

IN THE MATTER OF

LQ MANAGEMENT L.L.C. AND
LA QUINTA FRANCHISING, L.L.C.

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**An Agreement By and Among the Attorney General of the State of Connecticut,
LQ Management L.L.C., and La Quinta Franchising, L.L.C.**

This Agreement (“Agreement”) is entered into by Richard Blumenthal, the Attorney General of the State of Connecticut (“Attorney General”), LQ Management L.L.C., a Delaware limited liability company, as manager of the various hotels it manages in the United States (“LQ Management”), and La Quinta Franchising, L.L.C., a Nevada limited liability company, in its capacity as franchisor and not on behalf of any franchised hotel (“LQ Franchising”), collectively, the “LQ Parties” or singularly the “LQ Party”, relating to an investigation conducted by the Attorney General into the “Call-Around” practices, as defined below, of certain hotels through which the Attorney General alleges hotel competitors exchange current room rate and occupancy information.

WHEREAS, the Attorney General of the State of Connecticut has, pursuant to the Connecticut Antitrust Act, Connecticut General Statutes (“CGS”) §§ 35-24 et seq., investigated hotel “Call-Around” practices engaged in by Connecticut hotels (the “Investigation”);

WHEREAS, the Attorney General is prepared to allege the following based upon the Investigation:

- a. LQ Management is a property management company that is in the business of managing hotels that provide rooms and services to guests under brand names including, but not limited to, “La Quinta Inn” and “La Quinta Inn & Suites.” The hotels

managed in the United States by LQ Management are referred to herein as the “LQ Hotel(s).”

b. LQ Franchising is the franchisor entity and franchises over 300 hotels in the United States to various independent franchisees that operate hotels under brand names including, but not limited to, “La Quinta Inn” and “La Quinta Inn & Suites.” The hotels franchised in the United States by LQ Franchising are referred to herein as the “LQ Franchised Hotel(s).” The LQ Franchised Hotels are subject to certain franchise agreements and documents related thereto in which LQ Franchising establishes certain brand standards to which the LQ Franchised Hotels are required to adhere. The primary purpose of these brand standards is to ensure that LQ Franchised Hotels have the same basic amenities and attributes as other LQ Hotels. With respect to day-to-day operation, the individual franchisees maintain sole control of their respective LQ Franchised Hotels.

c. In Connecticut, LQ Management manages four hotels: the La Quinta Inn located at 64 Ella Grasso Boulevard in Windsor Locks, the La Quinta Inn & Suites located at 65 Columbus Boulevard in New Britain, the La Quinta Inn & Suites located at 400 Sargent Drive in New Haven, and the La Quinta Inn & Suites located at 145 Harvard Avenue in Stamford. In addition, the following LQ Franchised Hotel is operated in Connecticut: La Quinta Inn & Suites located at 349 Liberty Street in Stonington.

d. “Call-Around,” for the purpose of this Agreement, is defined as the process whereby a hotel employee calls or otherwise contacts hotels within a close proximity geographically that may directly compete for hotel guests and, after identifying the hotel from which the employee is calling, shares, collects and exchanges information concerning the hotel’s current room rates for rooms to be occupied that same day and the current rate of occupancy, and where such sharing, collecting, and exchanging of such

information is performed at regular intervals (generally, multiple times daily) via telephone or other medium, including the internet. Call-Arounds include communications in which only one party to the communication provides or collects information concerning the current hotel room rates and/or occupancy rates but shall not include efforts to collect and/or gather information at the specific request of or specifically on behalf of a guest or potential guest inquiring about the availability or rate for hotel accommodations. Call-Arounds include the sharing, collecting or exchanging of information between hotels concerning current hotel room rate and occupancy on the internet through websites or blogs that are operated to facilitate the sharing, collecting or exchanging of such current rate and occupancy information (e.g., callaround.blogspot.com). Call-Arounds shall not include any of the activities set forth in paragraph 4 below.

e. The Call-Around practice is widespread and long-standing in the hotel and hospitality industry, both within Connecticut and nationally, and is generally conducted as follows:

- i. Hotels define a list of other hotels within a close proximity geographically that may directly compete for hotel guests (“Call-Around List”).
- ii. Hotels engage in regular communications, typically by telephone¹ with the hotels on their Call-Around Lists, two or three times daily, to exchange with such hotels: (i) each hotel’s non-public current occupancy rate (generally expressed as a percentage of hotel rooms

