
**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, 2017

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)

52-1209792
(I.R.S. Employer
Identification No.)

**1 CHOICE HOTELS CIRCLE, SUITE 400
ROCKVILLE, MD 20850**
(Address of principal executive offices)
(Zip Code)

(301) 592-5000
(Registrant's telephone number, including area code)

(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, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒
Non-accelerated filer ☐

Accelerated filer ☐
Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 OUTSTANDING AT MARCH 31, 2017
56,448,239

CHOICE HOTELS INTERNATIONAL, INC. AND SUBSIDIARIES

INDEX

	<u>PAGE NO.</u>
<u>PART I. FINANCIAL INFORMATION:</u>	
Item 1—Financial Statements (Unaudited)	3
Consolidated Statements of Income -- For the three months ended March 31, 2017 and 2016	3
Consolidated Statements of Comprehensive Income -- For the three months ended March, 31, 2017 and 2016	4
Consolidated Balance Sheets -- As of March 31, 2017 and December 31, 2016	5
Consolidated Statements of Cash Flows -- For the three months ended March 31, 2017 and 2016	6
Notes to Consolidated Financial Statements	7
Item 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations	32
Item 3—Quantitative and Qualitative Disclosures About Market Risk	48
Item 4—Controls and Procedures	49
<u>PART II. OTHER INFORMATION:</u>	
Item 1—Legal Proceedings	49
Item 1A—Risk Factors	49
Item 2—Unregistered Sales of Equity Securities and Use of Proceeds	50
Item 3—Defaults Upon Senior Securities	50
Item 4—Mine Safety Disclosures	50
Item 5—Other Information	50
Item 6—Exhibits	51
<u>SIGNATURE</u>	52

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,	
	2017	2016 (as adjusted)*
REVENUES:		
Royalty fees	\$ 68,989	\$ 64,859
Initial franchise and relicensing fees	5,006	5,156
Procurement services	6,476	5,796
Marketing and reservation system	109,475	126,361
Other	7,952	4,946
Total revenues	197,898	207,118
OPERATING EXPENSES:		
Selling, general and administrative	32,846	35,119
Depreciation and amortization	3,070	2,765
Marketing and reservation system	109,475	126,361
Total operating expenses	145,391	164,245
Operating income	52,507	42,873
OTHER INCOME AND EXPENSES, NET:		
Interest expense	11,205	11,092
Interest income	(1,264)	(839)
Other (gains) losses	(897)	62
Equity in net loss of affiliates	2,080	2,180
Total other income and expenses, net	11,124	12,495
Income before income taxes	41,383	30,378
Income taxes	12,639	9,215
Net income	\$ 28,744	\$ 21,163
Basic earnings per share	\$ 0.51	\$ 0.38
Diluted earnings per share	\$ 0.51	\$ 0.37
Cash dividends declared per share	\$ 0.215	\$ 0.205

* During 2016, the Company adopted ASU 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, see discussion of adoption in Note 1.

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

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

	Three Months Ended	
	March 31,	
	2017	2016 (as adjusted)*
Net income	\$ 28,744	\$ 21,163
Other comprehensive income, net of tax:		
Amortization of loss on cash flow hedge	215	215
Foreign currency translation adjustment	568	1,528
Other comprehensive income, net of tax	783	1,743
Comprehensive income	\$ 29,527	\$ 22,906

* During 2016, the Company adopted ASU 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, see discussion of adoption in Note 1.

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

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

	March 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 187,472	\$ 202,463
Receivables (net of allowance for doubtful accounts of \$9,046 and \$8,557, respectively)	117,878	107,336
Income taxes receivable	446	316
Notes receivable, net of allowance	7,650	7,873
Other current assets	29,416	26,885
Total current assets	342,862	344,873
Property and equipment, at cost, net	82,701	84,061
Goodwill	79,073	78,905
Intangible assets, net	15,301	15,738
Notes receivable, net of allowances	123,878	110,608
Investments, employee benefit plans, at fair value	18,755	16,975
Investments in unconsolidated entities	123,550	94,839
Deferred income taxes	54,592	52,812
Other assets	63,420	53,657
Total assets	\$ 904,132	\$ 852,468
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	\$ 59,090	\$ 48,071
Accrued expenses and other current liabilities	54,010	80,388
Deferred revenue	145,833	133,218
Current portion of long-term debt	1,225	1,195
Income taxes payable	13,923	796
Total current liabilities	274,081	263,668
Long-term debt	862,389	839,409
Deferred compensation and retirement plan obligations	23,044	21,595
Deferred income taxes	139	292
Other liabilities	36,966	38,853
Total liabilities	1,196,619	1,163,817
Commitments and Contingencies		
Common stock, \$0.01 par value, 160,000,000 shares authorized; 95,065,638 shares issued at March 31, 2017 and December 31, 2016 and 56,448,239 and 56,299,949 shares outstanding at March 31, 2017 and December 31, 2016, respectively	951	951
Additional paid-in-capital	160,719	159,045
Accumulated other comprehensive loss	(7,739)	(8,522)
Treasury stock (38,617,399 and 38,765,689 shares at March 31, 2017 and December 31, 2016, respectively), at cost	(1,070,516)	(1,070,383)
Retained earnings	624,098	607,560
Total shareholders' deficit	(292,487)	(311,349)
Total liabilities and shareholders' deficit	\$ 904,132	\$ 852,468

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

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

	Three Months Ended March 31,	
	2017	2016 (as adjusted)*
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 28,744	\$ 21,163
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	3,070	2,765
Loss on disposal of assets	—	9
Provision for bad debts, net	561	655
Non-cash stock compensation and other charges	3,681	3,354
Non-cash interest and other (income) loss	(301)	667
Deferred income taxes	(1,900)	6,198
Equity in net losses from unconsolidated joint ventures, less distributions received	2,386	2,471
Changes in assets and liabilities:		
Receivables	(11,365)	(14,473)
Advances to/from marketing and reservation system activities, net	(216)	(39,804)
Forgivable notes receivable, net	(4,483)	(6,464)
Accounts payable	9,203	(3,980)
Accrued expenses and other current liabilities	(25,048)	(24,521)
Income taxes payable/receivable	13,012	(1,788)
Deferred revenue	12,579	40,458
Other assets	(4,958)	(7,238)
Other liabilities	(751)	(842)
Net cash provided (used) by operating activities	24,214	(21,370)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in property and equipment	(4,718)	(5,306)
Investment in intangible assets	(2,088)	(162)
Proceeds from sales of assets	—	1,700
Acquisitions of real estate	—	(25,389)
Contributions to equity method investments	(31,610)	(4,293)
Distributions from equity method investments	510	67
Purchases of investments, employee benefit plans	(1,424)	(896)
Proceeds from sales of investments, employee benefit plans	843	363
Issuance of mezzanine and other notes receivable	(9,863)	(7,487)
Collections of mezzanine and other notes receivable	522	109
Other items, net	(4)	26
Net cash used by investing activities	(47,832)	(41,268)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings pursuant to revolving credit facilities	22,800	79,267
Principal payments on long-term debt	(153)	(318)
Purchases of treasury stock	(7,271)	(8,857)
Dividends paid	(12,139)	(11,612)
Proceeds from exercise of stock options	4,963	4,137
Net cash provided by financing activities	8,200	62,617
Net change in cash and cash equivalents	(15,418)	(21)
Effect of foreign exchange rate changes on cash and cash equivalents	427	652
Cash and cash equivalents at beginning of period	202,463	193,441
Cash and cash equivalents at end of period	\$ 187,472	\$ 194,072
Supplemental disclosure of cash flow information:		
Cash payments during the period for:		
Income taxes, net of refunds	\$ 1,454	\$ 4,208

Interest, net of capitalized interest	\$	19,874	\$	19,712
Non-cash investing and financing activities:				
Dividends declared but not paid	\$	12,195	\$	11,580
Investment in property and equipment acquired in accounts payable	\$	724	\$	944
Non-cash sale of investment of unconsolidated joint venture	\$	—	\$	2,350

*During 2016, the Company adopted ASU 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, see discussion of adoption in Note 1.

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

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 the Company's 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 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, 2016 and notes thereto included in the Company's Annual Report on Form 10-K, filed with the SEC on February 27, 2017 (the "10-K"). Interim results are not necessarily indicative of the entire year results. 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.

Prior year impact from adoption of ASU 2016-09

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("ASU No. 2016-09"). ASU No. 2016-09 requires that excess tax benefits and tax deficiencies should be recognized as income tax expense or benefit to the income statement. The Company adopted the new guidance in the second quarter of 2016 and, in accordance with the provisions of ASU 2016-09 applied the required adjustments as of January 1, 2016, the beginning of the annual period that includes the interim period of adoption. The following table summarizes the effects of adopting this accounting standard on the Company's previously reported financial statements.

(In thousands, except per share amounts)	Three Months Ended March 31, 2016	
	As Reported	As Adjusted
Consolidated Statements of Income:		
Income taxes	\$ 10,780	\$ 9,215
Net income	\$ 19,598	\$ 21,163
Basis earnings per share	\$ 0.35	\$ 0.38
Diluted earnings per share	\$ 0.35	\$ 0.37
Consolidated Statements of Cash Flows:		
Net cash used by operating activities	\$ (22,945)	\$ (21,370)
Excess tax benefits from stock-based compensation	\$ 1,575	\$ —
Net cash provided by financing activities	\$ 64,192	\$ 62,617

Recently Adopted Accounting Guidance

In October 2016, the FASB issued ASU 2016-17, *Consolidation (Topic 810) - Interests Held through Related Parties That Are under Common Control* ("ASU No. 2016-17"). ASU No. 2016-17 alters the primary beneficiary assessment a reporting entity must perform as part of consolidation analysis to determine whether it should consolidate certain types of legal entities. Under legacy GAAP, indirect interests held through related parties under common control were to be considered in their entirety by the

reporting entity in performing the primary beneficiary assessment. ASU No. 2016-17 revises the guidance such that indirect interests held through related parties under common control are considered on a proportionate basis in performing the primary beneficiary assessment. The Company adopted this ASU on January 1, 2017, and it did not have an impact on the Company's consolidated financial statements.

Future Adoption of Recently Announced Accounting Guidance

In May 2014, the FASB issued ASU No. 2014-09, *Revenue From Contracts with Customers* (Topic 606) ("ASU No. 2014-09") and issued subsequent amendments to the initial guidance at various points of 2015 and 2016 within ASU No. 2015-14, ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-12, and ASU No. 2016-20 (these ASUs collectively referred to as "Topic 606"). Topic 606 impacts virtually all aspects of an entity's revenue recognition and supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, as well as most industry-specific guidance. Topic 606 significantly enhances comparability of revenue recognition practices across entities and industries by providing a principles-based, comprehensive framework for addressing revenue recognition issues. In order for a provider of promised goods or services to recognize as revenue the consideration that it expects to receive in exchange for the promised goods or services, the provider should apply the following five steps: (1) identify the contract with a customer(s); (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. Topic 606 also specifies the accounting for some costs to obtain or fulfill a contract with a customer and provides enhanced disclosure requirements. Topic 606 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The guidance permits the retrospective or modified retrospective method when adopting Topic 606. The Company intends to adopt the standard in the annual period beginning January 1, 2018, and has not yet determined the method of adoption. The Company's evaluation is still preliminary for all areas below.

The Company has determined royalties earned in exchange for a license to brand intellectual property on franchise agreements will be recognized in revenue over time typically after the occurrence of a completed stay, which is consistent with current practice. We are continuing to evaluate the services we provide as part of the franchise agreement, including the Choice Privileges loyalty program and other programs we operate as part of the marketing and reservation system, to determine if they are distinct from the license to brand intellectual property and thus represent separate performance obligations. We do not expect significant changes to the pattern of revenue recognition regardless of these determinations.

The Company has determined initial and relicensing fees earned upon execution of a franchise agreement will be recognized as revenue ratably as services are provided over the enforceable period of the franchise license arrangement. This represents a change from current practice, whereby the Company typically will recognize revenue for initial and relicensing fees in full in the period of agreement execution. Similarly, the Company has determined sales commissions paid upon the execution of a franchise agreement will be recognized as expense ratably over the same period as revenues are recognized. This also represents a change, as the Company's current practice is typically to recognize expense for sales commissions in full in the period of agreement execution. The Company is in the process of finalizing the periods of recognition and calculating the expected impacts for this revision.

The Company believes the timing of recognition for profits from the sale of real estate assets will be accelerated under Topic 606, resulting from the removal of real estate specific guidance. The Company is in the process of calculating the expected impact of this revision.

We continue to evaluate the accounting for other Company revenue streams for impacts as a result of adopting the standard.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU No. 2016-02"). ASU No. 2016-02 requires lessees to recognize most leases on their balance sheet by recording a liability for its lease obligation and an asset for its right to use the underlying asset as of the lease commencement date. The standard requires entities to determine whether an arrangement contains a lease or a service agreement as the accounting treatment is significantly different between the two arrangements. The standard also requires the lessee to evaluate whether a lease is a financing lease or an operating lease as the accounting and presentation guidance between the two are different. ASU No. 2016-02 also modifies the classification criteria and accounting for sales-type and direct financing leases for lessors. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the potential impact that ASU No. 2016-02 will have on the financial statements and disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)* ("ASU No. 2016-13"), which will require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The guidance is effective for annual reporting periods beginning after December 15, 2019 and interim periods within those fiscal years. The Company is currently assessing the potential impact that ASU No. 2016-13 will have on its consolidated financial position or results of operations.

[Table of Contents](#)

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments* ("ASU No. 2016-15"). ASU No. 2016-15 provides additional guidance on eight specific cash flow issues, such as the classification of debt prepayments or extinguishment costs, contingent consideration payments made after a business combination, and distributions received from equity method investees. The guidance is effective for annual reporting periods beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the potential impact that ASU No. 2016-15 will have on the financial statements and disclosures.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory* ("ASU No. 2016-16"). ASU No. 2016-16 provides guidance on recognition of current income tax consequences for intercompany asset transfers (other than inventory) at the time of transfer. This represents a change from current GAAP, where the consolidated tax consequences of intercompany asset transfers are deferred from the time of transfer to a future period. The guidance is effective for annual reporting periods beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption at the beginning of an annual period is permitted. The Company is currently assessing the potential impact that ASU No. 2016-16 will have on the financial statements and disclosures.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash* ("ASU 2016-18"). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The guidance is effective for public business entities for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The Company is currently assessing the potential impact that ASU No. 2016-18 will have on the financial statements and disclosures.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment* ("ASU No. 2017-04"). ASU 2017-04 eliminates the two-step process that required identification of potential impairment and a separate measure of the actual impairment. The annual assessment of goodwill impairment will be determined by using the difference between the carrying amount and the fair value of the reporting unit. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The Company is currently assessing the potential impact that ASU No. 2017-04 will have on the financial statements and disclosures.

In February 2017, the FASB issued ASU No. 2017-05, *Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* ("ASU No. 2017-05"). This ASU clarifies the scope and accounting of a financial asset that meets the definition of an "in-substance nonfinancial asset" and defines the term "in-substance nonfinancial asset." This ASU also adds guidance for partial sales of nonfinancial assets. ASU 2017-05 will be effective for fiscal years beginning after December 15, 2017, including interim reporting periods within that reporting period. The Company is assessing the potential impact that ASU 2017-05 will have on the financial statements and disclosures.

2. Other Current Assets

Other current assets consist of the following:

	March 31, 2017	December 31, 2016
	(in thousands)	
Prepaid expenses	\$ 23,590	\$ 22,210
Other current assets	5,826	4,675
Total	\$ 29,416	\$ 26,885

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.

[Table of Contents](#)

The Company considers loans to be past due and in default when payments are not made when due. Although the Company considers loans to be in default if payments are not received on the due date, the Company does not suspend the accrual of interest until those payments are more than 30 days past due. The Company applies payments received for loans on non-accrual status first to interest and then principal. The Company does not resume interest accrual until all delinquent payments are received. For impaired loans, the Company recognizes interest income on a cash basis.

