

CHOICE HOTELS INTERNATIONAL INC /DE
Form 10-Q
May 09, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED March 31, 2012
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
COMMISSION FILE NO. 001-13393

CHOICE HOTELS INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization) 10750 COLUMBIA PIKE SILVER SPRING, MD. 20901 (Address of principal executive offices) (Zip Code) (301) 592-5000 (Registrant's telephone number, including area code)	52-1209792 (I.R.S. Employer Identification No.)
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(Former name, former address and former fiscal year, if changed since last report)

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, and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

CLASS Common Stock, Par Value \$0.01 per share	SHARES OUSTANDING AT MARCH 31, 2012 58,127,032
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CHOICE HOTELS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED, IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended	
	March 31,	
	2012	2011
REVENUES:		
Royalty fees	\$47,853	\$43,794
Initial franchise and relicensing fees	2,528	2,721
Procurement services	3,315	3,261
Marketing and reservation	70,929	62,967
Hotel operations	978	864
Other	3,566	1,674
Total revenues	129,169	115,281
OPERATING EXPENSES:		
Selling, general and administrative	24,349	23,847
Depreciation and amortization	2,017	1,955
Marketing and reservation	70,929	62,967
Hotel operations	809	833
Total operating expenses	98,104	89,602
Operating income	31,065	25,679
OTHER INCOME AND EXPENSES, NET:		
Interest expense	3,117	3,224
Interest income	(337)	(210)
Other (gains) and losses	(2,003)	1,043
Equity in net (income) loss of affiliates	55	(301)
Total other income and expenses, net	832	3,756
Income before income taxes	30,233	21,923
Income taxes	10,236	6,193
Net income	\$19,997	\$15,730
Basic earnings per share	\$0.34	\$0.26
Diluted earnings per share	\$0.34	\$0.26

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

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CHOICE HOTELS INTERNATIONAL, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (UNAUDITED, IN THOUSANDS)

	Three Months Ended	
	March 31,	
	2012	2011
Net income	\$ 19,997	\$ 15,730
Other comprehensive income, net of tax:		
Amortization of loss on cash flow hedge	215	215
Foreign currency translation adjustment, net	412	505
Amortization of pension related costs, net of tax		
Actuarial loss (net of income tax of \$12 in 2012)	20	—
Actuarial pension loss (net of income tax of \$6 in 2011)	—	(10
Other comprehensive income, net of tax	647	710
Comprehensive income	\$ 20,644	\$ 16,440

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

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CHOICE HOTELS INTERNATIONAL, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 (UNAUDITED, IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	March 31, 2012	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	\$91,312	\$107,057
Receivables (net of allowance for doubtful accounts of \$10,963 and \$9,979, respectively)	53,290	53,012
Investments, employee benefit plans, at fair value	5,241	12,094
Other current assets	28,635	22,633
Total current assets	178,478	194,796
Property and equipment, at cost, net	51,309	51,992
Goodwill	66,013	66,005
Franchise rights and other identifiable intangibles, net	16,395	17,255
Receivable – marketing and reservation fees	63,690	54,014
Investments, employee benefit plans, at fair value	12,625	11,678
Deferred income taxes	23,549	22,665
Other assets	31,173	29,284
Total assets	\$443,232	\$447,689
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	\$45,128	\$38,389
Accrued expenses	28,530	53,851
Deferred revenue	70,830	68,825
Deferred compensation and retirement plan obligations	19,184	18,935
Current portion of long-term debt	679	673
Deferred income taxes	2,784	2,784
Income taxes payable	9,220	1,108
Total current liabilities	176,355	184,565
Long-term debt	257,780	252,032
Deferred compensation and retirement plan obligations	19,640	20,593
Other liabilities	15,633	16,060
Total liabilities	469,408	473,250
Commitments and Contingencies		
SHAREHOLDERS' DEFICIT		
Common stock, \$0.01 par value, 160,000,000 shares authorized; 95,345,362 shares issued at March 31, 2012 and December 31, 2011 and 58,127,032 and 58,277,646 shares outstanding at March 31, 2012 and December 31, 2011, respectively	581	583
Additional paid-in capital	100,900	102,665
Accumulated other comprehensive loss	(6,154	) (6,801
Treasury stock (37,218,330 and 37,067,716 shares at March 31, 2012 and December 31, 2011, respectively), at cost	(925,763	) (916,955
Retained earnings	804,260	794,947
Total shareholders' deficit	(26,176	) (25,561
Total liabilities and shareholders' deficit	\$443,232	\$447,689

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

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CHOICE HOTELS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED, IN THOUSANDS)

	Three Months Ended	
	March 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$19,997	\$15,730
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	2,017	1,955
Provision for bad debts	679	778
Non-cash stock compensation and other charges	2,543	4,513
Non-cash interest and other income	(1,593)	(350)
Equity in net (income) loss of affiliates	55	(301)
Changes in assets and liabilities:		
Receivables	(870)	(1,250)
Receivable – marketing and reservation fees, net	(6,187)	(8,979)
Accounts payable	6,712	(1,775)
Accrued expenses	(25,342)	(18,931)
Income taxes payable/receivable	8,180	1,182
Deferred income taxes	(30)	(12)
Deferred revenue	1,997	4,709
Other assets	(2,611)	(1,147)
Other liabilities	(1,135)	(1,339)
Net cash provided (used) by operating activities	4,412	(5,217)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in property and equipment	(3,129)	(1,835)
Equity method investments	(2,600)	(1,600)
Issuance of notes receivable	(3,719)	(1,477)
Collections of notes receivable	151	7
Purchases of investments, employee benefit plans	(743)	(897)
Proceeds from sales of investments, employee benefit plans	8,652	310
Other items, net	(108)	(95)
Net cash used in investing activities	(1,496)	(5,587)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings pursuant to revolving credit facility	5,900	7,900
Repayments of long-term debt	(166)	(5)
Purchase of treasury stock	(14,854)	(2,207)
Dividends paid	(10,713)	(10,950)
Excess tax benefits from stock-based compensation	422	834
Debt issuance costs	—	(2,207)
Proceeds from exercise of stock options	389	2,238
Net cash used in financing activities	(19,022)	(4,397)
Net change in cash and cash equivalents	(16,106)	(15,201)
Effect of foreign exchange rate changes on cash and cash equivalents	361	347
Cash and cash equivalents at beginning of period	107,057	91,259
Cash and cash equivalents at end of period	\$91,312	\$76,405
Supplemental disclosure of cash flow information:		