¹ The Investigation has uncovered evidence that the Call-Around practice has migrated, in some respects, to the internet where information concerning hotel room rates and occupancy rates is exchanged via websites or “blogs” that contain hotel/motel specific Call-Around pages.

occupied) and (ii) the standard rate currently being charged for hotel rooms to be occupied that same day (generally expressed as the “BAR rate” or the “rack rate,” which would not include any available discount rates).

iii. The hotels then contemporaneously record the information about occupancy and room rate provided by the other hotels on that day’s Call-Around sheet. A physical copy of the Call-Around sheet was typically maintained at or near the hotels’ reception desks for access by the desk staff for some period of time.

iv. The hotel that initiated the communication varied from one day to another. Regardless of who initiated the communication, however, both the hotel initiating the communication and the hotel receiving the communication would, with limited exception, exchange their current occupancy and room rate information and maintain Call-Around sheets to record such information for some period of time.

f. LQ Management began managing the LQ Hotel located in Windsor Locks, Connecticut in September of 2004, and at that time, Call-Arounds were being conducted by telephone. Thereafter, the staff at the LQ Hotel in Windsor Locks continued the then-existing Call-Around practice in substantially the same form.

g. LQ Management has represented that it establishes room rates for the LQ Hotels using a pricing approach known as “dynamic pricing,” pursuant to which rates offered for available rooms fluctuate based primarily on actual and/or forecasted occupancy and the amount of time between the date of the reservation and the date of stay. The rate in effect for any given room type at a specific hotel is, in large part,

automatic as the rate is pulled from a preset grid stored in a computer reservation system. While LQ Management's pricing system is designed to establish room rates primarily as a factor of supply and demand at the time of reservation, LQ Management's Regional Revenue Managers, who establish the preset pricing grid for each LQ Hotel, have the ability to manually override the preset grid and/or computer reservation system to adjust the applicable room rates including, without limitation, during the declaration of a state of emergency. In determining whether to manually override the reservation system, the Regional Revenue Manager may periodically consult various sources of information concerning competitor rates, including publicly listed rates through internet sites or other market information.

h. During the time period relevant to this Investigation, the Regional Revenue Manager with responsibility for the LQ Hotel located in Windsor Locks consulted, on at least a few occasions, the information collected by the hotel through the Call-Around process to determine if the LQ Hotel at Windsor Locks was priced competitively. In each of those instances, the Regional Revenue Manager acted either to maintain the rate at the same level or to adjust the hotel's room rates downward.

i. During the time period relevant to this Investigation, the Attorney General has reason to believe that information shared in the Call-Around process, including information shared by the LQ Hotels and the LQ Franchised Hotels, was utilized by other non-La Quinta branded hotels to raise or stabilize rates charged for hotel rooms in Connecticut. Consequently, the Attorney General believes that the exchange of rate and occupancy information prevalent in the hospitality industry may have resulted in a violation of the Connecticut Antitrust Act, Conn. Gen. Stat. §§35-24 et seq., by some hotels.

WHEREAS, the LQ Parties have cooperated and continue to cooperate in the Attorney General's Investigation;

WHEREAS, without admitting any of the foregoing, the LQ Parties are entering into this Agreement prior to any court making any findings of fact or conclusions of law relating to the allegations of the Attorney General;

WHEREAS, neither this Agreement, nor any acts performed nor documents executed in furtherance of this Agreement are an admission of liability, nor intended to be evidence of any liability or wrongdoing by the LQ Parties, the LQ Hotels, the LQ Franchised Hotels, the LQ Released Parties or the Additional LQ Released Parties (as those terms are defined herein);

WHEREAS, this Agreement is entered into solely for the purpose of resolving all issues related to the Investigation with respect to the LQ Parties, the LQ Hotels, the LQ Franchised Hotels, the LQ Released Parties and the Additional LQ Released Parties and not for any other purpose, and this Agreement is not intended to be used for any other purpose; and

WHEREAS, the Attorney General finds that the relief and agreements contained in this Agreement are appropriate and in the public interest.

NOW THEREFORE, in exchange for the mutual obligations described below, the Attorney General and the LQ Parties do hereby enter into this Agreement and agree as follows:

1. LQ Management agrees that, effective upon the execution of this Agreement by the Parties, it shall permanently cease the practice of Call-Arounds at the LQ Hotels in Connecticut, to the extent such practice exists.