The following table shows the composition of the Company's notes receivable balances:

Credit Quality Indicator	March 31, 2017			December 31, 2016		
	Forgivable Notes Receivable	(in thousands) Mezzanine & Other Notes Receivable	Total	Forgivable Notes Receivable	(in thousands) Mezzanine & Other Notes Receivable	Total
Senior	\$ —	\$ 70,575	\$ 70,575	\$ —	\$ 61,482	\$ 61,482
Subordinated	—	9,411	9,411	—	9,336	9,336
Unsecured	55,898	3,562	59,460	51,475	3,618	55,093
Total notes receivable	55,898	83,548	139,446	51,475	74,436	125,911
Allowance for losses on non-impaired loans	5,501	770	6,271	5,013	770	5,783
Allowance for losses on receivables specifically evaluated for impairment	—	1,647	1,647	—	1,647	1,647
Total loan reserves	5,501	2,417	7,918	5,013	2,417	7,430
Net carrying value	\$ 50,397	\$ 81,131	\$ 131,528	\$ 46,462	\$ 72,019	\$ 118,481
Current portion, net	\$ 311	\$ 7,339	\$ 7,650	\$ 333	\$ 7,540	\$ 7,873
Long-term portion, net	50,086	73,792	123,878	46,129	64,479	110,608
Total	\$ 50,397	\$ 81,131	\$ 131,528	\$ 46,462	\$ 72,019	\$ 118,481

The following table summarizes the activity related to the Company's Forgivable Notes Receivable and Mezzanine and Other Notes Receivable allowance for losses for the three months ended March 31, 2017 :

	Forgivable Notes Receivable	Mezzanine & Other Notes Receivable
	(in thousands)	
Beginning balance	\$ 5,013	\$ 2,417
Provisions	630	—
Recoveries	(92)	—
Write-offs	(25)	—
Other ⁽¹⁾	(25)	—
Ending balance	<u>\$ 5,501</u>	<u>\$ 2,417</u>

(1) Consists of changes in foreign currency exchange rates and default rate assumption changes

Variable Interest through Notes Issued

The Company has issued mezzanine and other notes receivables to certain entities that have created variable interests in these borrowers totaling \$33.7 million as of March 31, 2017 . The Company has determined that it is not the primary beneficiary of these variable interest entities. Each of these loans have stated fixed and/or variable interest amounts. The Company has identified loans totaling approximately \$2.1 million with stated interest rates that are less than market rate, representing a total

[Table of Contents](#)

discount of \$0.2 million . These discounts are reflected as a reduction of the outstanding loan amounts and are amortized over the life of the related loan.

Forgivable Notes Receivable

As of March 31, 2017 and December 31, 2016 , the unamortized balance of the Company's forgivable notes receivable totaled \$55.9 million and \$51.5 million , respectively. The Company recorded an allowance for credit losses on these forgivable notes receivable of \$5.5 million and \$5.0 million at March 31, 2017 and December 31, 2016 , respectively. Amortization expense included in the accompanying consolidated statements of income related to the notes for the three months ended March 31, 2017 and 2016 was \$2.4 million and \$2.2 million , respectively.

Past due balances of forgivable notes receivable are as follows:

	30-89 days Past Due	> 90 days Past Due	Total Past Due	Current	Total Notes Receivable
(in thousands)					
As of March 31, 2017					
Forgivable Notes	\$ 311	\$ 1,290	\$ 1,601	\$ 54,297	\$ 55,898
	<u>\$ 311</u>	<u>\$ 1,290</u>	<u>\$ 1,601</u>	<u>\$ 54,297</u>	<u>\$ 55,898</u>
As of December 31, 2016					
Forgivable Notes	\$ 116	\$ 1,349	\$ 1,465	\$ 50,010	\$ 51,475
	<u>\$ 116</u>	<u>\$ 1,349</u>	<u>\$ 1,465</u>	<u>\$ 50,010</u>	<u>\$ 51,475</u>

Mezzanine and Other Notes Receivable

The Company determined that approximately \$1.9 million of its mezzanine and other notes receivable were impaired at both March 31, 2017 and December 31, 2016 , and recorded allowance for credit losses on these impaired loans totaling \$1.6 million at both March 31, 2017 and December 31, 2016 . The average mezzanine and other notes receivable on non-accrual status was approximately \$1.9 million and \$0.8 million for the three months ended March 31, 2017 and 2016 , respectively. The Company recognizes interest income for impaired loans on a cash basis. Approximately \$44 thousand and \$43 thousand of interest income on impaired loans was recognized during the three months ended March 31, 2017, and 2016 , respectively. The Company provided loan reserves on non-impaired loans totaling \$0.8 million at March 31, 2017 and December 31, 2016 .

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

	30-89 days Past Due	> 90 days Past Due	Total Past Due	Current	Total Notes Receivable
(in thousands)					
As of March 31, 2017					
Senior	\$ —	\$ —	\$ —	\$ 70,575	\$ 70,575
Subordinated	—	—	—	9,411	9,411
Unsecured	—	—	—	3,562	3,562
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 83,548</u>	<u>\$ 83,548</u>
As of December 31, 2016					
Senior	\$ —	\$ —	\$ —	\$ 61,482	\$ 61,482
Subordinated	—	—	—	9,336	9,336
Unsecured	—	—	—	3,618	3,618
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 74,436</u>	<u>\$ 74,436</u>

4. Marketing and Reservation Activities

The Company's franchise agreements require the payment of franchise fees, which include marketing and reservation system fees. The Company is obligated to use the marketing and reservation system fees it collects from the current franchisees

[Table of Contents](#)

comprising its various hotel brands to provide marketing and reservation services appropriate to support the operation of the overall system. In discharging its obligation to provide sufficient and appropriate marketing and reservation services, the Company has the right to expend funds in an amount reasonably necessary to ensure the provision of such services, whether or not such amount is currently available to the Company for reimbursement. The franchise agreements provide the Company the right to advance monies to the franchise system when the needs of the system surpass the balances currently available. As a result, expenditures by the Company in support of marketing and reservation services in excess of available revenues are deferred and recorded as an asset in the Company's financial statements. Conversely, cumulative marketing and reservation system fees not expended in the current period are deferred and recorded as a liability in the financial statements and are carried over to the next fiscal year and expended in accordance with the franchise agreements or utilized to reimburse the Company for prior year advances.

Under the terms of these agreements, the Company has the contractually enforceable right to assess and collect from its current franchisees, fees sufficient to pay for the marketing and reservation services the Company has procured for the benefit of the franchise system, including fees to reimburse the Company for past services rendered. The Company has the contractual authority to require that the franchisees in the system at any given point repay any deficits related to marketing and reservation activities. The Company's current franchisees are contractually obligated to pay any assessment the Company imposes on its franchisees to obtain reimbursement of such deficit regardless of whether those constituents continue to generate gross room revenue and whether or not they joined the system following the deficit's occurrence.

At March 31, 2017 and December 31, 2016, cumulative marketing and reservation system costs exceeded cumulative marketing and reservation system revenues earned by \$25.4 million and \$18.1 million, respectively, with the excess reflected as a long-term asset in the accompanying consolidated balance sheet. Depreciation and amortization expense attributable to marketing and reservation activities for the three months ended March 31, 2017 and 2016 was \$6.4 million and \$5.9 million, respectively. Interest expense attributable to marketing and reservation activities was \$3 thousand for the three months ended March 31, 2016.

5. Other Assets

Other assets consist of the following:

	March 31, 2017	December 31, 2016
	(in thousands)	
Land and buildings	\$ 29,027	\$ 29,023
Advances to marketing and reservation system activities (Note 4)	25,449	18,069
Other assets	8,944	6,565
Total	\$ 63,420	\$ 53,657

Land and buildings

Land and buildings represents the Company's purchase 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 develop the properties for the eventual construction of hotels operated under the Company's brands or contribute the land into joint ventures for the same purpose.

6. Investments in Unconsolidated Entities

The Company maintains a portfolio of investments owned through noncontrolling interest in equity method investments with one or more partners. Investments in unconsolidated entities include investments in joint ventures totaling \$120.5 million and \$91.9 million at March 31, 2017 and December 31, 2016, respectively, that the Company determined to be variable interest entities ("VIEs"). These investments relate to the Company's program to offer equity support to qualified franchisees to develop and operate Cambria hotel & suites hotels in strategic markets. Based on an analysis of who has the power to direct the activities that most significantly impact these entities performance and who has an obligation to absorb losses of these entities or a right to receive benefits from these entities that could potentially be significant to the entity, the Company determined that it is not the primary beneficiary of any of its VIEs. The Company based its qualitative analysis on its review of the design of the entity, its organizational structure including decision-making ability and the relevant development, operating management and financial agreements. Although the Company is not the primary beneficiary of these VIEs, it does exercise significant influence through its equity ownership and as a result the Company's investment in these entities is accounted for under the equity method. For the three months ended March 31, 2017 and 2016, the Company recognized losses totaling \$2.5 million and

[Table of Contents](#)

\$2.4 million, respectively, from these investments. The Company's maximum exposure to losses related to its investments in VIEs is limited to its equity investments as well as certain guarantees described in Note 17 "Commitments and Contingencies" of these financial statements.

7. Deferred Revenue

Deferred revenue consists of the following:

	March 31, 2017	December 31, 2016
	(in thousands)	
Loyalty programs	\$ 124,824	\$ 115,851
Initial, relicensing and franchise fees	6,397	9,352
Procurement service fees	8,973	7,668
Other	5,639	347
Total	\$ 145,833	\$ 133,218

8. Debt

Debt consists of the following:

	March 31, 2017	December 31, 2016
	(in thousands)	
\$400 million senior unsecured notes with an effective interest rate of 6.0% less deferred issuance costs of \$4.5 million and \$4.7 million at March 31, 2017 and December 31, 2016, respectively	\$ 395,497	\$ 395,316
\$250 million senior unsecured notes with an effective interest rate of 6.19%, less a discount and deferred issuance costs of \$1.0 million and \$1.1 million at March 31, 2017 and December 31, 2016, respectively	248,952	248,875
\$450 million senior unsecured credit facility with an effective interest rate of 2.28% and 2.23%, less deferred issuance costs of \$2.5 million and \$2.6 million at March 31, 2017 and December 31, 2016, respectively	205,303	182,359
Fixed rate collateralized mortgage with an effective interest rate of 4.57%, plus a fair value adjustment of \$0.7 million and \$0.7 million at March 31, 2017 and December 31, 2016, respectively	9,277	9,432
Economic development loans with an effective interest rate of 3.0% at March 31, 2017 and December 31, 2016	3,712	3,712
Other notes payable	873	910
Total debt	\$ 863,614	\$ 840,604
Less current portion	1,225	1,195
Total long-term debt	\$ 862,389	\$ 839,409

Senior Unsecured Notes Due 2022

On June 27, 2012, the Company issued unsecured senior notes in the principal amount of \$400 million (the "2012 Senior Notes") at par, bearing a coupon of 5.75% with an effective rate of 6.0%. The 2012 Senior Notes will mature on July 1, 2022, with interest to be paid semi-annually on January 1st and July 1st. The Company used the net proceeds of this offering, after deducting underwriting discounts and commissions and other offering expenses, together with borrowings under the Company's senior credit facility, to pay a special cash dividend in 2012 totaling approximately \$600.7 million paid to stockholders on August 23, 2012. The Company's 2012 Senior Notes are guaranteed jointly, severally, fully and unconditionally, subject to certain customary limitations by certain of the Company's domestic subsidiaries.

Senior Unsecured Notes Due 2020

On August 25, 2010, the Company issued unsecured senior notes in the principal amount of \$250 million (the "2010 Senior Notes") at a discount of \$0.6 million, bearing a coupon of 5.70% with an effective rate of 6.19%. The 2010 Senior Notes will mature on August 28, 2020, with interest to be paid semi-annually on February 28th and August 28th. The Company used the net

[Table of Contents](#)

proceeds from the offering, after deducting underwriting discounts and other offering expenses, to repay outstanding borrowings and for other general corporate purposes. The Company's 2010 Senior Notes are guaranteed jointly, severally, fully and unconditionally, subject to certain customary limitations by certain of the Company's domestic subsidiaries.

Revolving Credit Facilities

On July 21, 2015, the Company entered into a senior unsecured revolving credit agreement ("Credit Agreement"), with Deutsche Bank AG New York Branch, as administrative agent.

The Credit Agreement provides for a \$450 million unsecured revolving credit facility (the "Revolver") with an initial maturity date of July 21, 2020, subject to optional one -year extensions that can be requested by the Company prior to each of the first, second and third anniversaries of the closing date of the Revolver. The effectiveness of any such extensions is subject to the consent of the lenders under the Credit Agreement and certain customary conditions. On July 5, 2016, the Company exercised its option to extend the maturity date of the Revolver by one year. The new maturity date of the Revolver is July 21, 2021. Up to \$35 million of borrowings under the Revolver may be used for alternative currency loans and up to \$15 million of borrowings under the Revolver may be used for swing line loans.

The Revolver is unconditionally guaranteed, jointly and severally, by certain of the Company's domestic subsidiaries, which are considered restricted subsidiaries under the Credit Agreement. The subsidiary guarantors currently include all subsidiaries that guarantee the obligations under the Company's Indenture governing the terms of its 5.75% senior notes due 2022 and its 5.70% senior notes due 2020. If the Company achieves and maintains an Investment Grade Rating, as defined in the Credit Agreement, then the subsidiary guarantees will, at the election of the Company, be released and the Revolver will not be guaranteed.

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 currently may elect to have borrowings under the Revolver bear interest at a rate equal to (i) LIBOR plus a margin ranging from 135 to 175 basis points based on the Company's total leverage ratio or (ii) a base rate plus a margin ranging from 35 to 75 basis points based on the Company's total leverage ratio. If the Company achieves an Investment Grade Rating, then the Company may elect to use a different, ratings-based, pricing grid set forth in the Credit Agreement.

The Credit Agreement requires the Company to pay a fee on the undrawn portion of the Revolver, calculated on the basis of the average daily unused amount of the Revolver multiplied by 0.20% per annum. If the Company achieves an Investment Grade Rating and it elects to use the ratings-based pricing grid set forth in the Credit Agreement, then the Company will be required to pay a fee on the total commitments under the Revolver, calculated on the basis of the actual daily amount of the commitments under the Revolver (regardless of usage) times a percentage per annum ranging from 0.10% to 0.25% (depending on the Company's senior unsecured long-term debt rating).

The Credit Agreement requires that the Company and its restricted subsidiaries comply with various covenants, including with respect to restrictions on liens, incurring indebtedness, making investments and affecting mergers and/or asset sales. With respect to dividends, the Company may not declare or make any payment if there is an existing event of default or if the payment would create an event of default. In addition, if the Company's total leverage ratio exceeds 4.0 to 1.0, the Company is generally restricted from paying aggregate dividends in excess of \$50 million in any calendar year.

The Credit Agreement imposes financial maintenance covenants requiring the Company to maintain a total leverage ratio of not more than 4.5 to 1.0 and a consolidated fixed charge coverage ratio of at least 2.5 to 1.0. If the Company achieves and maintains an Investment Grade Rating, then the Company will not need to comply with the consolidated fixed charge coverage ratio covenant.

The Credit Agreement 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 Credit Agreement to be immediately due and payable. At March 31, 2017, the Company was in compliance with all financial covenants under the Credit Agreement.

The proceeds of the Revolver are expected to be used for general corporate purposes, including working capital, debt repayment, stock repurchases, dividends, investments and other permitted uses set forth in the Credit Agreement.

[Table of Contents](#)

Fixed Rate Collateralized Mortgage

On December 30, 2014, a court awarded the Company title to an office building as settlement for a portion of an outstanding loan receivable for which the building was pledged as collateral. In conjunction with the court award, the Company also assumed the \$9.5 million mortgage on the property with a fixed interest rate of 7.26% . The mortgage, which is collateralized by the office building, requires monthly payments of principal and interest and matures in December 2020 with a balloon payment due of \$6.9 million . At the time of acquisition, the Company determined that the fixed interest rate of 7.26% exceeded market interest rates and therefore the Company increased the carrying value of the debt by \$1.2 million to record the debt at fair value. The fair value adjustment is being amortized over the remaining term of the mortgage utilizing the effective interest method.

Economic Development Loans

The Company entered into economic development agreements with various governmental entities in conjunction with the relocation of its corporate headquarters in April 2013. In accordance with these agreements, the governmental entities agreed to advance approximately \$4.4 million to the Company to offset a portion of the corporate headquarters relocation and tenant improvement costs in consideration of the employment of permanent, full-time employees within the jurisdictions. At March 31, 2017 , the Company had been advanced approximately \$3.7 million pursuant to these agreements and expects to receive the remaining \$0.7 million over the next several years, subject to annual appropriations by the governmental entities. These advances bear interest at a rate of 3% per annum.

Repayment of the advances is contingent upon the Company achieving certain performance conditions. Performance conditions are measured annually on December 31st and primarily relate to maintaining certain levels of employment within the various jurisdictions. If the Company fails to meet an annual performance condition, the Company may be required to repay a portion or all of the advances including accrued interest by April 30th following the measurement date. Any outstanding advances at the expiration of the Company's ten -year corporate headquarters lease in 2023 will be forgiven in full. The advances will be included in long-term debt in the Company's consolidated balance sheets until the Company determines that the future performance conditions will be met over the entire term of the agreement and the Company will not be required to repay the advances. The Company accrues interest on the portion of the advances that it expects to repay. The Company was in compliance with all current performance conditions as of March 31, 2017 .

9. Accumulated Other Comprehensive Loss

The following represents the changes in accumulated other comprehensive loss, net of tax, by component for the three months ended March 31, 2017 :

	Loss on Cash Flow Hedge	Foreign Currency Items	Total
	(in thousands)		
Beginning balance, December 31, 2016	\$ (3,160)	\$ (5,362)	\$ (8,522)
Other comprehensive income before reclassification	—	568	568
Amounts reclassified from accumulated other comprehensive income	215	—	215
Net current period other comprehensive income	215	568	783
Ending balance, March 31, 2017	\$ (2,945)	\$ (4,794)	\$ (7,739)

[Table of Contents](#)

The amounts reclassified from accumulated other comprehensive loss during the three months ended March 31, 2017 were reclassified to the following line items in the Company's Consolidated Statements of Income.

Component	Amount Reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Consolidated Statement of Income
	Three Months Ended March 31, 2017	
	(in thousands)	
Loss on cash flow hedge		
Interest rate contract	\$ 215	Interest expense
	—	Tax (expense) benefit
	\$ 215	Net of tax

10. 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 and invest these amounts in a selection of available diversified investment options. 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. Under the EDCP and Non-Qualified Plan, (together, the "Deferred Compensation Plan"), the Company recorded current and long-term deferred compensation liabilities of \$25.8 million and \$24.7 million at March 31, 2017 and December 31, 2016, respectively, related to these deferrals and credited investment return under these two deferred compensation plans. 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 expense for the three months ended March 31, 2017 and 2016 was \$1.0 million and \$0.1 million, respectively.

Under the Deferred Compensation Plan, the Company has invested the employee salary deferrals in diversified long-term investments which are intended to provide investment returns that offset the earnings credited to the participants. The diversified investments held in the trusts totaled \$20.6 million and \$19.1 million as of March 31, 2017 and December 31, 2016, respectively, and are recorded at their fair value, based on quoted market prices. At March 31, 2017, the Company expects \$1.9 million of the assets held in the trust to be distributed during the next twelve months to participants. These investments are considered trading securities and therefore the changes in the fair value of the diversified assets are included in other gains and losses in the accompanying consolidated statements of income. The Company recorded investment gains (losses) during the three months ended March 31, 2017 and 2016 of approximately \$0.9 million and \$(53) thousand, respectively.

11. 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 Deferred Compensation Plan.

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 Deferred Compensation Plan and those recorded in cash and cash equivalents.

[Table of Contents](#)

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.

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. There were no transfers between Level 1, 2 and 3 assets during the three months ended March 31, 2017 .

As of March 31, 2017 and December 31, 2016 , the Company had the following assets measured at fair value on a recurring basis:

	Fair Value Measurements at Reporting Date Using			
	Total	Level 1	Level 2	Level 3
Assets	(in thousands)			
As of March 31, 2017				
Money market funds, included in cash and cash equivalents	\$ 50,131	\$ —	\$ 50,131	\$ —
Mutual funds ⁽¹⁾	18,961	18,961	—	—
Money market funds ⁽¹⁾	1,660	—	1,660	—
	<u>\$ 70,752</u>	<u>\$ 18,961</u>	<u>\$ 51,791</u>	<u>\$ —</u>
As of December 31, 2016				
Money market funds, included in cash and cash equivalents	\$ 50,085	\$ —	\$ 50,085	\$ —
Mutual funds ⁽¹⁾	17,468	17,468	—	—
Money market funds ⁽¹⁾	1,676	—	1,676	—
	<u>\$ 69,229</u>	<u>\$ 17,468</u>	<u>\$ 51,761</u>	<u>\$ —</u>

(1) Included in Investments, employee benefit plans at fair value and other current assets on the consolidated balance sheets.

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 Credit Facility adjust frequently based on current market rates; accordingly its carrying amount approximates fair value.

The Company estimates 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, the notes receivable have been classified 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 fair values of the Company's \$250 million and \$400 million senior notes are classified as Level 2 as the significant inputs are observable in an active market. At March 31, 2017 and December 31, 2016 , the \$250 million senior notes had an approximate fair value of \$271.4 million and \$273.0 million , respectively. At March 31, 2017 and December 31, 2016 , the \$400 million senior notes had an approximate fair value of \$435.6 million and \$430.4 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.

12. Income Taxes

The effective income tax rates were 30.5% and 30.3% for the three months ended March 31, 2017 and 2016 , respectively. The effective income tax rate for the three months ended March 31, 2017 was lower than the U.S. federal income tax rate of 35.0% due to the impact of foreign operations and \$1.2 million of ASU 2016-09 benefits from share-based compensation, partially offset by state income taxes. The effective income tax rate for the three months ended March 31, 2016 was lower than the U.S federal tax rate of 35% due to the impact of foreign operations and \$1.6 million of ASU 2016-09 benefits from share based

[Table of Contents](#)

compensation, partially offset by state income taxes. The rate was also impacted by an unfavorable adjustment of \$1.2 million to the Company's tax rate benefit from foreign operations.

13. Share-Based Compensation and Capital Stock

Stock Options

The Company granted 0.2 million and 0.7 million options to certain employees of the Company at a fair value of \$2.0 million and \$6.9 million for the three months ended March 31, 2017 and 2016, 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:

	2017 Grants	2016 Grants
Risk-free interest rate	1.76%	1.22%
Expected volatility	21.65%	23.76%
Expected life of stock option	4.6 years	4.6 years
Dividend yield	1.42%	1.59%
Requisite service period	4 years	4 years
Contractual life	7 years	7 years
Weighted average fair value of options granted (per option)	\$ 10.80	\$ 9.30

The expected life of the options and volatility are based on historical data, which is believed to be indicative of future exercise patterns or actual volatility. Historical volatility is calculated based on a period that corresponds to the expected term 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, 2017 was \$29.2 million and \$20.6 million, respectively. The total intrinsic value of options exercised during the three months ended March 31, 2017 and 2016 was approximately \$2.7 million and \$4.4 million, respectively.

The Company received approximately \$5.0 million and \$4.1 million in proceeds from the exercise of 123,625 and 190,830 employee stock options during the three months ended March 31, 2017 and 2016, respectively.

Restricted Stock

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

	Three Months Ended	
	March 31,	
	2017	2016
Restricted share grants	120,054	125,110
Weighted average grant date fair value per share	\$ 60.63	\$ 51.49
Aggregate grant date fair value (\$000)	\$ 7,279	\$ 6,442
Restricted shares forfeited	11,671	4,272
Vesting service period of shares granted	3-4 years	3-4 years
Fair value of shares vested (\$000)	\$ 6,817	\$ 6,303

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 non-employee 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 minimum performance targets are 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 100% of the various award targets will be achieved. Compensation expense is recognized ratably over the requisite service period only on those PVRSUs that ultimately vest.

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

	Three Months Ended	
	March 31,	
	2017	2016
Performance vested restricted stock units granted at target	158,978	35,033
Weighted average grant date fair value per share	\$ 60.60	\$ 51.49
Aggregate grant date fair value (\$000)	\$ 9,634	\$ 1,804
Stock units forfeited	15,069	28,193
Requisite service period	3 years	3 years

During the three months ended March 31, 2017, PVRSU grants totaling 10,641 vested at a grant date fair value of \$0.5 million. These PVRSU grants were initially granted at a target of 21,282 units. However, since the Company achieved only 50% of the targeted performance conditions contained in the stock awards granted in prior periods, 10,641 shares were forfeited. Additionally, during the three months ended March 31, 2017, PVRSU grants totaling 4,113 were forfeited since the Company did not achieve the targeted performance conditions contained in the stock awards granted in prior periods. Furthermore, during the three months ended March 31, 2017, PVRSU grants totaling 24,572 vested at a grant date fair value of \$1.1 million. These PVRSU grants were initially granted at a target of 15,081 units. However, since the Company achieved an average of 163% of the various targeted performance conditions contained in the stock awards granted in prior periods, an additional 9,491 shares were earned and issued.

During the three months ended March 31, 2016, a total of 22,062 PVRSU grants vested at a grant date fair value of \$0.8 million. These PVRSU grants were initially granted at a target of 44,118 units. However, since the Company achieved only 50% of the targeted performance conditions contained in the stock awards granted in prior periods, 22,056 shares were forfeited. In addition, during the three months ended March 31, 2016, PVRSU grants totaling 6,126 vested at a grant date fair value of \$0.2 million. These PVRSU grants were initially granted at a target of 4,083 units. However, since the Company achieved 150% of the targeted performance conditions contained in the stock awards granted in prior periods, an additional 2,043 shares were earned and issued.

[Table of Contents](#)

A summary of stock-based award activity as of March 31, 2017 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, 2017	2,193,502	\$ 48.26		407,812	\$ 50.61	235,980	\$ 47.59
Granted	185,627	60.63		120,054	60.63	158,978	60.60
Performance based leveraging ⁽¹⁾						9,491	45.59
Exercised/Vested	(123,625)	40.15		(114,466)	47.32	(35,213)	46.01
Expired	(3,722)	53.26		—	—	—	—
Forfeited	(22,442)	54.37		(11,671)	53.07	(15,069)	46.89
Outstanding at March 31, 2017	2,229,340	\$ 49.67	4.6 years	401,729	\$ 54.47	354,167	\$ 53.56
Options exercisable at March 31, 2017	1,160,197	\$ 45.03	3.7 years				

⁽¹⁾ PVRSU units outstanding have been increased by 9,491 units due to the Company exceeding the targeted performance conditions contained in PVRSUs granted in prior periods during the three months ended March 31, 2017 .

The components of the Company's pretax share-based compensation expense and associated income tax benefits are as follows for the three months ended March 31, 2017 and 2016 :

(in millions)	Three Months Ended	
	March 31,	
	2017	2016
Stock options	\$ 1.1	\$ 1.1
Restricted stock	1.7	1.8
Performance vested restricted stock units	1.0	0.6
Total	\$ 3.8	\$ 3.5
Income tax benefits	\$ 1.4	\$ 1.3

Dividends

The Company currently pays a quarterly dividend on its common stock of \$0.215 per share, however the declaration of future dividends is subject to the discretion of the board of directors. During the three months ended March 31, 2017 , the Company's board of directors declared dividends totaling \$0.215 per share or approximately \$12.1 million , in the aggregate.

In addition, during the three months ended March 31, 2017 , the Company recorded dividends totaling \$0.1 million related to previously declared dividends that were contingent upon the vesting of performance vested restricted stock units.

Share Repurchases and Redemptions

No shares of common stock were purchased by the Company under the share repurchase program during the three months ended March 31, 2017 .

During the three months ended March 31, 2017 , the Company redeemed 118,931 shares of common stock at a total cost of approximately \$7.3 million , from employees to satisfy the option exercise price and statutory minimum tax-withholding requirements related to the exercising of stock options and vesting of performance vested restricted stock units and restricted stock grants. These redemptions were outside the share repurchase program.

14. 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,	
	2017	2016
Computation of Basic Earnings Per Share:		
Numerator:		
Net income	\$ 28,744	\$ 21,163
Income allocated to participating securities	(206)	(142)
Net income available to common shareholders	\$ 28,538	\$ 21,021
Denominator:		
Weighted average common shares outstanding – basic	55,941	56,025
Basic earnings per share	\$ 0.51	\$ 0.38
Computation of Diluted Earnings Per Share:		
Numerator:		
Net income	\$ 28,744	\$ 21,163
Income allocated to participating securities	(206)	(142)
Net income available to common shareholders	\$ 28,538	\$ 21,021
Denominator:		
Weighted average common shares outstanding – basic	55,941	56,025
Diluted effect of stock options and PVRsUs	345	282
Weighted average common shares outstanding – diluted	56,286	56,307
Diluted earnings per share	\$ 0.51	\$ 0.37

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, 2017 and 2016, the Company had 2.2 million and 2.6 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 the three months ended March 31, 2017, the Company excluded 0.6 million of anti-dilutive stock options from the diluted earnings per share calculation. For the three months ended March 31, 2016, the Company excluded 1.2 million of anti-dilutive stock options from the diluted earnings per share calculation.

PVRsUs are also included in the diluted earnings per share calculation when the performance conditions have been met at the reporting date. However, at March 31, 2017 and 2016, PVRsUs totaling 354,167 and 207,432, respectively, were excluded from the computation since the performance conditions had not been met.

15. Condensed Consolidating Financial Statements

The Company's 2010 and 2012 Senior Notes are guaranteed jointly, severally, fully and unconditionally, subject to certain customary limitations, by certain of the Company's 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. and Subsidiaries Condensed Consolidating Statement of Income For the Three Months Ended March 31, 2017 (Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES:					
Royalty fees	\$ 64,304	\$ 30,735	\$ 10,501	\$ (36,551)	\$ 68,989
Initial franchise and relicensing fees	4,912	—	94	—	5,006
Procurement services	6,255	—	221	—	6,476
Marketing and reservation system	98,202	93,696	3,621	(86,044)	109,475
Other	5,675	40	2,423	(186)	7,952
Total revenues	179,348	124,471	16,860	(122,781)	197,898
OPERATING EXPENSES:					
Selling, general and administrative	36,810	26,959	5,814	(36,737)	32,846
Depreciation and amortization	384	1,821	865	—	3,070
Marketing and reservation system	102,097	89,579	3,843	(86,044)	109,475
Total operating expenses	139,291	118,359	10,522	(122,781)	145,391
Operating income	40,057	6,112	6,338	—	52,507
OTHER INCOME AND EXPENSES, NET:					
Interest expense	11,063	—	142	—	11,205
Other items, net	(364)	928	(645)	—	(81)
Equity in earnings of consolidated subsidiaries	(11,320)	455	—	10,865	—
Total other income and expenses, net	(621)	1,383	(503)	10,865	11,124
Income before income taxes	40,678	4,729	6,841	(10,865)	41,383
Income taxes	11,934	930	(225)	—	12,639
Net income	\$ 28,744	\$ 3,799	\$ 7,066	\$ (10,865)	\$ 28,744

[Table of Contents](#)

Choice Hotels International, Inc. and Subsidiaries
Condensed Consolidating Statement of Income
For the Three Months Ended March 31, 2016
(Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated (as adjusted)*
REVENUES:					
Royalty fees	\$ 60,274	\$ 32,418	\$ 10,915	\$ (38,748)	\$ 64,859
Initial franchise and relicensing fees	5,056	—	100	—	5,156
Procurement services	5,622	—	174	—	5,796
Marketing and reservation system	116,143	135,224	3,426	(128,432)	126,361
Other	2,999	74	2,057	(184)	4,946
Total revenues	190,094	167,716	16,672	(167,364)	207,118
OPERATING EXPENSES:					
Selling, general and administrative	39,227	28,762	6,062	(38,932)	35,119
Depreciation and amortization	302	1,902	561	—	2,765
Marketing and reservation system	121,978	129,443	3,372	(128,432)	126,361
Total operating expenses	161,507	160,107	9,995	(167,364)	164,245
Operating income	28,587	7,609	6,677	—	42,873
OTHER INCOME AND EXPENSES, NET:					
Interest expense	10,948	1	143	—	11,092
Other items, net	(446)	1,282	567	—	1,403
Equity in earnings of consolidated subsidiaries	(11,294)	807	—	10,487	—
Total other income and expenses, net	(792)	2,090	710	10,487	12,495
Income before income taxes	29,379	5,519	5,967	(10,487)	30,378
Income taxes	8,216	1,436	(437)	—	9,215
Net income	\$ 21,163	\$ 4,083	\$ 6,404	\$ (10,487)	\$ 21,163

*During 2016, the Company adopted ASU 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, see discussion of adoption in Note 1.

[Table of Contents](#)

Choice Hotels International, Inc. and Subsidiaries
Condensed Consolidating Statement of Comprehensive Income
For the Three Months Ended March 31, 2017
(Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	\$ 28,744	\$ 3,799	\$ 7,066	\$ (10,865)	\$ 28,744
Other comprehensive income, net of tax:					
Amortization of loss on cash flow hedge	215	—	—	—	215
Foreign currency translation adjustment	568	—	568	(568)	568
Other comprehensive income, net of tax	783	—	568	(568)	783
Comprehensive income	\$ 29,527	\$ 3,799	\$ 7,634	\$ (11,433)	\$ 29,527

[Table of Contents](#)

Choice Hotels International, Inc. and Subsidiaries
Condensed Consolidating Statement of Comprehensive Income
For the Three Months Ended March 31, 2016
(Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated (as adjusted)*
Net income	\$ 21,163	\$ 4,083	\$ 6,404	\$ (10,487)	\$ 21,163
Other comprehensive income, net of tax:					
Amortization of loss on cash flow hedge	215	—	—	—	215
Foreign currency translation adjustment	1,528	—	1,528	(1,528)	1,528
Other comprehensive income, net of tax	1,743	—	1,528	(1,528)	1,743
Comprehensive income	\$ 22,906	\$ 4,083	\$ 7,932	\$ (12,015)	\$ 22,906

*During 2016, the Company adopted ASU 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, see discussion of adoption in Note 1.

[Table of Contents](#)

Choice Hotels International, Inc. and Subsidiaries
Condensed Consolidating Balance Sheet
As of March 31, 2017
(Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	\$ 4,114	\$ 23	\$ 183,335	\$ —	\$ 187,472
Receivables, net	106,470	1,455	10,103	(150)	117,878
Income taxes receivable	—	4,871	3,613	(8,038)	446
Other current assets	8,715	26,962	1,468	(79)	37,066
Total current assets	119,299	33,311	198,519	(8,267)	342,862
Property and equipment, at cost, net	44,704	20,294	17,703	—	82,701
Goodwill	65,813	—	13,260	—	79,073
Intangible assets, net	5,141	3,338	6,822	—	15,301
Notes receivable, net of allowances	15,737	46,099	62,042	—	123,878
Investments, employee benefit plans, at fair value	—	18,755	—	—	18,755
Investment in affiliates	538,078	50,308	—	(588,386)	—
Advances to affiliates	9,016	82,193	1,729	(92,938)	—
Deferred income taxes	43,018	13,415	—	(1,841)	54,592
Other assets	25,697	109,108	52,216	(51)	186,970
Total assets	\$ 866,503	\$ 376,821	\$ 352,291	\$ (691,483)	\$ 904,132
LIABILITIES AND SHAREHOLDERS' DEFICIT					
Accounts payable	\$ 14,419	\$ 40,785	\$ 4,036	\$ (150)	\$ 59,090
Accrued expenses and other current liabilities	20,901	25,499	7,610	—	54,010
Deferred revenue	144,723	18	1,171	(79)	145,833
Other current liabilities	21,954	7	1,225	(8,038)	15,148
Total current liabilities	201,997	66,309	14,042	(8,267)	274,081
Long-term debt	849,753	3,712	8,924	—	862,389
Deferred compensation and retirement plan obligations	—	23,033	11	—	23,044
Advances from affiliates	90,765	1,191	982	(92,938)	—
Other liabilities	16,475	15,172	7,350	(1,892)	37,105
Total liabilities	1,158,990	109,417	31,309	(103,097)	1,196,619
Total shareholders' (deficit) equity	(292,487)	267,404	320,982	(588,386)	(292,487)
Total liabilities and shareholders' deficit	\$ 866,503	\$ 376,821	\$ 352,291	\$ (691,483)	\$ 904,132

[Table of Contents](#)

Choice Hotels International, Inc. and Subsidiaries
Condensed Consolidating Balance Sheet
As of December 31, 2016
(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	\$ 14,696	\$ 159	\$ 187,608	\$ —	\$ 202,463
Receivables, net	96,128	1,556	9,802	(150)	107,336
Other current assets	9,120	29,281	4,470	(7,797)	35,074
Total current assets	119,944	30,996	201,880	(7,947)	344,873
Property and equipment, at cost, net	44,236	21,718	18,107	—	84,061
Goodwill	65,813	—	13,092	—	78,905
Intangible assets, net	5,279	3,494	6,965	—	15,738
Notes receivable, net of allowances	16,285	42,398	51,925	—	110,608
Investments, employee benefit plans, at fair value	—	16,975	—	—	16,975
Investment in affiliates	526,166	50,798	—	(576,964)	—
Advances to affiliates	14,929	123,074	17	(138,020)	—
Deferred income taxes	40,459	14,234	—	(1,881)	52,812
Other assets	18,259	76,933	53,304	—	148,496
Total assets	\$ 851,370	\$ 380,620	\$ 345,290	\$ (724,812)	\$ 852,468
LIABILITIES AND SHAREHOLDERS' DEFICIT					
Accounts payable	\$ 14,296	\$ 29,705	\$ 4,220	\$ (150)	\$ 48,071
Accrued expenses and other current liabilities	31,352	45,179	3,857	—	80,388
Deferred revenue	132,217	—	1,107	(106)	133,218
Other current liabilities	8,480	7	1,195	(7,691)	1,991
Total current liabilities	186,345	74,891	10,379	(7,947)	263,668
Long-term debt	826,551	3,712	9,146	—	839,409
Deferred compensation and retirement plan obligations	—	21,584	11	—	21,595
Advances from affiliates	135,879	1,188	953	(138,020)	—
Other liabilities	13,944	15,631	11,451	(1,881)	39,145
Total liabilities	1,162,719	117,006	31,940	(147,848)	1,163,817
Total shareholders' (deficit) equity	(311,349)	263,614	313,350	(576,964)	(311,349)
Total liabilities and shareholders' deficit	\$ 851,370	\$ 380,620	\$ 345,290	\$ (724,812)	\$ 852,468

[Table of Contents](#)

Choice Hotels International, Inc. and Subsidiaries
Condensed Consolidating Statement of Cash Flows
For the Three Months Ended March 31, 2017
(Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided (used) by operating activities	\$ (13,926)	\$ 33,440	\$ 4,700	\$ —	\$ 24,214
Cash Flows From Investing Activities					
Investment in property and equipment	(3,832)	(710)	(176)	—	(4,718)
Investment in intangible assets	(1,369)	(719)	—	—	(2,088)
Contributions to equity method investments	—	(31,592)	(18)	—	(31,610)
Distributions from equity method investments	—	—	510	—	510
Purchases of investments, employee benefit plans	—	(1,424)	—	—	(1,424)
Proceeds from sales of investments, employee benefit plans	—	843	—	—	843
Issuance of mezzanine and other notes receivable	(330)	—	(9,533)	—	(9,863)
Collections of mezzanine and other notes receivable	522	—	—	—	522
Advances to and investment in affiliates	—	(484)	—	484	—
Divestment in affiliates	—	510	—	(510)	—
Other items, net	—	—	(4)	—	(4)
Net cash used by investing activities	(5,009)	(33,576)	(9,221)	(26)	(47,832)
Cash Flows from Financing Activities					
Net borrowings pursuant to revolving credit facilities	22,800	—	—	—	22,800
Principal payments on long-term debt	—	—	(153)	—	(153)
Purchases of treasury stock	(7,271)	—	—	—	(7,271)
Dividends paid	(12,139)	—	—	—	(12,139)
Proceeds from contributions from affiliates	—	—	484	(484)	—
Distributions to affiliates	—	—	(510)	510	—
Proceeds from exercise of stock options	4,963	—	—	—	4,963
Net cash provided (used) by financing activities	8,353	—	(179)	26	8,200
Net change in cash and cash equivalents	(10,582)	(136)	(4,700)	—	(15,418)
Effect of foreign exchange rate changes on cash and cash equivalents	—	—	427	—	427
Cash and cash equivalents at beginning of period	14,696	159	187,608	—	202,463
Cash and cash equivalents at end of period	\$ 4,114	\$ 23	\$ 183,335	\$ —	\$ 187,472

[Table of Contents](#)

Choice Hotels International, Inc. and Subsidiaries
Condensed Consolidating Statement of Cash Flows
For the Three Months Ended March 31, 2016
(Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated (as adjusted)*
Net cash provided (used) by operating activities	\$ (63,763)	\$ 30,083	\$ 12,310	\$ —	\$ (21,370)
Cash Flows From Investing Activities					
Investment in property and equipment	(3,991)	(1,076)	(239)	—	(5,306)
Investment in intangible assets	(162)	—	—	—	(162)
Proceeds from sales of assets	—	—	1,700	—	1,700
Acquisitions of real estate	—	—	(25,389)	—	(25,389)
Contributions to equity method investments	—	(4,273)	(20)	—	(4,293)
Distributions from equity method investments	—	—	67	—	67
Purchases of investments, employee benefit plans	—	(896)	—	—	(896)
Proceeds from sales of investments, employee benefit plans	—	363	—	—	363
Issuance of mezzanine and other notes receivable	(4,684)	—	(2,803)	—	(7,487)
Collections of mezzanine and other notes receivable	109	—	—	—	109
Advances to and investment in affiliates	—	(25,685)	—	25,685	—
Divestment in affiliates	—	1,745	—	(1,745)	—
Other items, net	—	—	26	—	26
Net cash used by investing activities	(8,728)	(29,822)	(26,658)	23,940	(41,268)
Cash Flows from Financing Activities					
Net borrowings pursuant to revolving credit facilities	79,300	—	(33)	—	79,267
Principal payments on long-term debt	—	(183)	(135)	—	(318)
Proceeds from contributions from affiliates	—	—	25,685	(25,685)	—
Purchases of treasury stock	(8,857)	—	—	—	(8,857)
Dividends paid	(11,612)	—	—	—	(11,612)
Distributions to affiliates	—	—	(1,745)	1,745	—
Proceeds from exercise of stock options	4,137	—	—	—	4,137
Net cash provided (used) by financing activities	62,968	(183)	23,772	(23,940)	62,617
Net change in cash and cash equivalents	(9,523)	78	9,424	—	(21)
Effect of foreign exchange rate changes on cash and cash equivalents	—	—	652	—	652
Cash and cash equivalents at beginning of period	13,529	19	179,893	—	193,441
Cash and cash equivalents at end of period	\$ 4,006	\$ 97	\$ 189,969	\$ —	\$ 194,072

*During 2016, the Company adopted ASU 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, see discussion of adoption in Note 1.

16. Reportable Segment Information

Hotel Franchising: Hotel franchising includes the Company's hotel franchising operations consisting of its eleven brands. The eleven brands are aggregated within this segment considering their similar economic characteristics, types of customers, distribution channels and regulatory business environments. Revenues from the hotel franchising business include royalty fees, initial franchise and relicensing fees, marketing and reservation system fees, procurement services revenue and other franchising related revenue. The Company is obligated under its hotel franchise agreements to provide marketing and reservation services appropriate for the operation of its systems. These services do not represent separate reportable segments as their operations are directly related to the Company's hotel franchising business. The revenues received from franchisees that are used to pay for part of the Company's ongoing operations are included in hotel franchising revenues and are offset by the related expenses paid for marketing and reservation activities to calculate hotel franchising operating income.

SkyTouch Technology: SkyTouch Technology ("SkyTouch") is a division of the Company that develops and markets cloud-based technology products to hoteliers not under franchise agreements with the Company.

The Company evaluates its segments based primarily on the results of the segment without allocating corporate expenses, income taxes or indirect general and administrative expenses, which are included in the Corporate and Other column. Corporate and Other revenues include rental income related to an office building owned by the Company, as well as revenues related to the Company's vacation rental initiatives. Equity in earnings or losses from hotel franchising related joint ventures is allocated to the Company's hotel franchising segment. As described in Note 4, certain interest expenses related to the Company's marketing and reservation activities are allocated to the hotel franchising segment. The Company does not allocate the remaining interest expense, interest income, other gains and losses or income taxes to its segments.

The following table presents the financial information for the Company's segments:

(In thousands)	Three Months Ended March 31, 2017				Three Months Ended March 31, 2016			
	Hotel Franchising	SkyTouch Technology	Corporate & Other	Consolidated	Hotel Franchising	SkyTouch Technology	Corporate & Other	Consolidated
Revenues	\$ 195,343	\$ 648	\$ 1,907	\$ 197,898	\$ 205,089	\$ 406	\$ 1,623	\$ 207,118
Operating income (loss)	\$ 65,360	\$ (1,094)	\$ (11,759)	\$ 52,507	\$ 58,592	\$ (4,325)	\$ (11,394)	\$ 42,873
Income (loss) before income taxes	\$ 63,280	\$ (1,094)	\$ (20,803)	\$ 41,383	\$ 56,412	\$ (4,325)	\$ (21,709)	\$ 30,378

17. Commitments and Contingencies

The Company is not a party to any litigation other than litigation in the ordinary course of business. The Company's management and legal counsel do not expect that the ultimate outcome of any of its currently ongoing legal proceedings, individually or collectively, will have a material adverse effect on the Company's financial position, results of operations or cash flows.

Contingencies

On October 9, 2012, the Company entered into a limited payment guaranty with regards to a VIE's \$18.0 million bank loan for the construction of a hotel franchised under one of the Company's brands in the United States. Under the terms of the limited guaranty, the Company agreed to guarantee 25% of the outstanding principal balance for a maximum exposure of \$4.5 million and accrued unpaid interest, as well as any unpaid expenses incurred by the lender. The limited guaranty shall remain in effect until the maximum amount guaranteed by the Company is paid in full. In addition to the limited guaranty, the Company entered into an environmental indemnity agreement, which indemnifies the lending institution from and against any damages relating to or arising out of possible environmental contamination issues with regards to the property.

On September 4, 2015, the Company entered into a limited payment guaranty with regards to a VIE's \$13.3 million bank loan for the design, development, and construction of a new hotel franchised under one of the Company's brands in the United States. Under the terms of the limited guaranty, the Company has agreed to guarantee a maximum of \$1.8 million of the VIE's obligations under the loan. The limited guaranty shall remain in effect until (i) the VIE's bank loan is paid in full to the lender;

Table of Contents

(ii) the maximum amount guaranteed by the Company is paid in full; or (iii) the Company, through its affiliate, ceases to be a member of the VIE.

On June 2, 2016, one of the Company's VIEs obtained a \$61.0 million term loan for purposes of refinancing a \$46.2 million construction loan. In connection with the refinancing, the Company entered into three limited guarantees. Under the terms of the limited guarantees, the Company agreed to guarantee a maximum obligation of \$3.3 million in the aggregate, in addition to a percentage of any operating expenses and capital expenditures not covered by operating revenues and unpaid expenses incurred. The limited guarantees will remain in effect until the loan is repaid in full or the VIE reaches a specified debt yield for two consecutive quarters under the loan covenants. The maturity date of the VIE's loan is June 2019.

The Company believes the likelihood of having to perform under the aforementioned limited payment guarantees was remote at March 31, 2017 and December 31, 2016.

Commitments

The Company has the following commitments outstanding at March 31, 2017 :

- The Company provides financing in the form of forgivable promissory notes or cash incentives to franchisees for property improvements, hotel development efforts and other purposes. At March 31, 2017, the Company had commitments to extend an additional \$180.1 million for these purposes provided certain conditions are met by its franchisees, of which \$76.2 million is expected to be advanced in the next twelve months.
- The Company committed to make additional capital contributions totaling \$23.1 million to existing joint ventures related to the construction of various hotels to be operated under the Company's Cambria hotel & suites brand.
- In November 2015, the Company provided financing to a development company to acquire and redevelop a historic office building into a Cambria hotel & suites hotel. The Company has committed to provide up to an aggregate of \$49.1 million, if necessary, for acquisition of the property and property improvements. As of March 31, 2017, the Company advanced \$40.2 million. The promissory notes mature on November 30, 2019, and bear interest at variable and fixed rates and are payable monthly.

In the ordinary course of business, the Company enters into numerous agreements that contain standard indemnities whereby the Company indemnifies another party for breaches of representations and warranties. Such indemnifications are granted under various agreements, including those governing (i) purchases or sales of assets or businesses, (ii) leases of real estate, (iii) licensing of trademarks, (iv) access to credit facilities, (v) issuances of debt or equity securities, and (vi) certain operating agreements. The indemnifications issued are for the benefit of the (i) buyers in sale agreements and sellers in purchase agreements, (ii) landlords in lease contracts, (iii) franchisees in licensing agreements, (iv) financial institutions in credit facility arrangements, (v) underwriters in debt or equity security issuances and (vi) parties under certain operating agreements. In addition, these parties are also generally indemnified against any third party claim resulting from the transaction that is contemplated in the underlying agreement. While some of these indemnities extend only for the duration of the underlying agreement, many survive the expiration of the term of the agreement or extend into perpetuity (unless subject to a legal statute of limitations). There are no specific limitations on the maximum potential amount of future payments that the Company could be required to make under these indemnities, nor is the Company able to develop an estimate of the maximum potential amount of future payments to be made under these indemnifications as the triggering events are not subject to predictability. With respect to certain of the aforementioned indemnities, such as indemnifications of landlords against third party claims for the use of real estate property leased by the Company, the Company maintains insurance coverage that mitigates potential liability.

18. Transactions with Unconsolidated Joint Ventures

The Company has a management fee arrangement for marketing services with a joint venture partner. For the three months ended March 31, 2017, fees earned and payroll costs reimbursed under this arrangement totaled \$0.3 million. There were no fees earned and payroll costs reimbursed under this arrangement for the three months ended March 31, 2016.

The Company has entered into franchise agreements with certain of the unconsolidated joint ventures discussed in Note 6. Pursuant to these franchise agreements, the Company has recorded royalty and marketing and reservation system fees of approximately \$3.9 million and \$3.1 million for the three months ended March 31, 2017 and 2016, respectively. The Company has recorded \$1.0 million and \$1.1 million as a receivable due from these joint ventures as of March 31, 2017 and December 31, 2016, respectively. In addition, the Company has paid commissions of \$22 thousand and \$30 thousand for the three months ended March 31, 2017 and 2016, respectively, to an online travel agent for which the Company is a joint venture member.

19. Subsequent Events

On April 21, 2017, the Company's board of directors declared a quarterly cash dividend of \$0.215 per share of common stock. The dividend is payable on July 18, 2017 to shareholders of record on July 3, 2017.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand the consolidated financial condition and results of operations of Choice Hotels International, Inc. and its subsidiaries (together the "Company") contained in this report. MD&A is provided as a supplement to-and should be read in conjunction with-our consolidated financial statements and the accompanying notes.

Overview

We are primarily a hotel franchisor with franchise agreements representing 6,494 hotels open and 795 hotels under construction, awaiting conversion or approved for development as of March 31, 2017, with 515,372 rooms and 62,488 rooms, respectively, in 50 states, the District of Columbia and over 40 countries and territories outside the United States. Our brand names include Comfort Inn®, Comfort Suites®, Quality®, Clarion®, Ascend Hotel Collection®, Sleep Inn®, Econo Lodge®, Rodeway Inn®, MainStay Suites®, Suburban Extended Stay Hotel®, and Cambria hotel & suites® (collectively, the "Choice brands").

The Company's domestic franchising operations are conducted through direct franchising relationships while its international franchise operations are conducted through a combination of direct franchising and master franchising relationships. Master franchising relationships are governed by master franchising agreements which generally provide the master franchisee with the right to use our brands and sub-license the use of our brands in a specific geographic region, usually for a fee.

Our business strategy is to conduct direct franchising in those international markets where both franchising is an accepted business model and we believe our brands can achieve significant scale. We typically elect to enter into master franchise agreements in those markets where direct franchising is currently not a prevalent or viable business model. When entering into master franchising relationships, we strive to select partners that have professional hotel and asset management capabilities together with the financial capacity to invest in building the Choice brands in their respective markets. Master franchising relationships typically provide lower revenues to the Company as the master franchisees are responsible for managing certain necessary services (such as training, quality assurance, reservations and marketing) to support the franchised hotels in the master franchise area and therefore, retain a larger percentage of the hotel franchise fees to cover their expenses. In certain circumstances, the Company has and may continue to make equity investments in our master franchisees. As a result of master franchise relationships and international market conditions, our revenues are primarily concentrated in the United States. Therefore, our description of the franchise system is primarily focused on the domestic operations.

Our Company generates revenues, income and cash flows primarily from initial, relicensing and continuing royalty fees attributable to our franchise agreements. Revenues are also generated from qualified vendor arrangements and other sources. The hotel industry is seasonal in nature. For most hotels, demand is lower from November through February than during the remainder of the year. Our principal source of revenues is franchise fees based on the gross room revenues of our franchised properties. The Company's franchise fee revenues reflect the industry's seasonality and historically have been lower in the first and fourth quarters than in the second or third quarters.

With a focus on hotel franchising instead of ownership, we benefit from the economies of scale inherent in the franchising business. The fee and cost structure of our business provides opportunities to improve operating results by increasing the number of franchised hotel rooms and effective royalty rates of our franchise contracts resulting in increased initial fee and relicensing revenue; ongoing royalty fees and procurement services revenues. In addition, our operating results can also be improved through our company-wide efforts related to improving property-level performance. The Company currently estimates, based on its current domestic portfolio of hotels under franchise, a 1% change in revenue per available room ("RevPAR") or rooms under franchise would increase or decrease annual domestic royalty revenues by approximately \$3.3 million and a 1 basis point change in the Company's effective royalty rate would increase or decrease annual domestic royalties by approximately \$0.7 million. In addition to these revenues, we also collect marketing and reservation system fees to support centralized marketing and reservation activities for the franchise system.

The principal factors that affect the Company's results are: the number and relative mix of franchised hotel rooms in the various hotel lodging price categories; growth in the number of hotel rooms under franchise; occupancy and room rates achieved by the hotels under franchise; the effective royalty rate achieved; the level of franchise sales and relicensing activity; and our ability to

manage costs. The number of rooms at franchised properties and occupancy and room rates at those properties significantly affect the Company's results because our fees are based upon room revenues or the number of rooms at franchised hotels. The key industry standard for measuring hotel-operating performance is RevPAR, which is calculated by multiplying the percentage of occupied rooms by the average daily room rate realized. Our variable overhead costs associated with franchise system growth of our established brands have historically been less than incremental royalty fees generated from new franchises. Accordingly, continued growth of our franchise business should enable us to realize benefits from the operating leverage in place and improve operating results.

We are required by our franchise agreements to use the marketing and reservation system fees we collect for system-wide marketing and reservation activities. These expenditures, which include advertising costs and costs to maintain our central reservations and property management systems, help to enhance awareness and consumer preference for our brands and deliver guests to our franchisees. Greater awareness and preference promotes long-term growth in business delivery to our franchisees and increases the desirability of our brands to hotel owners and developers, which ultimately increases franchise fees earned by the Company.

Our Company articulates its mission as a commitment to our franchisees' profitability by providing our franchisees with hotel franchises that strive to generate the highest return on investment of any hotel franchise. We have developed an operating system dedicated to our franchisees' success that focuses on delivering guests to our franchised hotels and reducing costs for our hotel owners.

We believe that executing our strategic priorities creates value for our shareholders. Our Company focuses on two key goals:

Profitable Growth. Our success is dependent on improving the performance of our hotels, increasing our system size by selling additional hotel franchises, effective royalty rate improvement and maintaining a disciplined cost structure. We attempt to improve our franchisees' revenues and overall profitability by providing a variety of products and services designed to increase business delivery to and/or reduce operating and development costs for our franchisees. These products and services include national marketing campaigns, maintaining a guest loyalty program, a central reservation system, property and yield management programs and systems, revenue management systems, quality assurance standards and qualified vendor relationships. We believe that healthy brands, which deliver a compelling return on investment for franchisees, will enable us to sell additional hotel franchises and raise royalty rates. We have established multiple brands that meet the needs of many types of guests, and can be developed at various price points and applied to both new and existing hotels. This ensures that we have brands suitable for creating growth in a variety of market conditions. Improving the performance of the hotels under franchise, growing the system through additional franchise sales and improving franchise agreement pricing while maintaining a disciplined cost structure are the keys to profitable growth.

Maximizing Financial Returns and Creating Value for Shareholders. Our capital allocation decisions, including capital structure and uses of capital, are intended to maximize our return on invested capital and create value for our shareholders. We believe our strong and predictable cash flows create a strong financial position that provides us a competitive advantage. Currently, our business does not require significant capital to operate and grow. Therefore, we can maintain a capital structure that generates high financial returns and use our excess cash flow to increase returns to our shareholders primarily through share repurchases, dividends or investing in growth opportunities.

Historically, we have returned value to our shareholders through share repurchases and dividends. In 1998, we instituted a share repurchase program which has generated substantial value for our shareholders. Since the program's inception through March 31, 2017, we have repurchased 48.7 million shares (including 33.0 million prior to the two-for-one stock split effected in October 2005) of common stock at a total cost of \$1.3 billion. Considering the effect of the two-for-one stock split, the Company has repurchased 81.7 million shares at an average price of \$15.38 per share. The Company purchased no shares of common stock under the share repurchase program during the three months ended March 31, 2017. At March 31, 2017, we had approximately 4.0 million shares remaining under the current share repurchase authorization. We currently believe that our cash flows from operations will support our ability to complete the current repurchase authorization. Upon completion of the current authorization, our board of directors will evaluate the advisability of additional share repurchases.

The Company commenced paying quarterly dividends in 2004 and in 2012 the Company elected to pay a special cash dividend totaling approximately \$600 million. The Company currently maintains the payment of a quarterly dividend on its common shares outstanding; however, the declaration of future dividends is subject to the discretion of the board of directors. During the fourth quarter of 2016, the Company's board of directors announced a 5% increase to the quarterly cash dividend rate to \$0.215 per common share outstanding. The projected annual dividend in 2017 is \$0.86 per common share outstanding. During the three months ended March 31, 2017, we paid cash dividends totaling approximately \$12.1 million. We expect to continue to pay dividends in the future, subject to declaration by our board of directors as well as future business performance, economic conditions, changes in income tax regulations and other factors including limitations in the Company's credit facility. Based on

[Table of Contents](#)

the present dividend rate and outstanding share count, we expect that aggregate annual regular dividends for 2017 would be approximately \$48.6 million .

The Company also allocates capital to growth opportunities in business areas that are adjacent or complementary to our core hotel franchising business, which leverage our core competencies and are additive to our franchising business model. The timing and amount of these investments are subject to market and other conditions and include the following:

Our board of directors authorized a program which permits us to offer financing, investment and guaranty support to qualified franchisees as well as allows us to acquire and resell real estate to incent franchise development for certain brands in strategic markets. As a result over the next several years, we expect to deploy capital pursuant to this program opportunistically to promote growth of our emerging brands. The amount and timing of the investment in this program will be dependent on market and other conditions and we generally expect to recycle these investments within a five-year period.

In March 2013, the Company announced the launch of a new division, SkyTouch Technology ("SkyTouch"), which develops and markets cloud-based technology products for the hotel industry. Since inception, the Company has made significant investments in product development and sales efforts to expand its customer base. As a result, the division has incurred costs in excess of revenues in each year of its existence. At this time, the Company believes that its operations of the SkyTouch division beginning in 2017 will not require the same pace of investment as compared to past periods, and as a result, the Company expects that revenues generated by the SkyTouch division will approximate its selling, general and administrative expenses for the year ended December 31, 2017.

Notwithstanding investments in SkyTouch and other alternative growth strategies, the Company expects to continue to return value to its shareholders over time through a combination of share repurchases and dividends.

We believe these investments and strategic priorities, when properly implemented, will enhance our profitability, maximize our financial returns and continue to generate value for our shareholders. The ultimate measure of our success will be reflected in the items below.

Results of Operations: Royalty fees, operating income, net income and diluted earnings per share ("EPS") represent key measurements of these value drivers. These measurements are primarily driven by the operations of our hotel franchise system and, therefore, our analysis of the Company's operations is primarily focused on the size, performance and potential growth of the hotel franchise system as well as our variable overhead costs. Since our hotel franchising activities represents approximately 99% of total revenues, our discussion of our results from operations primarily relate to our hotel franchising activities.

Refer to MD&A heading "Operations Review" for additional analysis of our results.

Inflation: Inflation has been moderate in recent years and has not had a significant impact on our business.

Liquidity and Capital Resources: Historically, the Company has generated significant cash flows from operations . Since our business has not historically required significant reinvestment of capital, we typically utilize cash in ways that management believes provide the greatest returns to our shareholders which include share repurchases and dividends. However, we may determine to utilize cash for acquisitions and other investments in the future. We believe the Company's cash flow from operations and available financing capacity is sufficient to meet the expected future operating, investing and financing needs of the business.

Refer to MD&A heading "Liquidity and Capital Resources" for additional analysis.

Non-GAAP Financial Statement Measurements

The Company utilizes certain measures which do not conform to generally accepted accounting principles accepted in the United States ("GAAP") when analyzing and discussing its results with the investment community. This information should not be considered as an alternative to any measure of performance as promulgated under GAAP. The Company's calculation of these measurements may be different from the calculations used by other companies and therefore, comparability may be limited. We have included a reconciliation of these measures to the comparable GAAP measurement below as well as our reasons for reporting these non-GAAP measures.

Hotel Franchising Revenues: The Company utilizes hotel franchising revenues, which exclude revenues from marketing and reservation system activities, the SkyTouch Technology division, an operation that provides software as a service solutions to vacation rental management companies, and revenue generated from the ownership of an office building that is leased to a third-party, rather than total revenues when analyzing the performance of the business. Marketing and reservation activities are excluded from hotel franchising revenues since the Company is contractually required by its franchise agreements to use the fees collected for marketing and reservation activities; as such, no income or loss to the Company is generated. Cumulative

[Table of Contents](#)

marketing and reservation system fees not expended are recorded as a liability in the Company's financial statements and are carried over to the next year and expended in accordance with the franchise agreements. Cumulative marketing and reservation expenditures incurred in excess of fees collected for marketing and reservation activities are deferred and recorded as an asset in the Company's financial statements and recovered in future periods. SkyTouch is a division of the Company that develops and markets cloud-based technology products, including inventory management, pricing and connectivity to third party channels, to hoteliers not under franchise agreements with the Company. SkyTouch and our vacation rental technology solutions provider operations are excluded from hotel franchising revenues since those operations do not reflect the Company's core hotel franchising business but represent adjacent, complementary lines of business. This non-GAAP measure is a commonly used measure of performance in our industry and facilitates comparisons between the Company and its competitors.

Calculation of Hotel Franchising Revenues

	Three Months Ended March 31,	
	(In thousands)	
	2017	2016
Total Revenues	\$ 197,898	\$ 207,118
Adjustments:		
Marketing and reservation system revenues	(109,475)	(126,361)
Non-hotel franchising activities	(2,555)	(2,029)
Hotel Franchising Revenues	<u>\$ 85,868</u>	<u>\$ 78,728</u>

Operations Review

Comparison of Operating Results for the Three-Month Periods Ended March 31, 2017 and 2016

Summarized financial results for the three months ended March 31, 2017 and 2016 are as follows:

(in thousands)	2017	2016 (as adjusted)*
REVENUES:		
Royalty fees	\$ 68,989	\$ 64,859
Initial franchise and relicensing fees	5,006	5,156
Procurement services	6,476	5,796
Marketing and reservation system	109,475	126,361
Other	7,952	4,946
Total revenues	<u>197,898</u>	<u>207,118</u>
OPERATING EXPENSES:		
Selling, general and administrative	32,846	35,119
Depreciation and amortization	3,070	2,765
Marketing and reservation system	109,475	126,361
Total operating expenses	<u>145,391</u>	<u>164,245</u>
Operating income	<u>52,507</u>	<u>42,873</u>
OTHER INCOME AND EXPENSES, NET:		
Interest expense	11,205	11,092
Interest income	(1,264)	(839)
Other (gains) losses	(897)	62
Equity in net loss of affiliates	2,080	2,180
Total other income and expenses, net	<u>11,124</u>	<u>12,495</u>
Income before income taxes	<u>41,383</u>	<u>30,378</u>
Income taxes	<u>12,639</u>	<u>9,215</u>
Net income	<u>\$ 28,744</u>	<u>\$ 21,163</u>

*During 2016, the Company adopted ASU 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, see discussion of adoption in Note 1.

Results of Operations

The Company recorded income before income taxes of \$41.4 million for the three month period ended March 31, 2017, an \$11.0 million or 36% increase from the same period of the prior year. The increase in income before income taxes primarily reflects a \$9.6 million increase in operating income, a \$0.4 million increase in interest income and an increase of \$1.0 million in other gains and losses.

Operating income increased \$9.6 million primarily due to a \$7.1 million or 9% increase in the Company's hotel franchising revenues and a \$2.3 million or 6% decrease in selling, general, and administrative expenses. The key drivers of these fluctuations are described in more detail below.

Hotel Franchising Revenues

Hotel franchising revenues were \$85.9 million for the three months ended March 31, 2017 compared to \$78.7 million for the three months ended March 31, 2016, an increase of \$7.1 million or 9%. The increase in hotel franchising revenues is primarily due to a \$4.1 million or 6% increase in royalty revenues, a \$0.7 million or 12% increase in procurement services revenues, and an increase of \$2.5 million in non-compliance and other revenues, offset by a \$0.2 million decrease in initial and relicensing fee revenues.

Royalty Fees

Domestic royalty fees for the three months ended March 31, 2017 increased \$4.0 million to \$64.5 million, an increase of 7% compared to the three months ended March 31, 2016. The increase in royalties is primarily attributable to a 3.8% increase in RevPAR, a 0.9% increase in the number of domestic franchised hotel rooms and an increase in the effective royalty rate. System-wide RevPAR increased due to a 1.9% increase in average daily rates, accompanied by a 100 basis point increase in occupancy rates. The Company's effective royalty rate for the domestic hotel system increased from 4.38% for the three months ended March 31, 2016 to 4.55% for the three months ended March 31, 2017. The increase in the effective royalty rate is attributable to improved royalty rate pricing on recently executed domestic franchise agreements as well as annual contractual royalty rate increases contained in existing franchise agreements.

A summary of the Company's domestic franchised hotels operating information is as follows:

	For the Three Months Ended March 31, 2017			For the Three Months Ended March 31, 2016*			Change		
	Average Daily Rate	Occupancy	RevPAR	Average Daily Rate	Occupancy	RevPAR	Average Daily Rate	Occupancy	RevPAR
Comfort Inn	\$ 87.03	58.5%	\$ 50.90	\$ 85.39	57.7%	\$ 49.27	1.9 %	80 bps	3.3 %
Comfort Suites	93.40	65.1%	60.84	92.40	64.1%	59.26	1.1 %	100 bps	2.7 %
Sleep	79.20	60.0%	47.54	77.71	58.7%	45.61	1.9 %	130 bps	4.2 %
Quality	73.76	53.1%	39.20	72.23	52.2%	37.72	2.1 %	90 bps	3.9 %
Clarion	78.05	53.6%	41.83	75.90	50.1%	38.06	2.8 %	350 bps	9.9 %
Econo Lodge	57.33	48.6%	27.84	55.99	47.3%	26.46	2.4 %	130 bps	5.2 %
Rodeway	59.63	51.1%	30.49	57.77	51.0%	29.47	3.2 %	10 bps	3.5 %
MainStay	71.66	61.7%	44.21	72.91	57.9%	42.23	(1.7)%	380 bps	4.7 %
Suburban	51.01	74.2%	37.82	48.28	73.0%	35.26	5.7 %	120 bps	7.3 %
Cambria hotel & suites	122.24	68.1%	83.26	NA	NA	NA	NA	NA bps	NA
Ascend Hotel Collection	117.29	51.3%	60.21	115.55	53.7%	62.01	1.5 %	(240) bps	(2.9)%
Total	\$ 78.41	56.1%	\$ 43.98	\$ 76.92	55.1%	\$ 42.39	1.9 %	100 bps	3.8 %

*Totals for the three months ended March 31, 2016 have been revised from previous disclosures to include the operating statistics for the Cambria hotel & suites brand. Operating statistics for Cambria hotel & suites have been excluded for 2016 since the brand had fewer than 25 units open and operating for the 12 month period.

[Table of Contents](#)

The number of domestic rooms on-line increased by 0.9% to 402,700 as of March 31, 2017, from 398,978 as of March 31, 2016. The total number of domestic hotels on-line increased by 1.3% to 5,343 as of March 31, 2017, from 5,276 as of March 31, 2016. Our unit growth has outpaced the growth in our rooms primarily due to the Company's multi-year strategy to rejuvenate the Comfort family of brands by terminating under-performing hotels that no longer meet the Comfort brand standards. Hotels terminated from the Comfort brand family may be repositioned to a more suitable brand within the Company's family of brands or exit our franchise system. As a result of this strategy our unit growth has been driven primarily by brands with lower average room counts than the Comfort family of brands. A summary of domestic hotels and rooms on-line at March 31, 2017 and 2016 by brand is as follows:

	March 31, 2017		March 31, 2016		Variance			
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	%	%
Comfort Inn	1,103	85,583	1,143	88,294	(40)	(2,711)	(3.5)%	(3.1)%
Comfort Suites	566	43,740	566	43,669	—	71	— %	0.2 %
Sleep	382	27,301	379	27,139	3	162	0.8 %	0.6 %
Quality	1,457	114,837	1,394	111,124	63	3,713	4.5 %	3.3 %
Clarion	161	22,159	172	23,893	(11)	(1,734)	(6.4)%	(7.3)%
Econo Lodge	845	52,113	853	52,784	(8)	(671)	(0.9)%	(1.3)%
Rodeway	558	32,103	519	28,931	39	3,172	7.5 %	11.0 %
MainStay	57	4,148	54	4,019	3	129	5.6 %	3.2 %
Suburban	59	6,598	59	6,634	—	(36)	— %	(0.5)%
Ascend Hotel Collection	127	10,451	112	9,378	15	1,073	13.4 %	11.4 %
Cambria hotel & suites	28	3,667	25	3,113	3	554	12.0 %	17.8 %
Total Domestic Franchises	5,343	402,700	5,276	398,978	67	3,722	1.3 %	0.9 %

Domestic hotels open and operating decreased by 19 during the three months ended March 31, 2017, compared to no net increase or decrease during the three months ended March 31, 2016. Gross domestic franchise additions decreased from 61 for the three months ended March 31, 2016 to 49 for the same period of 2017. New construction hotels represented 9 of the gross domestic additions during the three months ended March 31, 2017, compared to 12 hotels in the same period of the prior year. Gross domestic additions for conversion hotels during the three months ended March 31, 2017 decreased by 6 units to 40 from 46 for the three months ended March 31, 2016. The timing of new construction hotel openings typically averages 18 to 36 months to open after the franchise agreement is executed. Conversion hotels typically open three to four months after the execution of a franchise agreement.

Net domestic franchise terminations increased from 58 in the three months ended March 31, 2016 to 68 for the three months ended March 31, 2017.

International royalties increased \$0.2 million or 4% from \$4.4 million for the three months ended March 31, 2016 to \$4.5 million for the three months ended March 31, 2017, primarily due to a 1.5% increase in the number of rooms available. International rooms increased by 1,688 from 110,984 as of March 31, 2016 to 112,672 as of March 31, 2017. The total number of international hotels decreased by 18 from 1,169 as of March 31, 2016 to 1,151 as of March 31, 2017. International rooms grew 1.5% despite a decline in the number of hotels open and operating primarily due to a focus on new entrants with higher per unit room counts than currently in the Company's international franchised hotel portfolio.

Initial Franchise and Relicensing Fees

Domestic initial franchise fee revenue, included in the initial franchise and relicensing fees caption on the Company's statements of income, generated from executed franchise agreements decreased \$0.3 million to \$2.1 million for the three months ended March 31, 2017 from \$2.4 million for the three months ended March 31, 2016. Domestic initial fee revenue decreased approximately 12% despite a 51% increase in executed franchise agreements primarily due to an increase in franchise agreements containing forgivable promissory note incentives when compared to the same period of the prior year. Executed franchise agreements increased from 70 franchise agreements, representing 5,371 rooms, executed in the first quarter of 2016, to 106 franchise agreements, representing 7,271 rooms executed in the first quarter of 2017. Revenues associated with agreements including incentives are deferred and recognized when the incentive criteria are met or the agreement is terminated, whichever comes first.

[Table of Contents](#)

During the first quarter of 2017, 38 of the executed agreements were for new construction hotel franchises representing 2,458 rooms compared to 15 contracts representing 1,281 rooms for the three months ended March 31, 2016. Conversion hotel executed franchise agreements totaled 68 representing 4,813 rooms for the three months ended March 31, 2017 compared to 55 agreements representing 4,090 rooms for the same period a year ago.

A summary of executed domestic franchise agreements by brand for the three months ended March 31, 2017 and 2016 is as follows:

	Three Months Ended March 31, 2017			Three Months Ended March 31, 2016			% Change		
	New Construction	Conversion	Total	New Construction	Conversion	Total	New Construction	Conversion	Total
Comfort Inn	7	10	17	6	4	10	17%	150%	70%
Comfort Suites	8	—	8	2	—	2	300%	NM	300%
Sleep	11	2	13	2	—	2	450%	NM	550%
Quality	1	21	22	—	23	23	NM	(9)%	(4)%
Clarion	—	3	3	1	3	4	(100)%	—%	(25)%
Econo Lodge	—	7	7	—	14	14	NM	(50)%	(50)%
Rodeway	—	21	21	—	10	10	NM	110%	110%
MainStay	9	—	9	1	—	1	800%	NM	800%
Suburban	—	—	—	—	—	—	NM	NM	NM
Ascend Hotel Collection	1	4	5	1	1	2	—%	300%	150%
Cambria hotel & suites	1	—	1	2	—	2	(50)%	NM	(50)%
Total Domestic System	38	68	106	15	55	70	153%	24%	51%

Relicensing fees include fees charged to the new owners of a franchised property whenever an ownership change occurs and the property remains in the franchise system as well as fees required to renew expiring franchise contracts. Domestic relicensing contracts increased 13% from 98 for the three months ended March 31, 2016 to 111 for the three months ended March 31, 2017, offset by renewals of expired contracts which decreased 44% from 9 for the three months ended March 31, 2016 to 5 during the current period. As a result of the 8% increase in relicensing and renewal contracts, domestic relicensing and renewal revenues increased 4% from \$2.7 million in the first quarter of 2016 to \$2.8 million in the first quarter of 2017.

As of March 31, 2017, the Company had 724 franchised hotels with 55,375 rooms under construction, awaiting conversion or approved for development in its domestic system as compared to 582 hotels and 44,822 rooms at March 31, 2016. The number of new construction franchised hotels in the Company's domestic pipeline increased 30% to 505 at March 31, 2017 from 388 at March 31, 2016. The growth in the number of new construction hotels in the domestic pipeline reflects the 16%, 9% and 79% increase in new construction franchise agreements executed in 2016, 2015 and 2014, respectively, as well as a 153% increase in the first three months of 2017. New construction hotels typically average 18 to 36 months to open after the franchise agreement is executed. The number of conversion franchised hotels in the Company's domestic pipeline increased by 25 hotels or 13% from 194 hotels at March 31, 2016 to 219 hotels at March 31, 2017, primarily due to the timing of hotel openings and the timing of signing new conversion franchise agreements. Conversion hotels typically open three to four months after the execution of a franchise agreement. The Company had an additional 71 franchised hotels with 7,113 rooms under construction, awaiting conversion or approved for development in its international system as of March 31, 2017 compared to 103 hotels and 10,824 rooms at March 31, 2016. While the Company's hotel pipeline provides a strong platform for growth, a hotel in the pipeline does not always result in an open and operating hotel due to various factors.

[Table of Contents](#)

A summary of the domestic franchised hotels pipeline, which includes hotels under construction, awaiting conversion and approved for development, at March 31, 2017 and 2016 by brand is as follows:

	March 31, 2017			March 31, 2016			Variance					
							Conversion		New Construction		Total	
	Conversion	New Construction	Total	Conversion	New Construction	Total	Units	%	Units	%	Units	%
Comfort Inn	40	96	136	35	84	119	5	14 %	12	14 %	17	14 %
Comfort Suites	3	117	120	3	92	95	—	— %	25	27 %	25	26 %
Sleep	2	114	116	—	76	76	2	NM	38	50 %	40	53 %
Quality	51	6	57	47	5	52	4	9 %	1	20 %	5	10 %
Clarion	17	4	21	7	3	10	10	143 %	1	33 %	11	110 %
Econo Lodge	25	4	29	26	4	30	(1)	(4)%	—	— %	(1)	(3)%
Rodeway	38	1	39	40	2	42	(2)	(5)%	(1)	(50)%	(3)	(7)%
MainStay	—	80	80	—	55	55	—	NM	25	45 %	25	45 %
Suburban	4	4	8	4	8	12	—	— %	(4)	(50)%	(4)	(33)%
Ascend Hotel Collection	34	23	57	27	20	47	7	26 %	3	15 %	10	21 %
Cambria hotel & suites	5	56	61	5	39	44	—	— %	17	44 %	17	39 %
	219	505	724	194	388	582	25	13 %	117	30 %	142	24 %

Procurement Services: Revenues increased \$0.7 million or 12% from \$5.8 million for the three months ended March 31, 2016 to \$6.5 million for the three months ended March 31, 2017 . The increase in revenues primarily reflects the implementation of new brand programs as well as an increase in the volume of business transacted with existing and new qualified vendors and strategic alliance partners.

Other Income: Revenue increased \$3.0 million from the three months ended March 31, 2016 to \$8.0 million for the three months ended March 31, 2017 . The increase in other income is primarily due to a \$0.5 million increase in revenues related to the Companies non-franchising divisions, \$1.5 million related to the sale of chip-enabled card readers to our franchisees, as well as a \$1.0 million increase in non-compliance and termination awards.

Selling, General and Administrative Expenses: The cost to operate the business is reflected in SG&A on the consolidated statements of income. SG&A expenses were \$32.8 million for the three months ended March 31, 2017 , which decreased \$2.3 million from the three months ended March 31, 2016 .

SG&A expenses for the three months ended March 31, 2017 and 2016 include approximately \$3.7 million and \$6.7 million , respectively, related to the Company's SkyTouch and vacation rental divisions, and expenses related to operations of an office building leased to a third party. SG&A from non-franchising activities declined \$3.0 million from the same period of the prior year primarily due to lower product development investments required to support the Company's SkyTouch division. Excluding SG&A expenses for non-hotel franchising divisions, SG&A for the three months ended March 31, 2017 increased \$0.7 million or 3% to \$29.2 million in the current year primarily due to \$1.1 million of increased costs related to distribution of chip-enabled card readers to our franchisees, a \$0.9 million increase mark-to-market expense related to changes in the fair value of investments held in the Company's deferred compensation plans over the same period of the prior year, offset by \$1.3 million in one time transaction costs incurred in the first three months of 2016 which did not recur in 2017.

Marketing and Reservation System : The Company's franchise agreements require the payment of franchise fees, which include marketing and reservation system fees. The fees, which are primarily based on a percentage of the franchisees' gross room revenues, are used exclusively by the Company for expenses associated with providing franchise services such as central reservation systems, national marketing and media advertising. The Company is contractually obligated to expend the marketing and reservation system fees it collects from franchisees in accordance with the franchise agreements; as such, no net income or loss to the Company is generated. Cumulative marketing and reservation fees not expended are deferred and recorded as a liability in the Company's financial statements and carried over to the next year and expended in accordance with the franchise agreements. Conversely, cumulative marketing and reservation expenditures incurred in excess of fees billed for

[Table of Contents](#)

marketing and reservation activities are deferred and recorded as an asset in the Company's financial statements and recovered in future periods.

Total marketing and reservation system revenues decreased 13% from \$126.4 million for the three months ended March 31, 2016 to \$109.5 million for the three months ended March 31, 2017. Marketing and reservation system revenues for the three months ended March 31, 2016 were impacted by the recognition of \$30.7 million of previously deferred revenues. The recognition of deferred revenues during the prior year period was primarily due to a change in the expiration policy for the Choice Privileges membership program. Excluding the impact of the recognition of these deferred revenues, marketing and reservation system revenues increased approximately \$13.8 million primarily due to the growth in membership in the Choice Privileges loyalty program as well as increased revenue related to reservation delivery programs.

At March 31, 2017, cumulative marketing and reservation system expenses exceeded fees billed by \$25.4 million, and \$18.1 million as of December 31, 2016. The deficits are reflected as other long-term assets in the accompanying consolidated balance sheets.

Other (gains) losses : Other (gains) losses increased \$1.0 million from a loss of \$ 0.1 million for the three months ended March 31, 2016 to gain of \$ 0.9 million in the same period of the current year, due to an increase in gains due to the fluctuations in the fair value of investments held in the Company's non-qualified employee benefit plans of \$0.9 million.

Income Taxes : The effective income tax rates were 30.5% and 30.3% for the three months ended March 31, 2017 and 2016, respectively. The effective income tax rate for the three months ended March 31, 2017 were lower than the U.S. federal income tax rate of 35% due to the impact of foreign operations and \$1.2 million of ASU 2016-09 benefits from share-based compensation, partially offset by state income taxes. The effective income tax rate for the three months ended March 31, 2016 was lower than the U.S federal tax rate of 35% due to the impact of foreign operations and \$1.6 million of ASU 2016-09 benefits from share based compensation, partially offset by state income taxes. The rate was also impacted by an unfavorable adjustment of \$1.2 million to our tax rate benefit from foreign operations.

Liquidity and Capital Resources

Operating Activities

During the three months ended March 31, 2017, net cash provided by operating activities totaled \$24.2 million. During the three months ended March 31, 2016 net cash used by operating activities totaled \$21.4 million. Operating cash flows increased \$45.6 million primarily due to improvements in operating income, an increase in cash flows from marketing and reservation activities, a \$2.0 million decline in net disbursements on forgivable notes receivable provided to franchisees and the timing of working capital items.

Net cash used by marketing and reservation activities totaled \$0.2 million during the three months ended March 31, 2017 compared to net cash used of \$39.8 million during the three months ended March 31, 2016. The decrease in net cash used by marketing and reservation activities primarily reflects a one-time deferral of revenue related to a change in the Company's expiration policy for the Company's loyalty program in 2016.

In conjunction with brand and development programs, the Company provides financing to franchisees for property improvements and other purposes in the form of forgivable notes receivable. If the franchisee remains in the system in good standing over the term of the promissory note, the Company forgives the outstanding principal balance and related interest. Since these forgivable notes are predominantly forgiven ratably over the term of the promissory note rather than repaid, the Company classifies the related issuance and collections of these notes as operating activities. During the three months ended March 31, 2017 and 2016, the Company's net advances for these purposes totaled \$4.5 million and \$6.5 million, respectively. The timing and amount of these cash flows is dependent on various factors including the implementation of various development and brand incentive programs, the level of franchise sales and the timing of hotel openings. At March 31, 2017, the Company had commitments to extend an additional \$180 million for these purposes provided certain conditions are met by its franchisees, of which \$76.1 million is expected to be advanced in the next twelve months.

Investing Activities

Cash utilized for investing activities totaled \$47.8 million and \$41.3 million for the three months ended March 31, 2017 and 2016, respectively. The increase in cash utilized for investing activities for the three months ended March 31, 2017 primarily reflects the following items:

During the three months ended March 31, 2017 and 2016, capital expenditures in intangible assets totaled \$2.1 million and \$0.2 million, respectively. The increase in capital expenditures from 2017 primarily reflects the adoption of Accounting Standards

[Table of Contents](#)

Update 2015-05, *Intangibles - Goodwill and Other - Internal Use Software*, which provides for capitalization of qualifying Software as a Service ("SaaS") licenses as intangible assets.