Cash payments during the period for:

Income taxes, net of refunds	\$1,746	\$3,756
Interest	\$7,388	\$7,309
Non-cash investing and financing activities:		
Declaration of dividends	\$10,684	\$10,992
Capital lease obligation	\$—	\$430
Issuance of restricted shares of common stock	\$8,497	\$7,452
Issuance of treasury stock to employee stock purchase plan	\$—	\$185

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

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CHOICE HOTELS INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Company Information and Significant Accounting Policies

The accompanying unaudited consolidated financial statements of Choice Hotels International, Inc. and subsidiaries (together the "Company") have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). These unaudited consolidated financial statements include all adjustments that are necessary, in the opinion of management, to fairly present our financial position and results of operations. Except as otherwise disclosed, all adjustments are of a normal recurring nature.

Certain information and footnote disclosures normally included in financial statements presented in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted. The year-end balance sheet information was derived from audited financial statements, but does not include all disclosures required by GAAP. The Company believes the disclosures made are adequate to make the information presented not misleading.

The consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2011 and notes thereto included in the Company's Form 10-K, filed with the SEC on February 29, 2012 (the "10-K"). Interim results are not necessarily indicative of the entire year results because of seasonal variations. All inter-company transactions and balances between Choice Hotels International, Inc. and its subsidiaries have been eliminated in consolidation.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation with no effect on previously reported net income, cash flows or shareholders' deficit.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less at the date of purchase to be cash equivalents. As of March 31, 2012 and December 31, 2011, \$3.2 million and \$4.4 million respectively, of book overdrafts representing outstanding checks in excess of funds on deposit are included in accounts payable in the accompanying consolidated balance sheets.

The Company maintains cash balances in domestic banks, which at times, may exceed the limits of amounts insured by the Federal Deposit Insurance Corporation. In addition, the Company also maintains cash balances in international banks which do not provide deposit insurance.

Recently Adopted Accounting Guidance

The Company adopted Accounting Standards Update ("ASU") No. 2011-08, "Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment" ("ASU No. 2011-08") in the first quarter of 2012. The guidance, which was issued in September 2011, reduces the complexity and costs by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. The amendment improves previous guidance by expanding upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Furthermore, the amendment improves the examples of events and circumstances that an entity having a reporting unit with a zero or negative carrying amount should consider in determining whether to measure an impairment loss, if any, under the second step of the goodwill impairment test. The Company performs its annual goodwill impairment test in the fourth quarter and does not expect the adoption of this ASU to significantly impact its consolidated financial statements.

The Company adopted ASU No. 2011-05 "Comprehensive Income (Topic 220): Presentation of Comprehensive Income" ("ASU No. 2011-05") in the first quarter of 2012. ASU No. 2011-05, which was issued in June 2011, amends existing guidance by allowing only two options for presenting the components of net income and other comprehensive income: (1) in a single continuous financial statement, statement of comprehensive income or (2) in two separate but

consecutive financial statements, consisting of an income statement followed by a separate statement of other comprehensive income.

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Additionally, the Company adopted ASU No. 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05" ("ASU 2011-12"), which was issued in December 2011. ASU 2011-12 defers until further notice ASU No. 2011-05's requirement that items that are reclassified from other comprehensive income to net income be presented on the face of the financial statements. ASU No. 2011-05 required retrospective application. The Company has elected to present other comprehensive income in a separate statement following the consolidated statements of income.

The Company adopted ASU No. 2011-04 "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs" ("ASU No. 2011-04") in the first quarter of 2012. ASU No. 2011-04 generally provides a uniform framework for fair value measurements and related disclosures between U.S. GAAP and International Financial Reporting Standards ("IFRS"). Additional disclosure requirements in the update include: (1) for Level 3 fair value measurements, quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements to changes in the unobservable inputs; (2) for an entity's use of a non-financial asset that is different from the asset's highest and best use, the reason for the difference; (3) for financial instruments not measured at fair value but for which disclosure of fair value is required, the fair value hierarchy level in which the fair value measurements were determined; and (4) the disclosure of all transfers between Level 1 and Level 2 of the fair value hierarchy. The adoption of this update did not have a material impact on our financial statements.

2. Other Current Assets

Other current assets consist of the following:

	March 31, 2012	December 31, 2011
	(In thousands)	
Land held for sale	\$10,158	\$10,141
Prepaid expenses	9,607	8,202
Notes receivable (See Note 3)	6,384	3,104
Other current assets	2,486	1,186
Total	\$28,635	\$22,633

Land held for sale represents the Company's purchase of various parcels of real estate as part of its program to incent franchise development in strategic markets for certain brands. The Company has acquired this real estate with the intent to resell it to third-party developers for the construction of hotels operated under the Company's brands. The real estate is accounted for as assets held for sale and therefore is carried at the lower of its carrying value or its estimated fair value (based on comparable sales), less estimated costs to sell.

3. Notes Receivable and Allowance for Losses

The Company segregates its notes receivable for the purposes of evaluating allowances for credit losses between two categories: Mezzanine and Other Notes Receivable and Forgivable Notes Receivable. The Company utilizes the level of security it has in the various notes receivable as its primary credit quality indicator (i.e. senior, subordinated or unsecured) when determining the appropriate allowances for uncollectible loans within these categories.