2. LQ Management further agrees that, effective sixty (60) days from the execution of this Agreement by the Parties, it shall permanently cease the practice of Call-Arounds, to the extent such practice exists, at all other LQ Hotels in the United States and at all hotels under the La Quinta brand that may be managed by LQ Management in the future.

3. LQ Franchising agrees that, on or before March 31, 2010, when LQ Franchising issues its next required Franchise Disclosure Document (referred to generally as "FDD"), and in each successive FDD issued for a period of four (4) years following the date of the execution of this Agreement, the FDD shall include the following statement, positioned clearly, conspicuously and written in bolded and capitalized text:

A VIOLATION OF THE ANTITRUST LAWS MAY OCCUR MERELY BY EXCHANGING ROOM RATE INFORMATION WITH COMPETITORS IF A PURPOSE OR EFFECT OF SUCH EXCHANGE IS TO RAISE, CHANGE OR STABILIZE ROOM RATES. THE PRACTICE OF CALL-AROUNDS, AND THE EXCHANGE OF RATE AND OCCUPANCY INFORMATION THAT TAKES PLACE AS A PART OF THAT PRACTICE, IS NOT A PRACTICE AUTHORIZED BY LQ FRANCHISING AND IS NOT A LA QUINTA BRAND STANDARD. IF YOU ARE PARTICIPATING IN THE PRACTICE OF CALL-AROUNDS, YOU SHOULD CEASE SUCH PRACTICE EFFECTIVE IMMEDIATELY.

To facilitate the LQ Franchised Hotels' understanding of the Attorney General's prohibition of Call-Arounds, LQ Franchising shall furnish a copy of this Agreement to each LQ Franchised Hotel on or before March 31, 2010 when the FDD in which the above notice is initially incorporated is issued. If, during the period of time that this Agreement requires LQ Franchising to incorporate the above notice in the FDD, any party obtains a franchise to operate an LQ Franchised Hotel and has not previously

received a copy of the FDD and this Agreement, LQ Franchising shall provide the then current FDD and a copy of this Agreement to such franchisee.

4. Notwithstanding the language in paragraphs 1, 2 and 3 above, the agreement to cease Call-Arounds shall not (i) limit the ability of the LQ Parties, the LQ Hotels, the LQ Franchised Hotels, the LQ Released Parties or the Additional LQ Released Parties to review, consult and participate in commercially available industry reports (e.g., Smith Travel Reports, Travelclick, etc.), internet websites that provide online reservation services and that contain rate information (e.g., online travel companies such as Expedia, Travelocity, etc.), portals for global distribution systems and online management tools (e.g., GDS, Sabre), billboards or other advertising or (ii) prohibit any of the following practices which are intended to allow the LQ Parties, the LQ Hotels, the LQ Franchised Hotels, the LQ Released Parties and the Additional LQ Released Parties to meet legitimate guest or business needs:²

- a. Communicating with any other hotel/motel on behalf of specific guest(s) when the guest(s) is looking for a room or to relocate;
- b. Communicating with any other hotel/motel seeking to potentially relocate or move a group or block of rooms;
- c. Communicating with any other hotel/motel in order to determine guest relocation options when the LQ Hotel or LQ Franchised Hotel is at or nearly reaching capacity. For the purposes of this subsection, a hotel shall be deemed to be at or nearly reaching capacity when its occupancy rate is eighty-five percent (85%) or higher;

² Nothing in paragraph 4(ii) is intended to permit Call-Arounds otherwise prohibited by this Agreement.

- d. Making “blind calls” or “mystery shop” to competitors to inquire about current room rates without inquiring about occupancy and without providing any information about hotel occupancy or room rates;
- e. Communicating with any other hotel/motel to accommodate guests in the event of a situation of force majeure, state of emergency, disaster declaration or similar situation; and
- f. Communicating, reporting or otherwise providing information to, from and/or between LQ Hotels, LQ Franchised Hotels, the LQ Released Parties, and the Additional LQ Released Parties (as those terms are defined herein) in the normal course of business, which may include, without limitation, current rate and/or occupancy information. Nothing in this paragraph 4(f) is intended to address or take a position regarding the legality or illegality of whether any person that owns or operates a LQ Franchised Hotel and who has obtained current rate and/or occupancy information from any of the LQ Parties, LQ Hotels, LQ Franchised Hotels, LQ Released Parties, or Additional LQ Released Parties can share or exchange such current rate and/or occupancy information with any other franchisor company or any non-LQ Hotel or non-LQ Franchised Hotel.