During the three months ended March 31, 2016, the Company completed three acquisitions of real estate as part of a program to incent franchise development in strategic markets for certain brands for cash totaling \$25.4 million. The Company did not have any acquisitions in the three months ended March 31, 2017.

During the three months ended March 31, 2017 and 2016, the Company invested \$31.6 million and \$4.3 million, respectively, in joint ventures accounted under the equity method of accounting. In addition, the Company received distributions from these joint ventures totaling \$0.5 million and \$0.1 million for the three months ended March 31, 2017 and 2016, respectively. The Company's investment in these joint ventures primarily relate to ventures that support the Company's efforts to promote growth of our emerging brands. The Company expects to make additional capital contributions totaling \$23.1 million to existing joint ventures supporting these efforts.

The Company provides financing to franchisees for hotel development efforts and other purposes in the form of notes receivables. These loans bear interest and are expected to be repaid in accordance with the terms of the loan arrangements. During the three months ended March 31, 2017, the Company advanced and received repayments totaling \$9.9 million and \$0.5 million for these purposes, respectively. For the three months ended March 31, 2016, the Company advanced \$7.5 million and received \$0.1 million in repayments related to hotel development efforts. At March 31, 2017, the Company had commitments to extend an additional \$8.9 million for these purposes within the next twelve months provided certain conditions are met by its franchisees.

From time to time, our board of directors authorizes specific transactions and general programs which permit us to provide financing, investment and guarantees and similar credit support to qualified franchisees, as well as to acquire and resell real estate to incent franchise development. Since 2006, we have engaged in these financial support activities to encourage acceleration of the growth of our Cambria hotel & suites brand, primarily in strategic markets and locations. Over the next three to five years, depending on market and other conditions, we expect to continue to deploy capital in support of this brand and expect our investment to total approximately \$475 million over that time period. The annual pace of future financial support activities will depend upon market and other conditions including among others, our franchise sales results, the environment for new construction hotel development and the hotel lending environment. Our support of the Cambria brand's growth is expected to be primarily in the form of joint venture investments, forgivable key money loans, senior mortgage loans, development loans, mezzanine lending, and through the operation of a land-banking program. With respect to our lending and joint venture investments, we generally expect to recycle these loans and investments within a five year period. At March 31, 2017, the Company had approximately \$244.2 million outstanding pursuant to these financial support activities.

Financing Activities

Financing cash flows relate primarily to the Company's borrowings, open market treasury stock repurchases, acquisition of shares in connection with the exercise or vesting of equity awards, and dividends.

Debt

Senior Unsecured Notes due 2022

On June 27, 2012, the Company issued unsecured senior notes with a principal amount of \$400 million (the "2012 Senior Notes") at par, bearing a coupon of 5.75% with an effective rate of 6.0%. The 2012 Senior Notes will mature on July 1, 2022, with interest to be paid semi-annually on January 1st and July 1st. The Company utilized the net proceeds of this offering, after deducting underwriting discounts and commissions and other offering expenses, together with borrowings under the Company's senior credit facility, to pay a special cash dividend totaling approximately \$600.7 million paid to stockholder on August 23, 2012. The Company's 2012 Senior Notes are guaranteed jointly, severally, fully and unconditionally, subject to certain customary limitations by certain of the Company's domestic subsidiaries.

The Company may redeem the 2012 Senior Notes at its option at a redemption price equal to the greater of (a) 100% of the principal amount of the notes to be redeemed and (b) the sum of the present values of the remaining scheduled principal and interest payments from the redemption date to the date of maturity discounted to the redemption date on a semi-annual basis at the Treasury rate, plus 50 basis points.

Senior Unsecured Notes due 2020

On August 25, 2010, the Company issued unsecured senior notes with a principal amount of \$250 million (the "2010 Senior Notes") at a discount of \$0.6 million, bearing a coupon of 5.70% with an effective rate of 6.19%. The 2010 Senior Notes will mature on August 28, 2020, with interest on the 2010 Senior Notes to be paid semi-annually on February 28th and August 28th.

[Table of Contents](#)

The Company used the net proceeds from the offering, after deducting underwriting discounts and other offering expenses, to repay outstanding borrowings and other general corporate purposes. The Company's 2010 Senior Notes are guaranteed jointly, severally, fully and unconditionally, subject to certain customary limitations, by certain of the Company's domestic subsidiaries.

The Company may redeem the 2010 Senior Notes at its option at a redemption price equal to the greater of (a) 100% of the principal amount of the notes to be redeemed and (b) the sum of the present values of the remaining scheduled principal and interest payments from the redemption date to the date of maturity discounted to the redemption date on a semi-annual basis at the Treasury rate, plus 45 basis points.

Revolving Credit Facility

On July 21, 2015, the Company refinanced its existing \$350 million senior secured credit facility, comprised of a \$200 million revolving credit tranche and a \$150 million term loan tranche by entering into a new senior unsecured revolving credit agreement ("Credit Agreement"), with Deutsche Bank AG New York Branch, as administrative agent.

The Credit Agreement provides for a \$450 million unsecured revolving credit facility (the "Revolver") with an initial maturity date of July 21, 2020, subject to optional one-year extensions that can be requested by the Company prior to each of the first, second and third anniversaries of the closing date of the Revolver. The effectiveness of any such extensions is subject to the consent of the lenders under the Credit Agreement and certain customary conditions. On July 5, 2016, the Company exercised its option to extend the maturity date of the Revolver by one year. The new maturity date of the Revolver is July 21, 2021. Up to \$35 million of borrowings under the Revolver may be used for alternative currency loans and up to \$15 million of borrowings under the Revolver may be used for swing line loans.

The Revolver is unconditionally guaranteed, jointly and severally, by certain of the Company's domestic subsidiaries, which are considered restricted subsidiaries under the Credit Agreement. The subsidiary guarantors currently include all subsidiaries that guarantee the obligations under the Company's Indenture governing the terms of its 5.75% senior notes due 2022 and its 5.70% senior notes due 2020. If the Company achieves and maintains an Investment Grade Rating, as defined in the Credit Agreement, then the subsidiary guarantees will at the election of the Company be released and the Revolver will not be guaranteed.

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 currently may elect to have borrowings under the Revolver bear interest at a rate equal to (i) LIBOR plus a margin ranging from 135 to 175 basis points based on the Company's total leverage ratio or (ii) a base rate plus a margin ranging from 35 to 75 basis points based on the Company's total leverage ratio. If the Company achieves an Investment Grade Rating, then the Company may elect to use a different, ratings-based, pricing grid set forth in the Credit Agreement.

The Credit Agreement requires the Company to pay a fee on the undrawn portion of the Revolver, calculated on the basis of the average daily unused amount of the Revolver multiplied by 0.20% per annum. If the Company achieves an Investment Grade Rating and it elects to use the ratings-based pricing grid set forth in the Credit Agreement, then the Company will be required to pay a fee on the total commitments under the Revolver, calculated on the basis of the actual daily amount of the commitments under the Revolver (regardless of usage) times a percentage per annum ranging from 0.10% to 0.25% (depending on the Company's senior unsecured long-term debt rating).

The Credit Agreement 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. With respect to dividends, the Company may not declare or make any payment if there is an existing event of default or if the payment would create an event of default. In addition, if the Company's total leverage ratio exceeds 4.0 to 1.0, the Company is generally restricted from paying aggregate dividends in excess of \$50 million in any calendar year.

The Credit Agreement imposes financial maintenance covenants requiring the Company to maintain a total leverage ratio of not more than 4.5 to 1.0 and a consolidated fixed charge coverage ratio of at least 2.5 to 1.0. If the Company achieves and maintains an Investment Grade Rating, then the Company will not need to comply with the consolidated fixed charge coverage ratio covenant.

Table of Contents

The Credit Agreement 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 Credit Agreement to be immediately due and payable.

At March 31, 2017, the Company maintained a total leverage ratio of 2.83x and a consolidated fixed charge ratio of 7.25x and was in compliance with all financial covenants under the credit agreement.

The proceeds of the Revolver are expected to be used for general corporate purposes, including working capital, debt repayment, stock repurchases, dividends, investments and other permitted uses set forth in the Credit Agreement.

Fixed Rate Collateralized Mortgage

On December 30, 2014, a court awarded the Company title to an office building as settlement for a portion of an outstanding loan receivable for which the building was pledged as collateral. In conjunction with the court award, the Company also assumed the \$9.5 million mortgage on the property with a fixed interest rate of 7.26%. The mortgage which is collateralized by the office building requires monthly payments of principal and interest and matures in December 2020 with a balloon payment due of \$6.9 million. At the time of acquisition, the Company determined that the fixed interest rate of 7.26% exceeded market interest rates and therefore the Company increased the carrying value of the debt by \$1.2 million to record the debt at fair value. The fair value adjustment will be amortized over the remaining term of the mortgage utilizing the effective interest method.

Economic Development Loans

The Company entered into economic development agreements with various governmental entities in conjunction with the relocation of its corporate headquarters in April 2013. In accordance with these agreements, the governmental entities agreed to advance approximately \$4.4 million to the Company to offset a portion of the corporate headquarters relocation and tenant improvement costs in consideration of the employment of permanent, full-time employees within the jurisdictions. At March 31, 2017, the Company had been advanced approximately \$3.7 million pursuant to these agreements and expects to receive the remaining \$0.7 million over the next several years, subject to annual appropriations by the governmental entities. These advances bear interest at a rate of 3% per annum.

Repayment of the advances is contingent upon the Company achieving certain performance conditions. Performance conditions are measured annually on December 31st and primarily relate to maintaining certain levels of employment within the various jurisdictions. If the Company fails to meet an annual performance condition, the Company may be required to repay a portion or all of the advances including accrued interest by April 30th following the measurement date. Any outstanding advances at the expiration of the Company's ten year corporate headquarters lease in 2023 will be forgiven in full. The advances will be included in long-term debt in the Company's consolidated balance sheets until the Company determines that the future performance conditions will be met over the entire term of the agreement and the Company will not be required to repay the advances. The Company accrues interest on the portion of the advances that it expects to repay. The Company was in compliance with all current performance conditions as of March 31, 2017.

Dividends

The Company currently maintains the payment of a quarterly dividend on its common shares outstanding; however, the declaration of future dividends is subject to the discretion of our board of directors. In December 2016, the Company's board of directors increased the quarterly dividend rate to \$0.215 per common share, beginning with the first dividend payable in 2017, representing a 5% increase from previous quarterly declarations.

During the three months ended March 31, 2017, the Company paid cash dividends totaling \$12.1 million. We expect to continue to pay dividends in the future, subject to the declaration of our board of directors as well as to future business performance, economic conditions, changes in income tax regulations and other factors including limitations in the Company's credit facility. Based on the present dividend rate and outstanding share count, we expect that aggregate annual regular dividends for 2017 would be approximately \$48.6 million.

Share Repurchases

No shares of common stock were purchased by the Company under the share repurchase program during the three months ended March 31, 2017. Since the program's inception through March 31, 2017, we have repurchased 48.7 million shares (including 33.0 million prior to the two-for-one stock split effected in October 2005) of common stock at a total cost of \$1.3

[Table of Contents](#)

billion . Considering the effect of the two-for-one stock split, the Company has repurchased 81.7 million shares at an average price of \$15.38 per share. As of March 31, 2017 , the Company had approximately 4.0 million shares remaining under the current share repurchase authorization.

During the three months ended March 31, 2017 , the Company redeemed 118,931 shares of common stock at a total cost of approximately \$7.3 million from employees to satisfy the option exercise price and statutory minimum tax-withholding requirements related to the exercising of stock options and vesting of performance vested restricted stock units and restricted stock grants. These redemptions were outside the share repurchase program.

Other items

Approximately \$183.1 million of the Company's cash and cash equivalents at March 31, 2017 pertains to undistributed earnings of the Company's consolidated foreign subsidiaries. Since the Company's intent is for such earnings to be reinvested by the foreign subsidiaries, the Company has not provided additional U.S. income taxes on these amounts. While the Company has no intention to utilize these cash and cash equivalents in its domestic operations, any change to this policy would result in the Company incurring additional U.S. income taxes on any amounts utilized domestically.

The Company believes that cash flows from operations and available financing capacity are adequate to meet the expected future operating, investing and financing needs of the business.

Off Balance Sheet Arrangements

On October 9, 2012, the Company entered into a limited payment guaranty with regards to a VIE's \$18.0 million bank loan for the construction of a hotel franchised under one of the Company's brands in the United States. Under the terms of the limited guaranty, the Company has agreed to guarantee 25% of the outstanding principal balance for a maximum exposure of \$4.5 million and accrued and unpaid interest, as well as any unpaid expenses incurred by the lender. The limited guaranty shall remain in effect until the maximum amount guaranteed by the Company is paid in full. In addition to the limited guaranty, the Company entered into an environmental indemnity agreement which indemnifies the lending institution from and against any damages relating to or arising out of possible environmental contamination issues with regards to the property.

On September 4, 2015, The Company entered into a limited payment guaranty with regards to a VIE's \$13.3 million bank loan for the design, development and construction of a new hotel franchised under one of the Company's brands in the United States. Under the terms of the limited guaranty, the Company has agreed to guarantee a maximum of \$1.8 million of the VIE's obligations under the loan. The limited guaranty shall remain in effect until (i) the VIE's bank loan is paid in full to the lender; (ii) the maximum amount guaranteed by the Company is paid in full; or (iii) the Company, through its affiliate, ceases to be a member of the VIE.

On June 2, 2016, one of the Company's VIEs obtained a \$61.0 million term loan for purposes of refinancing a \$46.2 million construction loan. In connection with the refinancing, the Company entered into three limited guarantees. Under the terms of the limited guarantees, the Company has agreed to guarantee a maximum obligation of \$3.3 million in the aggregate, in addition to a percentage of any operating expenses and capital expenditures not covered by operating revenues and unpaid expenses incurred. The limited guarantees will remain in effect until the loan is repaid in full or the VIE reaches a specified debt yield for two consecutive quarters under the loan covenants. The maturity date of the VIE's loan is June 2019.

The Company believes the likelihood of having to perform under the aforementioned limited payment guarantees was remote at March 31, 2017 and December 31, 2016 .

Critical Accounting Policies

Our accounting policies comply with principles generally accepted in the United States. We have described below those policies that we believe are critical and require the use of complex judgment or significant estimates in their application. Additional discussion of these policies is included in Note 1 to our consolidated financial statements as of and for the year ended December 31, 2016 included in our Annual Report on Form 10-K.

[Table of Contents](#)

Revenue Recognition

We recognize continuing franchise fees, including royalty, marketing and reservations system fees, when earned and realizable from our franchisees. Franchise fees are typically based on a percentage of gross room revenues or the number of hotel rooms of each franchisee. Franchise fees based on a percentage of gross room revenues are recognized in the same period that the underlying gross room revenues are earned by our franchisees. Our estimate of the allowance for uncollectible royalty fees is charged to SG&A expense and our estimate of the allowance for uncollectible marketing and reservation system fees is charged to marketing and reservation expenses.

Initial franchise and relicensing fees are recognized, in most instances, in the period the related franchise agreement is executed because the initial franchise and relicensing fees are non-refundable and the Company is not required to provide initial services to the franchisee prior to hotel opening. We defer the initial franchise and relicensing fee revenue related to franchise agreements which include incentives until the incentive criteria are met or the agreement is terminated, whichever occurs first.

The Company recognizes procurement services revenues from qualified vendors when the services are performed or the product delivered, evidence of an arrangement exists, the fee is fixed or determinable and collectability is reasonably assured. We defer the recognition of procurement services revenues related to certain upfront fees and recognize them over a period corresponding to the Company's estimate of the life of the arrangement.

Marketing and Reservation System Revenues and Expenses

The Company's franchise agreements require the payment of certain marketing and reservation system fees, which are used exclusively by the Company for expenses associated with providing franchise services such as national marketing, media advertising, central reservation systems and technology services. The Company is contractually obligated to expend the marketing and reservation system fees it collects from franchisees in accordance with the franchise agreements; as such, no net income or loss to the Company is generated. In accordance with our contracts, we include in marketing and reservation expenses an allocation of costs for certain activities, such as human resources, facilities, legal and accounting, required to carry out marketing and reservation activities.

The Company records marketing and reservation system revenues and expenses on a gross basis since the Company is the primary obligor in the arrangement, maintains the credit risk, establishes the price and nature of the marketing or reservation services and retains discretion in supplier selection. In addition, net advances to and recoveries from the franchise system for marketing and reservation activities are presented as cash flows from operating activities.