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The following table shows the composition of our notes receivable balances:

Credit Quality Indicator	March 31, 2012 (\$ in thousands)			December 31, 2011 (\$ in thousands)		
	Forgivable Notes Receivable	Mezzanine & Other Notes Receivable	Total	Forgivable Notes Receivable	Mezzanine & Other Notes Receivable	Total
Senior	\$—	\$11,089	\$11,089	\$—	\$7,900	\$7,900
Subordinated	—	14,003	14,003	—	13,992	13,992
Unsecured	7,700	—	7,700	7,948	—	7,948
Total notes receivable	7,700	25,092	32,792	7,948	21,892	29,840
Allowance for losses on non-impaired loans	785	92	877	795	225	1,020
Allowance for losses on receivables specifically evaluated for impairment	—	8,315	8,315	—	8,208	8,208
Total loan reserves	785	8,407	9,192	795	8,433	9,228
Net carrying value	\$6,915	\$16,685	\$23,600	\$7,153	\$13,459	\$20,612
Current portion, net	\$137	\$6,247	\$6,384	\$102	\$3,002	\$3,104
Long-term portion, net	6,778	10,438	17,216	7,051	10,457	17,508
Total	\$6,915	\$16,685	\$23,600	\$7,153	\$13,459	\$20,612

The Company classifies notes receivable due within one year as other current assets and notes receivable with a maturity greater than one year as other assets in the Company's consolidated balance sheets.

The following table summarizes the activity related to the Company's Forgivable Notes Receivable and Mezzanine and & Other Notes Receivable allowance for losses from December 31, 2011 through March 31, 2012:

	Forgivable Notes Receivable (In thousands)	Mezzanine & Other Notes Receivable
Balance, December 31, 2011	\$795	\$8,433
Provisions	52	—
Recoveries	(16)	(26)
Write-offs	(56)	—
Other ⁽¹⁾	10	—
Balance, March 31, 2012	\$785	\$8,407

(1) Consists of default rate assumption changes
Forgivable Notes Receivable

As of March 31, 2012 and December 31, 2011, the unamortized balance of the Company's forgivable notes receivable totaled \$7.7 million and \$7.9 million, respectively. The Company recorded an allowance for credit losses on these forgivable notes receivable of \$0.8 million at both March 31, 2012 and December 31, 2011, respectively. At March 31, 2012 and December 31, 2011, the Company did not have any forgivable unsecured notes that were past due. Amortization expense included in the accompanying consolidated statements of income related to the notes was \$0.6 million and \$0.5 million for the three months ended March 31, 2012 and 2011, respectively.

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Mezzanine and Other Notes Receivable

The Company has determined that approximately \$12.6 million and \$11.2 million of its mezzanine and other notes receivable were impaired at March 31, 2012 and December 31, 2011, respectively. The Company has recorded allowance for credit losses on these impaired loans at March 31, 2012 and December 31, 2011 totaling \$8.4 million and \$8.2 million resulting in a carrying value of impaired loans of \$4.3 million and \$3.0 million, respectively for which we had no related allowance for credit losses. The Company recognized approximately \$31 thousand of interest income on impaired loans during the three months ended March 31, 2012 on the cash basis. The Company did not recognize any interest on an accrual or cash basis on its impaired loans during the three months ended March 31, 2011. The Company had provided loan reserves on non-impaired loans totaling \$0.1 million and \$0.2 million at March 31, 2012 and December 31, 2011, respectively.

Past due balances of mezzanine and other notes receivable by credit quality indicators are as follows:

	30-89 days Past Due (\$ in thousands)	> 90 days Past Due	Total Past Due	Current	Total Receivables
As of March 31, 2012					
Senior	\$—	\$—	\$—	\$11,089	\$11,089
Subordinated	162	9,748	9,910	4,093	14,003
	\$162	\$9,748	\$9,910	\$15,182	\$25,092
As of December 31, 2011					
Senior	\$—	\$—	\$—	\$7,900	\$7,900
Subordinated	—	9,773	9,773	4,219	13,992
	\$—	\$9,773	\$9,773	\$12,119	\$21,892

Loans Acquired with Deteriorated Credit Quality

On December 2, 2011, the Company acquired an \$11.5 million mortgage, held on a franchisee hotel asset, from a financial institution for \$7.9 million. At both March 31, 2012 and December 31, 2011, the carrying amount of this loan, which is reported under senior mezzanine and other notes receivables, was \$7.9 million and there was no allowance for uncollectable amounts. The Company's accretable yield at acquisition was \$1.8 million or 7.36% and a reconciliation of the accretable yield for the three months ended March 31, 2012 is as follows:

	Accretable Yield (\$ in thousands)
Balance, December 31, 2011	\$1,793
Additions	—
Accretion	(145)
Disposals	—
Reclassifications from nonaccretable yield	—
Balance, March 31, 2012	\$1,648

4. Receivable – Marketing and Reservation Fees

The marketing fees receivable from cumulative marketing expenses incurred in excess of cumulative marketing fees earned at March 31, 2012 and December 31, 2011 was \$23.1 million and \$18.5 million, respectively. As of March 31, 2012 and December 31, 2011, the reservation fees receivable related to cumulative reservation expenses incurred in excess of cumulative reservation fees earned was \$40.6 million and \$35.5 million, respectively. Depreciation and amortization expense attributable to marketing and reservation activities for the three months ended March 31, 2012 and 2011 was \$3.5 million and \$3.2 million, respectively. Interest expense attributable to marketing and reservation activities was \$1.2 million and \$1.0 million for the three months ended March 31, 2012 and 2011, respectively.

The Company evaluates the receivable for marketing and reservation costs in excess of cumulative marketing and reservation system revenues earned on a periodic basis for collectibility. The Company will record an allowance when, based on current information and events, it is probable that it will be unable to collect all amounts due for marketing and reservation activities according to the contractual terms of the franchise agreements. The receivables are considered to be uncollectible if the

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expected net, undiscounted cash flows from marketing and reservation activities are less than the carrying amount of the asset. Based on the Company's analysis of projected net cash flows from marketing and reservation activities for all periods presented, the Company concluded that the receivable for marketing and reservation activities was fully collectible and as a result no allowance for possible losses was recorded.