5. The LQ Parties enter into this Agreement voluntarily and represent and warrant that they are represented by legal counsel and are fully advised of their legal rights in this matter. As the entity responsible for the management of the LQ Hotel in Windsor Locks, Connecticut and the LQ Hotels generally, LQ Management has stipulated that it is the appropriate entity to be a party to this Agreement on its own behalf and as the manager of the LQ Hotels. As the franchisor of the LQ Franchised Hotels, LQ

Franchising has stipulated that it is the appropriate entity to be a party to this Agreement on its own behalf; however, the Parties agree that LQ Franchising is not entering into this Agreement on behalf of the owners or managers of any franchisees related to any LQ Franchised Hotel. Nothing contained herein shall require or obligate the LQ Parties to take any action with regard to the LQ Franchised Hotels other than the obligations set forth in paragraph 3 above, nor shall the LQ Parties be responsible or liable for the actions of any LQ Franchised Hotel or their respective owners, parents, affiliates, subsidiaries, officers, directors, employees, agents, representatives, management companies, predecessors, successors and assigns.

6. In the event any of the LQ Parties breach any of their respective obligations described herein, the Attorney General may in his sole discretion terminate the Agreement as to the breaching LQ Party upon written notice to the breaching LQ Party. In such event, this Agreement shall not bar or otherwise preclude the Attorney General from commencing, conducting, or prosecuting any investigation, action, or proceeding, however denominated, with respect to the breaching LQ Party related to the Attorney General's Investigation.

7. Subject to compliance by the specific LQ Party with its respective obligations described in this Agreement, the Attorney General agrees, covenants and acknowledges that the Attorney General will not initiate, maintain or otherwise bring any complaints, claims, causes of action or other legal proceedings under the antitrust statutes against any of the LQ Parties, the LQ Hotels, the LQ Franchised Hotels, the LQ Released Parties or the Additional LQ Released Parties (as those terms are defined below) based upon the acts, practices and/or circumstances that serve as the basis of this Agreement and/or the Investigation and arising prior to the date of this Agreement. Upon execution

of this Agreement by each of the Parties, and compliance by the LQ Parties with the provisions of paragraphs 1, 2, and 3, the Attorney General releases (a) the LQ Parties, each LQ Hotel, each LQ Franchised Hotel and each of their respective owners, parents, affiliates, subsidiaries, franchisors, franchisees, licensors, licensees, officers, directors, employees, predecessors, successors and assigns (“LQ Released Parties”) from any and all liability, claims or demands, including those for civil penalties or restitution, that could have been contemplated or asserted by the Attorney General pursuant to his authority under any applicable law including, without limitation, Section 35-24 et seq. of the Connecticut General Statutes, based upon the acts, practices and/or circumstances that serve as the basis of this Agreement and/or the Investigation and arising prior to the date of this Agreement; and (b) the agents, representatives and management companies engaged or employed by any of the LQ Released Parties (“Additional LQ Released Parties”) from any and all liability, claims or demands that arise from actions taken and/or executed on behalf of the LQ Released Parties, including those for civil penalties or restitution that could have been contemplated or asserted by the Attorney General pursuant to his authority under any applicable law including, without limitation, Section 35-24 et seq. of the Connecticut General Statutes, based upon the acts, practices and/or circumstances that serve as the basis of this Agreement and/or the Investigation and arising prior to the date of this Agreement; provided however that the LQ Released Parties and the Additional LQ Released Parties are only released for such liability, claims or demands insofar as they relate to the operation of LQ Hotels and LQ Franchised Hotels. Notwithstanding this paragraph or any other provision of this Agreement, this Agreement shall in no way be interpreted to release any person, including but not limited to the LQ Parties or any of the LQ Franchised Hotels, with respect to claims that may

arise relating to any conduct after the dates set forth in the applicable provisions or paragraphs 1, 2 or 3 of this Agreement or any claim that may be brought by the Attorney General to enforce any of the LQ Parties' obligations under this Agreement.

8. The Attorney General may make such application as appropriate to enforce or maintain any action within his legal authority for such other and further relief as the Attorney General may determine in his sole discretion is proper and necessary for the enforcement of this Agreement. The LQ Parties recognize that the State of Connecticut's remedy at law regarding enforcement of this Agreement is inadequate and agrees that the Connecticut Superior Court has the authority to specifically enforce the provisions of this Agreement, including the authority to award equitable relief, where appropriate, including specific performance. The exclusive forum for resolving any disputes regarding the LQ Parties' obligations under this Agreement shall be the Superior Court for the Judicial District of Hartford, or as otherwise required by law.

