

# **MORGANS HOTEL GROUP CO.**

## ***CODE OF BUSINESS CONDUCT***

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**Table of Contents**

This Code of Business Conduct.....	1
Be Proactive.....	1
Equal Opportunity/Employment Law.....	1
Insider Trading.....	2
Confidential Information and Information Systems .....	2
Acceptable Computing Use Policy .....	2
Confidential Information .....	2
Travel and Entertainment.....	3
Political Bribery .....	3
Foreign Corrupt Practices Act .....	4
Commercial Bribery/Gifts and Gratuities.....	4
Fraud .....	4
Conflicts of Interest.....	4
Corporate Opportunities.....	5
Books and Records .....	6
Environmental/Occupational Health.....	5
Investigations .....	5
Unfair Competition and Antitrust.....	5
Disparagement and theft of trade secrets of competitors.....	6
Misrepresentation of price and product .....	6
Price fixing.....	6
Disciplinary Actions .....	7
When in Doubt.....	7
A Final Word .....	8

## **This Code of Business Conduct**

Morgans Hotel Group Co. (the “Company” or “Morgans”) and its officers, directors and employees (collectively “employees”) must adhere to the highest ethical and legal standards. Laws regulating business conduct require fair play and honesty without coercion, conspiracy, bribery or corruption. This Code of Business Conduct (this “Code”) will serve as a guide with respect to laws relating to our work environment, commercial and political bribery, antitrust, unfair competition, political contributions and much more. It also contains in the appendix a copy of the Company’s Code of Ethics. If you have questions regarding legal or ethical matters, or wish to report a suspected violation, you may contact your supervisor or call the legal department, internal audit or the Whistleblower Hotline. Further information on these options is located on page 7 of this Code.

## **Be Proactive**

Most problems are best solved by hard work, above-board tactics and individual and team effort. Accountability is one of our core values and a founding principle of our company. “Legal loopholes,” short cuts and “easy” answers often create problems.

If you are a manager, you must be attentive and know what those reporting to you are doing. You are not doing your job if you close your eyes, or say words to the effect of: “Solve the problem, but don’t let me know how you did it.” Rather, you should ask, “How will you solve the problem?” If the proposed solution makes you uncomfortable, discuss it with one of the parties listed on page 7 of this Code.

## **Equal Opportunity/Employment Law**

Laws governing relationships between an employer and its employees cover many matters, from hiring to retirement. Knowledge of certain basic principles should help you stay on the right side of the law. They are:

- Employees and prospective employees are to be given equal opportunities regardless of race, color, age, religion, sex, sexual orientation, disability, veteran status, ancestry or national origin. This applies to recruiting, selection, training, promotion, compensation, transfers, discipline, terminations and all other personnel actions.
- Employees are to be provided a safe working environment. Reasonable working accommodations are to be made for persons with disabilities as required by local law and regulations.
- Employees are to be treated graciously and with dignity and respect at all times, in all situations. Racial or sexual harassment and other unseemly behavior (whether or not intended as a “joke”) that could create a hostile or threatening work environment is prohibited. Employees who engage in, or otherwise participate in, any form of harassment will be subject to disciplinary action, up to and including termination. Details of this policy are set forth in Morgans Anti-Harassment Policy.

- Company policies governing the employment relationship are to be followed at all times to ensure that employees receive the full benefit of such policies.
- Pay and benefits are to be provided promptly in accordance with law and the terms of benefit plans. Under no circumstance shall employees be denied pay or benefits as a disciplinary measure, unless such employee has been terminated.
- Hiring of employees must comply with all immigration laws.

Other aspects of the employment relationship are more complicated, particularly those relating to union activities. The law imposes certain restrictions on the Company's ability to respond to union organizational action. Seek guidance from Morgans' Human Resources Department before responding to such activity.

### **Insider Trading**

Inside information is Company information not generally known to the public. The use of inside information to buy or sell Company securities, or to advise others to do so, is illegal. Beware of giving to, or discussing with, others financial or material business information that has not been announced to the public. Morgans' Policy Statement on Insider Trading Compliance explains these restrictions in more detail.

### **Confidential Information and Information Systems**

#### ***Acceptable Computing Use Policy***

The Company's computing resources may only be used for legitimate business purposes and limited incidental personal use. As set forth in detail in the policy, all communications that would be improper or illegal on any other workplace medium are equally so on the computer. These may include, but are not limited to, libelous material, obscene messages, harassment, forgery and threats.

#### ***Confidential Information***

One of the Company's most valuable assets is confidential information and the information systems we use to process and store that data. Confidential information includes, but is not limited to:

- personal information, which is defined broadly to include names, addresses, telephone numbers, e-mail addresses, credit card information, personal identification numbers such as US Social Security numbers or British National Identity numbers, or any other information associated with a persons identity. Such information may pertain to a customer, potential customer, employee associate, owner, franchisee or joint venture partner;
- information system user IDs, passwords, modem access numbers;

- proprietary information that provides us with an advantage over our competitors (e.g., development plans, revenue management techniques, etc.).

Every employee is responsible for utilizing the Company's information systems primarily for business purposes. In addition, every employee is responsible for protecting the Company's confidential information and information systems from unauthorized internal and external access.

### **Travel and Entertainment**

The Company's Travel and Entertainment Policy sets forth detailed guidelines for the parameters and reimbursement of business travel and entertainment on behalf of Morgans. When submitting expense reports to claim reimbursement, employees are expected to neither gain nor lose financially as a consequence of their business activities. Reimbursement of entertainment expenses is appropriate only when the entertainment facilitates a bona fide discussion of business and those in attendance are necessary to facilitate the business discussion. In addition, as described more fully under the Commercial Bribery section below, entertainment as a general matter must be justified for the business purpose and should be adequate but not excessive.

### **Political Bribery**

Employees are prohibited from engaging in bribery, which is a payment improperly given, received or offered in exchange for action, inaction or other business benefit. For example, a payment to a building inspector to overlook a building code violation is an illegal bribe. Not only is the recipient acting unlawfully, but so is the person paying the bribe. This is true even when the recipient suggests that the payment be made. It is illegal to offer and/or to receive a bribe even when the bribe is solicited. It may even be illegal to offer or to pay a bribe in the face of implied or actual extortion from a government employee.

Many government entities have rules prohibiting employees and officials from accepting anything of value from the public. Providing lunch for a governmental official, even in a business context, may be prohibited. When dealing with government entities, it is best not to offer or give anything in the way of entertainment or gifts.

You cannot do indirectly what you are prohibited from doing directly. Hiring an intermediary or "consultant" to obtain a governmental approval, a building permit or a liquor license, where you have reason to believe the intermediary may act illegally, is just as wrong as if you delivered the payment yourself.

### ***Foreign Corrupt Practices Act***

Bribing foreign officials may be illegal under both foreign and U.S. laws. Under the Foreign Corrupt Practices Act, severe penalties may be imposed if payments are made to foreign officials, political parties or candidates to influence acts or decisions of a foreign government for the purpose of obtaining or retaining business. This Act exempts so-called "facilitating payments" customarily made in a foreign country for the purpose of inducing lower level officials to promptly and properly perform their duties. This exclusion recognizes that such payments are an unavoidable fact of life in some countries. Since the distinction between an

illegal bribe and a facilitating payment may be difficult to determine, you must consult the legal department before making any payments, regardless of size, to foreign government officials.

### **Commercial Bribery/Gifts and Gratuities**

Commercial bribery is similar to the political bribery discussed above but involves illegal inducements to vendors or other private parties. Gray areas abound in the law and, once again, common sense should be your guide. It is not commercial bribery to take a potential customer to lunch to discuss business matters on an occasional basis. However, it may be commercial bribery to provide that customer with excessive gifts in an effort to secure their business.

Similarly, employees may not enter into relationships with vendors for personal gain. Employees may not accept gifts, personal entertainment or personal favors offered for the purpose of influencing the selection of a vendor. Such arrangements influence business judgments and are inappropriate. Consequently, in order to avoid any improper influence or the appearance of impropriety, employees should rarely accept excessive gifts or entertainment. Examples of gifts that are inappropriate are expensive jewelry, clothing, appliances, etc. This applies whether the items are shipped to the office or your home.

If you have any question as to whether it is appropriate to accept a gift, tickets, meal or any other item, please contact Morgans' legal department.

### **Fraud**

The Company deals with customers, owners, franchisees and joint venture partners (together "Business Partners") every day in a wide variety of transactions. We should never knowingly take unfair advantage of them. When a Business Partner asks the cost of services, or what services are to be performed, we should give complete and truthful answers, just as we should expect complete and truthful answers from our Business Partners.

No guide as brief as this can possibly enumerate all the ways in which unfair advantage of our constituents can be taken. However, the controlling principle is that our constituents are to be given what was promised at the promised price. If a transaction is governed by a contract, the contract terms should be strictly adhered to.

### **Conflicts of Interest**

It is the duty of Company employees to avoid actual or potential conflicts of interest. An employee who has a direct or indirect interest (other than an interest of 5% or less in a publicly held company) in any supplier, customer, competitor or franchisee of the Company should promptly disclose such interest to his/her supervisor and obtain authorization to continue the relationship. Employees should not provide skills or services to competitors or otherwise compete with the Company. Similarly, family relationships among employees or with outside suppliers or customers with whom an employee has a business or working relationship must be disclosed to one's supervisor. Employing immediate family members in direct supervisory subordinate relationships should be avoided.

## **The Use of Corporate Assets**

Employees are prohibited from the unauthorized use of corporate property and assets (including hotel rooms) for personal or improper purposes. For example, employees may not utilize vacant hotel rooms for any improper purpose, or otherwise take inappropriate advantage of corporate property.

## **Corporate Opportunities**

Employees owe a duty to the Company to advance the Company's business interests when the opportunity to do so arises. Employees are prohibited from taking (or directing to a third party) a business opportunity that is discovered through the use of corporate property, information or position, unless the Company has already been offered the opportunity and turned it down.

## **Books and Records**

Company policy requires that Company books, records and accounts be kept in reasonable detail to accurately and fairly reflect all business transactions. Company funds should be used only for legitimate and properly authorized purposes. No false or misleading accounting entries should be made for any reason. Auditors' questions should be answered fully and truthfully.

## **Environmental/Occupational Health**

All employees are expected to fully comply with all relevant environmental and occupational health and safety laws. The Company strives to minimize accidents through the establishment of safety, health and environmental standards and through its loss prevention programs. Managers should be personally involved in loss prevention programs for their areas of responsibility to assure consistent and effective compliance.

## **Investigations**

The Company's policy is that employees should cooperate fully with all investigations including internal investigations, law enforcement agencies and government agencies. However, rights of third parties, employees, customers, suppliers and others may be affected. Therefore, requests from the police, Internal Revenue Service and other regulatory authorities should not be answered without first obtaining clearance from the legal department. In many cases, a subpoena describing the requested information or documents will be required. Most government investigators understand our reasons for taking this position.

## **Unfair Competition and Antitrust**

The free enterprise system is based upon fair and legal competition. Company policy is to obtain business success through intelligence, creativity and hard work—not by unlawful or unethical conduct. An overview of the laws related to unfair competition and antitrust is set forth below.

### ***Disparagement and theft of trade secrets of competitors***

Employees must not misrepresent or disparage a competitor's business. Spreading false rumors about competitors has no place in the business world. However, we may point out legitimate weaknesses in a competitor's products or operations.

