee must satisfy specified criteria regarding both expertise and experience. Such a trustee must have all of the following attributes:

- an understanding of GAAP and financial statements;
- the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
- experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company’s financial statements, or experience actively supervising one or more persons engaged in such activities;
- an understanding of internal controls and procedures for financial reporting; and
- an understanding of audit committee functions.

Such attributes may be acquired through:

- education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions;
- experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions;
- experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or
- other relevant experience.