5. Other Assets

Other assets consist of the following:

	March 31, 2012	December 31, 2011
	(In thousands)	
Notes receivable (see Note 3)	\$17,216	\$17,508
Equity method investments	6,898	4,338
Deferred financing fees	3,173	3,351
Land held for sale	1,300	1,300
Other	2,586	2,787
Total	\$31,173	\$29,284

During the first quarter of 2011, the Company determined that one parcel of land no longer met the criteria to be classified as a current asset held for sale. As a result, the Company reclassified this land to other long-term assets on the Company's consolidated balance sheets at the lower of its carrying amount or fair value. The Company determined that the carrying amount of the land exceeded its estimated fair value by approximately \$1.8 million based on comparable sales. As a result, in the first quarter of 2011, the Company reduced the carrying amount of the land to its estimated fair value and recognized a \$1.8 million loss in other gains and losses in the consolidated statements of income.

Description	Fair Value Measurements Using (\$ in millions)				Total Gains (Losses)
	March 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Land held for sale	\$ 1.3	\$ —	\$ 1.3	\$—	\$(1.8)

6. Deferred Revenue

Deferred revenue consists of the following:

	March 31, 2012	December 31, 2011
	(In thousands)	
Loyalty programs	\$61,634	\$64,636
Initial, relicensing and franchise fees	2,963	3,198
Procurement service fees	1,882	957
Other	4,351	34
Total	\$70,830	\$68,825

7. Debt

Debt consists of the following at:

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	March 31, 2012 (In thousands)	December 31, 2011
\$300 million senior unsecured revolving credit facility with an effective interest rate of 1.74% at March 31, 2012	\$5,900	\$—
\$250 million senior notes with an effective interest rate of 6.19% less discount of \$0.5 million and \$0.6 million at March 31, 2012 and December 31, 2011, respectively	249,460	249,444
Capital lease obligations due 2016 with an effective interest rate of 3.18% at both March 31, 2012 and December 31, 2011, respectively	3,011	3,172
Other notes payable	88	89
Total debt	\$258,459	\$252,705
Less current portion	679	673
Total long-term debt	\$257,780	\$252,032

On February 24, 2011, the Company entered into a new \$300 million senior unsecured revolving credit agreement (the “Revolver”) with Wells Fargo Bank, National Association, as administrative agent and a syndicate of lenders. Simultaneously with the closing of the Revolver, the \$350 million unsecured revolving credit agreement dated as of June 2006 (the “Old Revolver”) was terminated. The Revolver provides for a \$300 million unsecured revolving credit facility with a final maturity date on February 24, 2016. Up to \$30 million of borrowings under the Revolver may be used for letters of credit and up to \$20 million of borrowings under the Revolver may be used for swing-line loans. The Revolver is unconditionally guaranteed, jointly and severally, on a senior unsecured basis by all of the Company's subsidiaries that currently guaranty the obligations under the Company's Indenture governing the terms of its 5.70% senior notes due 2020.

The Company may at any time prior to the final maturity date increase the amount of the Revolver by up to an additional \$150 million to the extent that any one or more lenders commit to being a lender for the additional amount and certain other customary conditions are met.

The Company may elect to have borrowings under the Revolver bear interest at (i) a base rate plus a margin ranging from 5 to 80 basis points based on the Company's credit rating or (ii) LIBOR plus a margin ranging from 105 to 180 basis points based on the Company's credit rating. In addition, the Revolver requires the Company to pay a quarterly facility fee on the full amount of the commitments under the Revolver (regardless of usage) ranging from 20 to 45 basis points based upon the credit rating of the Company.

The Revolver requires that the Company and its restricted subsidiaries comply with various covenants, including with respect to restrictions on liens, incurring indebtedness, making investments and effecting mergers and/or asset sales. In addition, the Revolver imposes financial maintenance covenants requiring the Company to maintain a total leverage ratio of not more than 3.5 to 1.0 and an interest coverage ratio of at least 3.5 to 1.0. The Revolver includes customary events of default, the occurrence of which, following any applicable cure period, would permit the lenders to, among other things, declare the principal, accrued interest and other obligations of the Company under the Revolver to be immediately due and payable. At March 31, 2012 the Company was in compliance with all covenants under the Revolver.

The proceeds of the Revolver are used for general corporate purposes, including working capital, debt repayment, stock repurchases, dividends, investments and other permitted uses. At March 31, 2012, the Company had \$5.9 million outstanding under the Revolver.

On August 25, 2010, the Company completed a \$250 million senior unsecured note offering (“the Senior Notes”) at a discount of \$0.6 million, bearing a coupon of 5.7% with an effective rate of 6.19%. The Senior Notes will mature on August 28, 2020, with interest on the Senior Notes to be paid semi-annually on February 28th and August 28th. The Company used the net proceeds from the offering, after deducting underwriting discounts and other offering expenses, to repay outstanding borrowings under the Old Revolver and other general corporate purposes. The Company's Senior Notes are guaranteed jointly, severally, fully and unconditionally, subject to certain customary limitations by eight 100%-owned domestic subsidiaries.

8. Pension Plan

The Company sponsors an unfunded non-qualified defined benefit plan ("SERP") for certain senior executives. No assets are held with respect to the SERP; therefore benefits are funded as paid to participants. For each of the three months ended March 31, 2012 and 2011, the Company recorded \$0.2 million and \$0.1 million, respectively, in expenses related to the SERP which are included in selling general and administrative ("SG&A") expense in the accompanying consolidated statements of

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income.

On December 26, 2011, the Company's board of directors approved the termination of the SERP effective immediately. The Company will effectuate the termination of the SERP through the payment of lump sum distributions to all SERP participants based upon the actuarial equivalent commuted lump sum value of the full accrued benefit earned by each such participant, using the actuarial and other assumptions that have not yet been determined. The Company expects to complete the settlement of the plan benefits prior to December 31, 2012. Based on the assumptions chosen to calculate the lump sum value of distributions, the actual settlement of the SERP liability may differ from the Company's current estimate of the projected benefit obligation which totals \$11.9 million resulting in a settlement gain or loss in 2012.

The following table presents the components of net periodic benefit costs for the three months ended March 31, 2012 and 2011:

(In thousands)	Three Months Ended March 31,	
	2012	2011
Components of net periodic pension cost:		
Interest cost	\$132	\$135
Amortization of actuarial loss	32	—
Net periodic pension cost	\$164	\$135

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The 2012 net periodic pension costs are expected to be approximately \$0.7 million. The components of projected pension costs for the year ended December 31, 2012 are as follows:

(in thousands)

Components of net periodic pension cost:

Interest cost	\$526
Amortization of actuarial loss	128
Net periodic pension cost	\$654

The following is a reconciliation of the changes in the projected benefit obligation for the three months ended March 31, 2012:

(in thousands)

Projected benefit obligation, December 31, 2011	\$11,896
Interest cost	132
Benefit payments	(111)
Projected benefit obligations, March 31, 2012	\$11,917

The amounts in accumulated other comprehensive income (loss) that have not yet been recognized as components of net periodic benefit costs at March 31, 2012 are as follows:

(in thousands)

Transition asset (obligation)	\$—
Prior service cost	—
Accumulated loss	(2,343)
Total	\$(2,343)

9. Non-Qualified Retirement, Savings and Investment Plans

The Company sponsors two non-qualified retirement savings and investment plans for certain employees and senior executives. Employee and Company contributions are maintained in separate irrevocable trusts. Legally, the assets of the trusts remain those of the Company; however, access to the trusts' assets is severely restricted. The trusts' cannot be revoked by the Company or an acquirer, but the assets are subject to the claims of the Company's general creditors. The participants do not have the right to assign or transfer contractual rights in the trusts.

In 2002, the Company adopted the Choice Hotels International, Inc. Executive Deferred Compensation Plan ("EDCP") which became effective January 1, 2003. Under the EDCP, certain executive officers may defer a portion of their salary into an irrevocable trust. Prior to January 1, 2010, participants could elect an investment return of either the annual yield of the Moody's Average Corporate Bond Rate Yield Index plus 300 basis points, or a return based on a selection of available diversified investment options. Effective January 1, 2010, the Moody's Average Corporate Bond Rate Yield Index plus 300 basis points is no longer an investment option for salary deferrals made on compensation earned after December 31, 2009. The Company recorded current and long-term deferred compensation liabilities of \$15.6 million and \$17.2 million, as of March 31, 2012 and December 31, 2011, respectively, related to these deferrals and credited investment returns. Compensation expense is recorded in SG&A expense on the Company's consolidated statements of income based on the change in the deferred compensation obligation related to earnings credited to participants as well as changes in the fair value of diversified investments. Compensation expense recorded in SG&A for the three months ended March 31, 2012 and 2011 was \$0.4 million and \$0.3 million respectively.

The Company has invested the employee salary deferrals in diversified long-term investments which are intended to provide investment returns that partially offset the earnings credited to the participants. The diversified investments held in the trusts totaled \$7.4 million and \$14.2 million as of March 31, 2012 and December 31, 2011, respectively, and are recorded at their fair value, based on quoted market prices. At March 31, 2012, the Company expects \$5.2 million of the assets held in the trust to be distributed during the year ended December 31, 2012 to participants. These investments are considered trading securities and therefore the changes in the fair value of the diversified assets is

included in other gains and losses in the accompanying statements of income. The Company recorded investment gains during the three months ended March 31, 2012 and 2011 of approximately \$1.1 million and \$0.4 million, respectively.

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In 1997, the Company adopted the Choice Hotels International, Inc. Non-Qualified Retirement Savings and Investment Plan (“Non-Qualified Plan”). The Non-Qualified Plan allows certain employees who do not participate in the EDCP to defer a portion of their salary and invest these amounts in a selection of available diversified investment options. As of March 31, 2012 and December 31, 2011, the Company had recorded a deferred compensation liability of \$11.3 million and \$10.4 million, respectively related to these deferrals. Compensation expense is recorded in SG&A expense on the Company's consolidated statements of income based on the change in the deferred compensation obligation related to earnings credited to participants as well as changes in the fair value of diversified investments. The net increase in compensation expense recorded in SG&A for the three months ended March 31, 2012 and 2011 was \$0.9 million and \$0.3 million respectively.

The diversified investments held in the trusts were \$10.5 million and \$9.5 million as of March 31, 2012 and December 31, 2011, respectively, and are recorded at their fair value, based on quoted market prices. These investments are considered trading securities and therefore the changes in the fair value of the diversified assets is included in other gains and losses in the accompanying statements of income. The Company recorded investment gains during the three months ended March 31, 2012 and 2011 of approximately \$0.9 million and \$0.3 million, respectively. In addition, the Non-Qualified Plan held shares of the Company's common stock with a market value of \$0.9 million at both March 31, 2012 and December 31, 2011, respectively, which are recorded as a component of shareholders' deficit.

10. Fair Value Measurements

The Company estimates the fair value of its financial instruments utilizing a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The following summarizes the three levels of inputs, as well as the assets that the Company values using those levels of inputs.

Level 1: Quoted prices in active markets for identical assets and liabilities. The Company's Level 1 assets consist of marketable securities (primarily mutual funds) held in the Company's EDCP and Non-Qualified Plan deferred compensation plans.

Level 2: Observable inputs, other than quoted prices in active markets for identical assets and liabilities, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable. The Company's Level 2 assets consist of money market funds held in the Company's EDCP and Non-Qualified Plan deferred compensation plans and those recorded in cash and cash equivalents.

Level 3: Unobservable inputs, supported by little or no market data available, where the reporting entity is required to develop its own assumptions to determine the fair value of the instrument. The Company does not currently have any assets whose fair value was determined using Level 3 inputs.

As of March 31, 2012 and December 31, 2011, the Company had the following assets measured at fair value on a recurring basis:

	Fair Value Measurements at			
	Total	Level 1	Level 2	Level 3
Assets (in thousands)				
As of March 31, 2012				
Money market funds, included in cash and cash equivalents	\$20,001	\$—	\$20,001	\$—
Mutual funds ⁽¹⁾	11,599	11,599	—	—
Money market funds ⁽¹⁾	6,267	—	6,267	—
	\$37,867	\$11,599	\$26,268	\$—
As of December 31, 2011				
Money market funds, included in cash and cash equivalents	\$20,001	\$—	\$20,001	\$—
Mutual funds ⁽¹⁾	21,534	21,534	—	—

Money market funds ⁽¹⁾	2,238	—	2,238	—
	\$43,773	\$21,534	\$22,239	\$—

(1) Included in Investments, employee benefit plans fair value on the consolidated balance sheets. During the three months ended March 31, 2012, the Company sold approximately \$11.8 million of mutual funds (Level 1 assets) held in the employee benefit plan trusts. Approximately \$8.4 million of these assets were distributed from the

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irrevocable trust with the remaining \$3.4 million transferred to money market funds (Level 2 assets). The Company's policy is to recognize transfers in and transfers out of the three levels of the fair value hierarchy as of the end of each quarterly reporting period.

Other Financial Instruments

The Company believes that the fair value of its current assets and current liabilities approximate their reported carrying amounts due to the short-term nature of these items. In addition, the interest rates of the Company's Revolver adjust frequently based on current market rates; accordingly its carrying amount approximates fair value.

We estimated the fair value of notes receivable which approximate their carrying value, utilizing an analysis of future cash flows and credit worthiness for similar types of arrangements. Based upon the availability of market data, we have classified these notes receivables as Level 3 inputs. The primary sensitivity in these calculations is based on the selection of appropriate interest and discount rates. For further information on the notes receivables see Note 3.

The Company estimates the fair value of its senior notes using quoted market prices, which are directly observable Level 1 inputs. At March 31, 2012 and December 31, 2011, the senior notes had an approximate fair value of \$261.7 million and \$267.7 million, respectively.

Fair values estimated are made at a specific point in time, are subjective in nature and involve uncertainties and matters of significant judgment. Settlement of such fair value amounts may not be possible and may not be a prudent management decision.

11. Income Taxes

The effective income tax rate for the quarter was 33.9% compared to 28.2% for the three months ended March 31, 2012 and 2011, respectively. The effective income tax rate for the first quarter 2011 reflects a nonrecurring adjustment of \$1.4 million to our current federal taxes payable.

12. Share-Based Compensation and Capital Stock**Stock Options**

The Company granted 0.2 million and 0.2 million options to certain employees of the Company at a fair value of \$1.6 million and \$2.1 million for the three months ended March 31, 2012 and 2011, respectively. The stock options granted by the Company had an exercise price equal to the market price of the Company's common stock on the date of grant. The fair value of the options granted was estimated on the grant date using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2012 Grants	2011 Grants	
Risk-free interest rate	0.78	% 2.10	%
Expected volatility	40.15	% 39.51	%
Expected life of stock option	4.4 years	4.4 years	
Dividend yield	2.08	% 1.79	%
Requisite service period	4 years	4 years	
Contractual life	7 years	7 years	
Weighted average fair value of options granted	\$9.98	\$12.42	

The expected life of the options and volatility are based on historical data and are not necessarily indicative of exercise patterns or actual volatility that may occur. Historical volatility is calculated based on a period that corresponds to the expected life of the stock option. The dividend yield and the risk-free rate of return are calculated on the grant date based on the then current dividend rate and the risk-free rate of return for the period corresponding to the expected life of the stock option. Compensation expense related to the fair value of these awards is recognized

straight-line over the requisite service period based on those awards that ultimately vest.

The aggregate intrinsic value of the stock options outstanding and exercisable at March 31, 2012 was \$8.2 million and \$6.2

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million, respectively. The total intrinsic value of options exercised during the three months ended March 31, 2012 and 2011 was approximately \$0.4 million and \$1.7 million, respectively.

The Company received approximately \$0.4 million and \$2.2 million in proceeds from the exercise of 0.02 million and 0.1 million employee stock options during the three month periods ended March 31, 2012 and 2011, respectively.

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Restricted Stock

The following table is a summary of activity related to restricted stock grants:

	Three Months Ended March 31,	
	2012	2011
Restricted share grants	238,019	180,645
Weighted average grant date fair value per share	\$35.70	\$41.25
Aggregate grant date fair value (\$000)	\$8,497	\$7,452
Restricted shares forfeited	4,328	5,806
Vesting service period of shares granted	36 - 68 months	36 - 48 months
Grant date fair value of shares vested (\$000)	\$5,013	\$4,831

Compensation expense related to the fair value of these awards is recognized straight-line over the requisite service period based on those restricted stock grants that ultimately vest. The fair value of grants is measured by the market price of the Company's stock on the date of grant. Restricted stock awards generally vest ratably over the service period beginning with the first anniversary of the grant date. Awards granted to retirement eligible board of directors are recognized over the shorter of the requisite service period or the length of time until retirement since the terms of the grant provide that the awards will vest upon retirement.

Performance Vested Restricted Stock Units

The Company has granted performance vested restricted stock units ("PVRSU") to certain employees. The fair value is measured by the market price of the Company's common stock on the date of the grant. The vesting of these stock awards is contingent upon the Company achieving performance targets at the end of specified performance periods and the employees' continued employment. The performance conditions affect the number of shares that will ultimately vest. The range of possible stock-based award vesting is generally between 0% and 200% of the initial target. If a minimum of 50% of the performance target is not attained then no awards will vest under the terms of the various PVRSU agreements. Compensation expense related to these awards is recognized over the requisite service period based on the Company's estimate of the achievement of the various performance targets. The Company has currently estimated that between 0% and 130% of the various award targets will be achieved. Compensation expense is recognized ratably over the requisite service period only on those PVRSU that ultimately vest.