9. No failure or delay by the Attorney General in exercising any right, power, or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power, or privilege.

10. This Agreement may be changed, amended, or modified only by a writing signed by the Parties hereto.

11. This constitutes the entire agreement between the Attorney General and the LQ Parties, and supersedes any prior communication, understanding, or agreement, whether written or oral, concerning the subject matter of the Agreement.

12. The Agreement and its provisions shall be effective and binding only when it is signed by the Parties.

13. The Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one instrument.

14. Unless otherwise provided, all notices as required by the Agreement shall be provided as follows:

To the Attorney General:

Office of the Connecticut Attorney General
55 Elm Street
PO Box 120
Hartford, CT 06141-0120
Tel. (860) 808-5040
Fax. (860) 808-5033
Attn: Michael Cole, Chief, Antitrust Department
Michael.Cole@po.state.ct.us

To: LQ Management:

LQ Management, L.L.C.
Attn: Legal Department
909 Hidden Ridge, Suite 600
Irving, Texas 75038
Tel. (214) 492-6990
Fax (214) 492-6434

To LQ Franchising:

La Quinta Franchising, LLC
Attn: Legal Department
909 Hidden Ridge, Suite 600
Irving, Texas 75038
Tel. (214) 492-6990
Fax (214) 492-6434

15. Nothing in this Agreement shall be construed to prevent any person, other than the Attorney General insofar as set forth in this Agreement, from pursuing any right or remedy at law which they may have against LQ Management or LQ Franchising.

16. If any portion or part of this Agreement is held invalid, unenforceable or void for any reason whatsoever, that portion shall be severed from the remainder of the Agreement and shall not affect the validity or enforceability of the remaining portions of the Agreement.

17. This Agreement shall be governed by the laws of the State of Connecticut without regard to conflicts of laws principles, and the LQ Parties consent to the jurisdiction of the Connecticut Superior Court.

18. Cooperation: The LQ Parties agree that (a) the LQ Parties shall accept service of subpoena(s) and pursuant thereto produce, to the extent not otherwise already provided, such additional information, documents and/or tangible evidence related to the Investigation and reasonably requested by the Attorney General, subject to all applicable privileges and statutory protections for confidential information; (b) except to the extent such persons are represented by separate counsel or subpoenaed in their individual capacity, the LQ Parties shall, pursuant to a subpoena, use best efforts to make its current officers and employees available to attend any proceedings related to the Investigation, at which the presence of any such persons is reasonably requested by the Attorney General, to answer any and all related inquiries that may be put to any of them by the Attorney General (or any of the Attorney General's deputies, assistants or agents), subject to all rights, individual or otherwise, and all applicable privileges ("proceedings" include but are not limited to any meetings, interviews, depositions, hearings, or trial); (c) in the event any document is withheld or redacted on grounds of privilege or work-product, a statement shall be submitted in writing by the LQ Parties, indicating: (i) the type of document; (ii) the date of the document; (iii) the author and recipient of the document; (iv) the general subject matter of the document; (v) the reason for withholding the

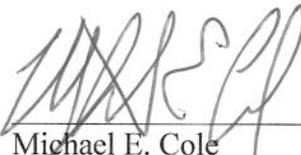
document; and (vi) the Bates number or range of the withheld document; provided, however, the Attorney General may challenge such claim in Connecticut Superior Court; and (d) the LQ Parties shall not jeopardize the confidentiality of the Attorney General's Investigation, by disclosing documents or other information provided to the LQ Parties by the Attorney General, without the consent of the Attorney General. Nothing herein shall prevent the LQ Parties from communicating in the normal course of business with: (i) the LQ Franchised Hotels' owners or managers, (ii) the LQ Released Parties, (iii) the Additional LQ Released Parties, or (iv) any lender, or (v) from providing such documents or other information to other persons or entities as otherwise required by law.

WHEREFORE, the following signatures are affixed on the dates set forth below.

Dated: March 30, 2010

RICHARD BLUMENTHAL
Attorney General of the State of Connecticut

By:



Michael E. Cole
Chief, Antitrust Department

Dated: March 25, 2010

LQ MANAGEMENT L.L.C. ,
in the capacity identified herein

By:



Dated: March 25, 2010

LA QUINTA FRANCHISING, L.L.C.

By: