

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

[See a sample reprint in PDF format.](#)

[Order a reprint of this article now](#)

THE WALL STREET JOURNAL.

WSJ.com

OCTOBER 8, 2009

Hotel Feud Prompts Grand Jury Into Probe

By [PETER LATTMAN](#)

A federal grand jury is investigating whether Hilton Worldwide and several of its former executives should face criminal charges for allegedly stealing tens of thousands of pages of confidential documents from rival [Starwood Hotels & Resorts](#), according to people familiar with the situation.

The grand jury is part of a six-month-old Justice Department probe into allegations that Hilton, which is owned by private-equity firm Blackstone Group, used trade secrets taken by former Starwood executives, who defected to Hilton last year, to develop its own luxury brand to compete with Starwood's successful W chain.

Federal grand juries review evidence presented by prosecutors to determine whether there is probable cause to return an indictment. At the conclusion of an investigation, prosecutors may decide not to pursue charges.

In the Hilton case, federal prosecutors are considering an aggressive approach, potentially bringing criminal charges against Hilton itself, in addition to possible charges against individuals, people familiar with the matter said. Criminal indictments of a major corporation are relatively rare.

The investigation, which is being handled by the U.S. attorney's office in Manhattan, is expected to reach a conclusion in the next two months, these people said. A spokeswoman for the U.S. attorney's office declined to comment.

A spokeswoman for Hilton, which was until recently known as Hilton Hotels Corp., declined to comment on the specifics of the investigation, but said that the company is cooperating fully with the U.S. attorney's office.

Among the subjects of the probe is one of Hilton's top executives, Steven Goldman, said people familiar with the matter. Mr. Goldman, the hotel operator's 48-year-old president of global development and real estate, was placed on leave last month, and isn't expected to return to the company, one of these people said. The reason for his departure isn't known.

Daniel Gittner, a lawyer for Mr. Goldman, said his client did nothing wrong. "Steve Goldman has, and will continue to have, a sterling reputation," Mr. Gittner said.

Ross Klein and Amar Lalvani, both former Starwood executives who moved to Hilton's luxury-brands group in June 2008, are also subjects of the criminal inquiry, said the people familiar with the matter.

Ronald Nessim, a lawyer for Mr. Klein, said, "We are confident that after the U.S. attorney's office reviews all the evidence, they will conclude that Ross Klein shouldn't be criminally prosecuted."

Christopher Morvillo, a lawyer for Mr. Lalvani, said, "In light of the pending investigation and lawsuit, all I can say at this time is that Amar has an impeccable reputation in the industry and hopes to put this matter behind him as soon as possible."

The investigation comes at a challenging time for Hilton, which runs more than 3,400 hotels in 79 countries. Hilton, like the rest of the hotel industry, is struggling with declining room rates and revenue. The company also labors under a \$20 billion debt load from Blackstone's 2007 buyout.

Prosecutors have exercised particular caution in pursuing criminal charges against major companies since the 2002 indictment of Arthur Andersen LLP. Criminal charges against Arthur Andersen for allegedly destroying evidence in the massive fraud case against Enron Corp. are widely regarded as having led to the big accounting firm's demise. The Supreme Court eventually reversed the firm's conviction on those charges, but only after the firm was disbanded.

An alternative approach that has become more common in recent years is for prosecutors to seek what is known as a deferred prosecution or nonprosecution agreement. That typically requires that a company be supervised by a federally appointed monitor and commit to reforms over a period of years.

The Hilton investigation, which involves the alleged theft of computer files, reflects an area of growing interest to the Justice Department and Federal Bureau of Investigation. Early this decade, the Justice Department formed Computer Hacking and Intellectual Property units, or CHIP units, at U.S. attorney's offices around the country to combat intellectual-property theft and cybercrime.

"You've got a situation now where cases that were traditionally in the civil court are now being criminally investigated and prosecuted as serious felonies," said Nick Akerman, a lawyer at Dorsey & Whitney, who specializes in theft of trade secrets and computer data.

But federal prosecutors often decline to prosecute alleged theft of trade secrets because victims such as Starwood often have suitable remedies in civil court.

Indeed, the Justice Department's criminal investigation grew out of a civil lawsuit Starwood filed against Hilton in April alleging that Messrs. Klein and Lalvani, who both left Starwood in June 2008 to join Hilton, stole more than 100,000 electronic documents in "the clearest imaginable case of corporate espionage."

Before leaving Starwood, Messrs. Klein and Lalvani smuggled thousands of confidential documents via email and via boxes from Starwood to Hilton, according to Starwood's complaint.

Hilton has said the lawsuit is without merit.

Starwood said in its complaint that Messrs. Klein and Lalvani stole, among other documents, its "brand in a box" -- essentially the blueprints for launching a new luxury hotel brand. The lawsuit also alleges the two men stole demographic studies and lists of hotel projects that were in Starwood's development pipeline around the world.

Though he wasn't named as a defendant in the civil suit, Mr. Goldman played an active role in bringing Mr. Lalvani to Hilton, according to the complaint. "Worst thing that happens," Mr. Goldman allegedly wrote to Mr. Lalvani in an email, "is they find out you are talking to me and pay you a s-load of money to stay and you owe me drinks for life."

The Starwood lawsuit halted the development of Hilton's Denizen brand, the company's answer to the W chain and its first entry into the boutique-hotel category. Today Starwood operates roughly 30 W hotels.

Since the imbroglio began Hilton has fired, or placed on leave, about 30 members of its luxury-brands group, many of them former Starwood employees, according to people familiar with the situation.

Write to Peter Lattman at peter.lattman@wsj.com

Printed in The Wall Street Journal, page 8

Copyright 2009 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com