The following table is a summary of activity related to PVRSU grants:

	Three Months Ended March 31,	
	2012	2011
Performance vested restricted stock units granted at target	38,476	25,036
Weighted average grant date fair value per share	\$35.60	\$41.25
Aggregate grant date fair value (\$000)	\$1,370	\$1,033
Stock units forfeited	—	39,070
Requisite service period	3 years	3 years

During the three months ended March 31, 2012, no PVRSU grants vested. During the three months ended March 31, 2011, PVRSU grants totaling 39,070 units were forfeited since the Company did not achieve the minimum performance conditions contained in the stock awards.

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A summary of stock-based award activity as of March 31, 2012 and changes during the three months ended are presented below:

	Stock Options			Restricted Stock		Performance Vested Restricted Stock Units	
	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2012	1,573,726	\$33.30		565,627	\$34.43	109,769	\$35.57
Granted	160,408	35.60		238,019	35.70	38,476	35.60
Exercised/Vested	(20,216)	19.25		(149,708)	33.49	—	—
Forfeited/Expired	(3,161)	37.46		(4,328)	36.28	—	—
Outstanding at March 31, 2012	1,710,757	\$33.68	4.6 years	649,610	\$35.10	148,245	\$35.58
Options exercisable at March 31, 2012	1,163,843	\$33.30	3.8 years				

The components of the Company's pretax stock-based compensation expense and associated income tax benefits are as follows for the three months ended March 31, 2012 and 2011:

(in millions)	Three Months Ended	
	March 31, 2012	2011
Stock options	\$0.6	\$0.6
Restricted stock	2.0	1.7
Performance vested restricted stock units	0.2	0.1
Total	\$2.8	\$2.4
Income tax benefits	\$1.0	\$0.9
Dividends		

On February 20, 2012, the Company's board of directors declared a cash dividend of \$0.185 per share (or approximately \$10.7 million in the aggregate), which was paid on April 16, 2012 to shareholders of record as of April 2, 2012.

On February 21, 2011, the Company's board of directors declared a cash dividend of \$0.185 per share (or approximately \$11.0 million in the aggregate), which was paid on April 15, 2011 to shareholders of record as of April 1, 2011.

Share Repurchases and Redemptions

During the three months ended March 31, 2012, the Company purchased 0.3 million shares of common stock under the share repurchase program at a total cost of \$12.9 million. No shares of common stock were purchased by the Company under the share repurchase program during the three months ended March 31, 2011.

During the three months ended March 31, 2012, the Company redeemed 55,162 shares of common stock at a total cost of approximately \$2.0 million from employees to satisfy statutory minimum tax requirements from the vesting of restricted stock grants. During the three months ended March 31, 2011, the Company redeemed 55,295 shares of common stock at a total cost of approximately \$2.2 million from employees to satisfy statutory minimum tax requirements from the vesting of restricted stock grants. These redemptions were outside the share repurchase program initiated in June 1998.

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13. Earnings Per Share

The computation of basic and diluted earnings per common share is as follows:

(In thousands, except per share amounts)	Three Months Ended	
	March 31,	
	2012	2011
Computation of Basic Earnings Per Share:		
Net income	\$ 19,997	\$ 15,730
Income allocated to participating securities	(204	) (156
Net income available to common shareholders	\$ 19,793	\$ 15,574
Weighted average common shares outstanding – basic	57,622	59,081
Basic earnings per share	\$0.34	\$0.26
Computation of Diluted Earnings Per Share:		
Net income	\$ 19,997	\$ 15,730
Income allocated to participating securities	(204	) (156
Net income available to common shareholders	\$ 19,793	\$ 15,574
Weighted average common shares outstanding – basic	57,622	59,081
Diluted effect of stock options and PVRSUs	100	151
Weighted average shares outstanding-diluted	57,722	59,232
Diluted earnings per share	\$0.34	\$0.26

The Company's unvested restricted shares contain rights to receive non-forfeitable dividends, and thus are participating securities requiring the two-class method of computing earnings per share (“EPS”). The calculation of EPS for common stock shown above excludes the income attributable to the unvested restricted share awards from the numerator and excludes the dilutive impact of those awards from the denominator.

At March 31, 2012 and 2011, the Company had 1.7 million and 1.8 million outstanding stock options, respectively. Stock options are included in the diluted earnings per share calculation using the treasury stock method and average market prices during the period, unless the stock options would be anti-dilutive. For both the three month periods ended March 31, 2012 and March 31, 2011, the Company excluded 0.4 million of anti-dilutive stock options from the diluted earnings per share calculation.

PVRSUs are also included in the diluted earnings per share calculation assuming the performance conditions have been met at the reporting date. However, at March 31, 2012 and 2011, PVRSUs totaling 148,245 and 113,878, respectively were excluded from the computation since the performance conditions had not been met.

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14. Condensed Consolidating Financial Statements

Effective August 2010, the Company's Senior Notes are guaranteed jointly, severally, fully and unconditionally, subject to certain customary limitations, by eight 100%-owned domestic subsidiaries. There are no legal or regulatory restrictions on the payment of dividends to Choice Hotels International, Inc. from subsidiaries that do not guarantee the Senior Notes. As a result of the guarantee arrangements, the following condensed consolidating financial statements are presented. Investments in subsidiaries are accounted for under the equity method of accounting.

Choice Hotels International, Inc.