A competitor's trade secrets may not be acquired by engaging in industrial espionage, bribery, posing as a prospective customer or enticing away employees to obtain trade secrets or destroy a competitor's organization.

### ***Misrepresentation of price and product***

Misrepresentation of the cost, composition, origin, quality or character of the Company's products or services is illegal and contrary to Company policy. Here again, the use of common sense should prevail. Tell the truth without embellishment or omission. Remember, a half-truth is still a lie.

### ***Price fixing***

Antitrust laws forbid competitors from colluding to fix prices. Any agreement or tacit understanding among competitors which hinders independent pricing may be considered to be price-fixing. Examples are any agreements or understandings (written or unwritten) which involve:

- rigging a bid
- adopting uniform credit terms, industry-wide discount structures or customer classifications changing prices at the same time
- setting floors on prices
- standardizing terms of trade, including matters such as:
  - hours of operation
  - service charges
  - hotel check-out times
  - hotel reservation policies
  - entertainment cover charges
- establishing "standard" contract provisions

A common trap for the unwary is becoming involved in illegal pricing through local trade associations. As an example, if a local hotel association informally secures agreements from different hotels to charge guests an extra \$5.00 for late check-outs, antitrust laws may have been violated. The fact that such agreements are not in writing, not uniformly adhered to, or are void (because they are against public policy) will not negate the violation. If you are at a trade association meeting where an action occurs that could be construed to be a violation of the law, you should immediately as reasonably practicable leave the meeting and advise the legal department.

### **Disciplinary Actions**

Morgans may take disciplinary action, up to and including termination of employment or suspension without pay (in permissible jurisdictions), of any employee who breaches a policy contained in this Code of Business Conduct or the attached Code of Ethics. For example, the Company may discipline:

- Any employee who authorizes or participates, directly or indirectly, in actions which are breaches of these Codes;
- Any employee who withholds information concerning breaches who refuses or fails to cooperate fully in an investigation, or who willfully misleads an investigation;
- The manager or managers of the person who has breached the Code, to the extent that the circumstances of the breach reflect inadequate supervision or lack of diligence;
- Any employee who attempts to retaliate, directly or indirectly, or encourages others to do so, against an individual who in good faith reports a breach or suspect breach, or against an individual who cooperates with an investigation of such breach.

### **When in Doubt**

When you suspect that an action or inaction is illegal or in violation of Company policy, discuss your concerns with your supervisor. If you continue to have doubts or the matter involves your supervisor, consult with your supervisor's supervisor or a member of the human resource department. If your doubts remain, then you should contact internal audit, the legal department or the Whistleblower Hotline.

When you suspect that an action or inaction is illegal or in violation of Company policy, consider the following options:

- Discuss your concerns with your supervisor.
- Call internal audit at 212.277.4100 or write to Internal Audit, Morgans Hotel Group Co., 475 Tenth Avenue, New York, NY 10018.
- Call the legal department at 212.277.4100 or write to Legal Department, Morgans Hotel Group Co., 475 Tenth Avenue, New York, NY 10018, Attention: General Counsel.
- Call the Whistleblower Hotline at 800-355-5750; or
- Report your ethical or legal concern through the Company's confidential website.
- Your identity will remain confidential and you will be protected from any retribution.

All employees to whom this guide is distributed may be required to certify from time to time that they have read and understand the current Code of Business Conduct and Code of Ethics regarding legal and ethical business conduct. Employees who fail to disclose reportable matters, who falsify records, who knowingly make a false report, or fail to comply with the Company policies will be subject to disciplinary action, up to and including termination. Supervisors may also be subject to disciplinary action up to and including termination if they do not adequately supervise employees for whom they are responsible.

### **A Final Word**

You should read also Morgans Hotel Group Code of Ethics which is attached as an appendix hereto. The Company's business reputation and continued success depend on how well each of us abides by the common-sense requirements contained in these Codes.