Condensed Consolidating Statement of Income

For the Three Months Ended March 31, 2012

(Unaudited, in Thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES:					
Royalty fees	\$42,126	\$26,220	\$7,058	\$(27,551)	) \$47,853
Initial franchise and relicensing fees	2,433	—	95	—	2,528
Procurement services	3,148	—	167	—	3,315
Marketing and reservation	59,653	72,684	4,387	(65,795)	) 70,929
Other items, net	3,441	978	125	—	4,544
Total revenues	110,801	99,882	11,832	(93,346)	) 129,169
OPERATING EXPENSES:					
Selling, general and administrative	24,487	22,828	4,585	(27,551)	) 24,349
Marketing and reservation	61,554	70,900	4,270	(65,795)	) 70,929
Other items, net	706	1,901	219	—	2,826
Total operating expenses	86,747	95,629	9,074	(93,346)	) 98,104
Operating income	24,054	4,253	2,758	—	31,065
OTHER INCOME AND EXPENSES, NET:					
Interest expense	4,216	(1,103)	) 4	—	3,117
Equity in earnings of consolidated subsidiaries	(6,881)	) —	—	6,881	—
Other items, net	(202)	) (2,003)	) (80)	) —	(2,285)
Total other income and expenses, net	(2,867)	) (3,106)	) (76)	) 6,881	832
Income before income taxes	26,921	7,359	2,834	(6,881)) 30,233
Income taxes	6,924	3,058	254	—	10,236
Net income	\$19,997	\$4,301	\$2,580	\$(6,881)) \$19,997

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Choice Hotels International, Inc.
Condensed Consolidating Statement of Income
For the Three Months Ended March 31, 2011
(Unaudited, in Thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES:					
Royalty fees	\$38,501	\$27,107	\$ 6,221	\$(28,035)	\$43,794
Initial franchise and relicensing fees	2,614	—	107	—	2,721
Procurement services	3,165	—	96	—	3,261
Marketing and reservation	50,171	68,794	3,901	(59,899)	62,967
Other items, net	1,247	864	427	—	2,538
Total revenues	95,698	96,765	10,752	(87,934)	115,281
OPERATING EXPENSES:					
Selling, general and administrative	23,603	23,871	4,408	(28,035)	23,847
Marketing and reservation	52,772	66,055	4,039	(59,899)	62,967
Other items, net	708	1,864	216	—	2,788
Total operating expenses	77,083	91,790	8,663	(87,934)	89,602
Operating income	18,615	4,975	2,089	—	25,679
OTHER INCOME AND EXPENSES, NET:					
Interest expense	4,173	(951)	2	—	3,224
Equity in earnings of consolidated subsidiaries	(5,073)	—	—	5,073	—
Other items, net	(198)	(723)	1,453	—	532
Total other income and expenses, net	(1,098)	(1,674)	1,455	5,073	3,756
Income before income taxes	19,713	6,649	634	(5,073)	21,923
Income taxes	3,983	2,534	(324)	—	6,193
Net income	\$15,730	\$4,115	\$ 958	\$(5,073)	\$15,730

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Choice Hotels International, Inc.
Condensed Consolidating Balance Sheet
As of March 31, 2012
(Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	\$4,926	\$550	\$85,836	\$—	\$91,312
Receivables, net	45,119	1,965	6,206	—	53,290
Other current assets	14,035	21,768	5,281	(7,208)	33,876
Total current assets	64,080	24,283	97,323	(7,208)	178,478
Property and equipment, at cost, net	9,192	40,904	1,213	—	51,309
Goodwill	60,620	5,193	200	—	66,013
Franchise rights and other identifiable intangibles, net	10,463	3,179	2,753	—	16,395
Receivable – marketing and reservation fees	63,690	—	—	—	63,690
Investment in and advances to affiliates	293,122	234,479	8,176	(535,777)	—
Investments, employee benefit plans, at fair value	—	12,625	—	—	12,625
Deferred income taxes	—	29,907	295	(6,653)	23,549
Other assets	13,611	7,252	10,310	—	31,173
Total assets	\$514,778	\$357,822	\$120,270	\$(549,638)	\$443,232
LIABILITIES AND SHAREHOLDERS' DEFICIT					
Accounts payable	\$8,727	\$31,414	\$4,987	\$—	\$45,128
Accrued expenses	13,513	13,704	1,313	—	28,530
Deferred revenue	9,823	60,224	783	—	70,830
Current portion of long-term debt	—	659	20	—	679
Deferred compensation & retirement plan obligations	—	19,184	—	—	19,184
Other current liabilities	4,568	14,231	413	(7,208)	12,004
Total current liabilities	36,631	139,416	7,516	(7,208)	176,355
Long-term debt	255,359	2,353	68	—	257,780
Deferred compensation & retirement plan obligations	—	19,633	7	—	19,640
Advances from affiliates	235,087	420	9,607	(245,114)	—
Other liabilities	13,877	8,351	58	(6,653)	15,633
Total liabilities	540,954	170,173	17,256	(258,975)	469,408
Total shareholders' (deficit) equity	(26,176)	187,649	103,014	(290,663)	(26,176)
Total liabilities and shareholders' deficit	\$514,778	\$357,822	\$120,270	\$(549,638)	\$443,232

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Choice Hotels International, Inc.
Condensed Consolidating Balance Sheet
As of December 31, 2011
(In Thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	\$23,370	\$432	\$83,255	\$—	\$107,057
Receivables, net	44,620	2,407	5,985	—	53,012
Other current assets	12,190	25,997	5,226	(8,686)	34,727
Total current assets	80,180	28,836	94,466	(8,686)	194,796
Property and equipment, at cost, net	9,013	41,755	1,224	—	51,992
Goodwill	60,620	5,193	192	—	66,005
Franchise rights and other identifiable intangibles, net	11,061	3,334	2,860	—	17,255
Receivable, marketing and reservation fees	54,014	—	—	—	54,014
Investments, employee benefit plans, at fair value	—	11,678	—	—	11,678
Investment in and advances to affiliates	285,996	235,571	8,323	(529,890)	—
Deferred income taxes	—	29,050	313	(6,698)	22,665
Other assets	13,808	7,538	7,938	—	29,284
Total assets	\$514,692	\$362,955	\$115,316	\$(545,274)	\$447,689
LIABILITIES AND SHAREHOLDERS' DEFICIT					
Accounts payable	\$5,324	\$28,831	\$4,234	\$	