Marketing and reservation system fees not expended in the current year are recorded as a liability in the Company's balance sheet and are carried over to the next fiscal year and expended in accordance with the franchise agreements or utilized to repay previous advances. Marketing and reservation expenses incurred in excess of revenues are recorded as an asset in the Company's balance sheet, with a corresponding reduction in costs, and are similarly recovered in subsequent years. Under the terms of the franchise agreements, the Company may advance capital and incur costs as necessary for marketing and reservation activities and recover such advances through future fees. The Company believes that any credit risk associated with cost advances for marketing and reservation system activities is mitigated due to our contractual right to recover these amounts from a large geographically dispersed group of franchisees. However, our ability to recover advances may be adversely impacted by certain factors, including, among others, declines in the ability of our franchisees to generate revenues at properties they franchise from us, lower than expected franchise system growth, an extended period of occupancy or room rate declines or a decline in the number of hotel rooms in our franchise system. If these factors exist it could result in the generation of insufficient funds to recover marketing and reservation advances as well as meet the ongoing marketing and reservation needs of the overall system.

The Company evaluates the recoverability of marketing and reservation costs incurred in excess of cumulative marketing and reservation system revenues earned on a periodic basis. The Company will record a reserve when, based on current information and events, it is probable that it will be unable to recover the cumulative amounts advanced for marketing and reservation activities according to the contractual terms of the franchise agreements. These advances are considered to be unrecoverable if the expected net, undiscounted cash flows from marketing and reservation activities are less than the carrying amount of the asset.

Choice Privileges is our frequent guest incentive marketing program. Choice Privileges enables members to earn points based on their spending levels with our franchisees and, to a lesser degree, through participation in affiliated partners' programs, such as those offered by credit card companies. The points, which we accumulate and track on the members' behalf, may be redeemed for free accommodations or other benefits.

[Table of Contents](#)

We provide Choice Privileges as a marketing program to franchised hotels and collect a percentage of program members' room revenue from franchises to operate the program. Revenues are deferred in an amount equal to the estimated fair value of the future redemption obligation. The Company develops an estimate of the eventual redemption rates and point values using various actuarial methods. These judgmental factors determine the required liability attributable to outstanding points. Upon redemption of points, the Company recognizes the previously deferred revenue as well as the corresponding expense relating to the cost of the awards redeemed. Revenues in excess of the estimated future redemption obligation are recognized when earned to reimburse the Company for costs incurred to operate the program, including administrative costs, marketing, promotion and performing member services.

Valuation of Intangibles and Long-Lived Assets

The Company evaluates the potential impairment of property and equipment and other long-lived assets, including franchise rights and other definite-lived intangibles, whenever an event or other circumstances indicates that the Company may not be able to recover the carrying value of the asset. When indicators of impairment are present, recoverability is assessed based on net, undiscounted expected cash flows. If the net, undiscounted expected cash flows are less than the carrying amount of the assets, an impairment charge is recorded for the excess of the carrying value over the fair value of the asset. We estimate the fair value of intangibles and long lived assets primarily using undiscounted cash flow analysis. Significant management judgment is involved in evaluating indicators of impairment and developing any required projections to test for recoverability or estimate the fair value of an asset. Furthermore, if management uses different projections or if different conditions occur in future periods, future-operating results could be materially impacted.

The Company evaluates the impairment of goodwill and trademarks with indefinite lives on an annual basis, or during the year if an event or other circumstance indicates that the Company may not be able to recover the carrying amount of the asset. In evaluating these assets for impairment, the Company may elect to first assess qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit or the indefinite lived intangible asset is less than its carrying amount. If the conclusion is that it is not more likely than not that the fair value of the asset is less than its carrying value, then no further testing is required. If the conclusion is that it is more likely than not that the fair value of the asset is less than its carrying value, then a two-step impairment test is performed for goodwill. The Company may elect to forego the qualitative assessment and move directly to the two-step impairment test for goodwill and the fair value determination for indefinite-lived intangibles. The Company determines the fair value of its reporting units and indefinite-lived intangibles using income and market methods.

Valuation of Investments in Equity Method Investments

The Company evaluates an investment in an equity method investment for impairment when circumstances indicate that the carrying value may not be recoverable, for example due to loan defaults, significant under performance relative to historical or projected operating performance, and significant negative industry or economic trends. When there is indication that a loss in value has occurred, the Company evaluates the carrying value compared to the estimated fair value of the investment. Fair value is based upon internally developed discounted cash flow models, third-party appraisals, and if appropriate, current estimated net sales proceeds from pending offers. If the estimated fair value is less than carrying value, management uses its judgment to determine if the decline in value is other-than-temporary. In determining this, the Company considers factors including, but not limited to, the length of time and extent of the decline, loss of values as a percentage of the cost, financial condition and near-term financial projections, the Company's intent and ability to recover the lost value and current economic conditions. For declines in value that are deemed other-than-temporary, impairments are charged to earnings.

Loan Loss Reserves

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.

Mezzanine and Other Notes Receivables

The Company has provided financing to franchisees in support of the development of properties in strategic markets. The Company expects the owners to repay the loans in accordance with the loan agreements, or earlier as the hotels mature and capital markets permit. The Company estimates the collectability and records an allowance for loss on its mezzanine and other notes receivable when recording the receivables in the Company's financial statements. These estimates are updated quarterly based on available information.

Table of Contents

The Company considers a loan to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. All amounts due according to the contractual terms means that both the contractual interest payments and the contractual principal payments of a loan will be collected as scheduled in the loan agreement. The Company measures loan impairment based on the present value of expected future cash flows discounted at the loan's original effective interest rate or the estimated fair value of the collateral. For impaired loans, the Company establishes a specific impairment reserve for the difference between the recorded investment in the loan and the present value of the expected future cash flows or the estimated fair value of the collateral. The Company applies its loan impairment policy individually to all mezzanine and other notes receivable in the portfolio and does not aggregate loans for the purpose of applying such policy. For impaired loans, the Company recognizes interest income on a cash basis. If it is likely that a loan will not be collected based on financial or other business indicators it is the Company's policy to charge off these loans to SG&A expenses in the accompanying consolidated statements of income in the quarter when it is deemed uncollectible. Recoveries of impaired loans are recorded as a reduction of SG&A expenses in the quarter received.

The Company assesses the collectability of its senior notes receivable by comparing the market value of the underlying assets to the carrying value of the outstanding notes. In addition, the Company evaluates the property's operating performance, the borrower's compliance with the terms of the loan and franchise agreements, and all related personal guarantees that have been provided by the borrower. For subordinated or unsecured receivables, the Company assesses the property's operating performance, the subordinated equity available to the Company, the borrower's compliance with the terms of the loan and franchise agreements, and the related personal guarantees that have been provided by the borrower.

The Company considers loans to be past due and in default when payments are not made when due. Although the Company considers loans to be in default if payments are not received on the due date, the Company does not suspend the accrual of interest until those payments are more than 30 days past due. The Company applies payments received for loans on non-accrual status first to interest and then principal. The Company does not resume interest accrual until all delinquent payments are received.

Forgivable Notes Receivable

In conjunction with brand and development programs, the Company may provide financing to franchisees for property improvements and other purposes in the form of forgivable promissory notes which bear interest at market rates. Under these promissory notes, the franchisee promises to repay the principal balance together with interest upon maturity unless certain conditions are met throughout the term of the promissory note. The principal balance and related interest are forgiven ratably over the term of the promissory note if the franchisee remains in the system in good standing. If during the term of the promissory note, the franchisee exits our franchise system or is not operating their franchise in accordance with our quality or credit standards, the Company may declare a default under the promissory note and commence collection efforts with respect to the full amount of the then-current outstanding principal and interest.

In accordance with the terms of the promissory notes, the initial principal balance and related interest are ratably reduced over the term of the loan on each anniversary date until the outstanding amounts are reduced to zero as long as the franchisee remains within the franchise system and operates in accordance with our quality and brand standards. As a result, the amounts recorded as an asset on the Company's consolidated balance sheet are also ratably reduced since the amounts forgiven no longer represent probable future economic benefits to the Company. The Company records the reduction of its recorded assets through amortization and marketing and reservation expense on its consolidated statements of income. Since these forgivable promissory notes receivable are predominately forgiven ratably over the term of the promissory note rather than repaid, the Company classifies the issuance and collection of these notes receivable as operating activities in its consolidated statement of cash flows.

The Company fully reserves all defaulted notes in addition to recording a reserve on the estimated uncollectible portion of the remaining notes. For those notes not in default, the Company calculates an allowance for losses and determines the ultimate collectibility on these forgivable notes based on the historical default rates for those unsecured notes that are not forgiven but are required to be repaid. The Company records bad debt expense in SG&A and marketing and reservation system expenses in the accompanying consolidated statements of income in the quarter when the note is deemed uncollectible.

Stock Compensation

The Company's policy is to recognize compensation cost related to share-based payment transactions in the financial statements based on the fair value of the equity or liability instruments issued. Compensation expense related to the fair value of share-based awards is recognized over the requisite service period based on an estimate of those awards that will ultimately vest. The Company estimates the share-based compensation expense for awards that will ultimately vest upon inception of the

[Table of Contents](#)

grant and adjusts the estimate of share-based compensation for those awards with performance and/or service requirements that will not be satisfied so that compensation cost is recognized only for awards that ultimately vest.

Income Taxes

Income taxes are recorded using the asset and liability method of accounting for income taxes. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not such assets will be unrealized. Deferred U.S. income taxes have not been recorded for temporary differences related to investments in certain foreign subsidiaries and corporate affiliates. The temporary differences consist primarily of undistributed earnings that are considered permanently reinvested in operations outside the U.S. If management's intentions change in the future, deferred taxes may need to be provided.

With respect to uncertain income tax positions, a tax liability is recorded in full when management determines that the position does not meet the more likely than not threshold of being sustained on examination. A tax liability may also be recognized for a position that meets the more likely than not threshold, based upon management's assessment of the position's probable settlement value. The Company records interest and penalties on unrecognized tax benefits in the provision for income taxes.

New Accounting Standards

See Footnote No. 1, "Recently Adopted Accounting Guidance" and "Future Adoption of Recently Announced Accounting Guidance," of the Notes to our Financial Statements for information related to our adoption of new accounting standards in 2017 and for information on our anticipated adoption of recently issued accounting standards.

FORWARD-LOOKING STATEMENTS

Certain matters discussed in this quarterly report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Generally, our use of words such as "expect," "estimate," "believe," "anticipate," "should", "will," "forecast," "plan," "project," "assume" or similar words of futurity identify such forward-looking statements. These forward-looking statements are based on management's current beliefs, assumptions and expectations regarding future events, which in turn are based on information currently available to management. Such statements may relate to projections of the Company's revenue, earnings and other financial and operational measures, Company debt levels, ability to repay outstanding indebtedness, payment of dividends, and future operations, among other matters. We caution you not to place undue reliance on any such forward-looking statements. Forward-looking statements do not guarantee future performance and involve known and unknown risks, uncertainties and other factors.

Several factors could cause actual results, performance or achievements of the Company to differ materially from those expressed in or contemplated by the forward-looking statements. Such risks include, but are not limited to, changes to general, domestic and foreign economic conditions; changes in law and regulation applicable to the lodging and franchising industries foreign currency fluctuations; operating risks common in the lodging and franchising industries; changes to the desirability of our brands as viewed by hotel operators and customers; changes to the terms or termination of our contracts with franchisees and our relationships with our franchisees; our ability to keep pace with improvements in technology utilized for marketing and reservations systems and other operating systems; the commercial acceptance of our SkyTouch division's products and services; our ability to grow our franchise system; exposures to risks relating to development activities; fluctuations in the supply and demand for hotels rooms; our ability to realize anticipated benefits of acquired businesses; the level of acceptance of alternative growth strategies we may implement; cyber security and data breach risks; operating risks associated with international operations; the outcome of litigation; and our ability to effectively manage our indebtedness. These and other risk factors are discussed in detail in the Risk Factors section of the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission on February 27, 2017. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in interest rates and the impact of fluctuations in foreign currencies on the Company's foreign investments and operations. The Company manages its exposure to these market risks through the monitoring of its available financing alternatives including in certain circumstances the use of derivative financial instruments. We are also subject to risk from changes in debt and equity prices from our non-qualified retirement savings plan investments in debt securities and common stock, which have a carrying value of \$20.6 million and \$19.1 million at March 31, 2017 and

[Table of Contents](#)

December 31, 2016 , respectively which we account for as trading securities. The Company will continue to monitor the exposure in these areas and make the appropriate adjustments as market conditions dictate.

At March 31, 2017 , the Company had \$207.8 million of variable interest rate debt instruments outstanding at an effective rate of 2.28% . A hypothetical change of 10% in the Company's effective interest rate from March 31, 2017 levels would increase or decrease annual interest expense by \$0.5 million . The Company expects to refinance its fixed and variable long-term debt obligations prior to their scheduled maturities.

The Company does not presently have any derivative financial instruments.

ITEM 4. CONTROLS AND PROCEDURES

Management's Evaluation of Disclosure Controls and Procedures

The Company has a disclosure review committee whose membership includes the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), among others. The disclosure review committee's procedures are considered by the CEO and CFO in performing their evaluations of the Company's disclosure controls and procedures and in assessing the accuracy and completeness of the Company's disclosures.

Our management, with the participation of our CEO and CFO have evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"), as of the end of the period covered by this quarterly report as required by Rules 13a-15(b) or 15d-15(b) under the Exchange Act. Our management, including our CEO and CFO, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met.

An evaluation was performed under the supervision and with the participation of the Company's CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of March 31, 2017 .

Changes in internal control over financial reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2017 , that materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not a party to any litigation other than litigation in the ordinary course of business. The Company's management and legal counsel do not expect that the ultimate outcome of any of its currently ongoing legal proceedings, individually or collectively, will have a material adverse effect on the Company's financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A to our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed on February 27, 2017. In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016 , which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
Issuer Purchases of Equity Securities

The following table sets forth purchases and redemptions of Choice Hotels International, Inc. common stock made by the Company during the three months ended March 31, 2017 :

Month Ending	Total Number of Shares Purchased or Redeemed	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1),(2)	Maximum Number of Shares that may yet be Purchased Under the Plans or Programs, End of Period
January 31, 2017	—	\$ —	—	4,019,895
February 28, 2017	39,214	59.13	—	4,019,895
March 31, 2017	79,717	62.13	—	4,019,895
Total	118,931	\$ 61.14	—	4,019,895

- (1) The Company's share repurchase program was initially approved by the board of directors on June 25, 1998. The program has no fixed dollar amount or expiration date. Since the program's inception through March 31, 2017, the Company has repurchased 48.7 million shares (including 33.0 million prior to the two-for-one stock split effected in October 2005) of common stock at a total cost of \$1.3 billion . Considering the effect of the two-for-one stock split, the Company has repurchased 81.7 million shares at an average price of \$15.38 a share.
- (2) During the three months ended March 31, 2017 , the Company redeemed 118,931 shares of common stock from employees to satisfy the option price and minimum tax-withholding requirements related to the exercising of options and vesting of restricted stock and performance vested restricted stock unit grants. These redemptions were not part of the board repurchase authorization.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

[Table of Contents](#)

ITEM 6. EXHIBITS

Exhibit Number and Description

<u>Exhibit Number</u>	<u>Description</u>
3.01(a)	Restated Certificate of Incorporation of Choice Hotels Franchising, Inc. (renamed Choice Hotels International, Inc.)
3.02(b)	Amendment to the Restated Certificate of Incorporation of Choice Hotels International, Inc.
3.03(c)	Amended and Restated Bylaws of Choice Hotels International, Inc.
3.04(d)	Amendment to the Amended and Restated Bylaws of Choice Hotels International, Inc.
3.05(e)	Amendment to the Amended and Restated Bylaws of Choice Hotels International, Inc.
10.01*	Form of Non-Competition, Non-Solicitation & Severance Benefit Agreement
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a)
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a)
32*	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Label Linkbase Document
101.PRE*	XBRL Taxonomy Presentation Linkbase Document

* Filed herewith

- (a) Incorporated by reference to the identical document filed as an exhibit to Choice Hotels International, Inc.'s Registration Statement on Form S-4, filed August 31, 1998 (Reg. No. 333-62543).
- (b) Incorporated by reference to the identical document filed as an exhibit to Choice Hotels International, Inc.'s Current Report on Form 8-K filed May 1, 2013.
- (c) Incorporated by reference to the identical document filed as an exhibit to Choice Hotels International, Inc.'s Current Report on Form 8-K filed February 16, 2010.
- (d) Incorporated by reference to the identical document filed as an exhibit to Choice Hotels International, Inc.'s Current Report on Form 8-K filed April 29, 2015.
- (e) Incorporated by reference to the identical document filed as an exhibit to Choice Hotels International, Inc.'s Current Report on Form 8-K filed on January 13, 2016.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHOICE HOTELS INTERNATIONAL, INC.

May 5, 2017

By: /s/ STEPHEN P. JOYCE

Stephen P. Joyce
Chief Executive Officer

Non-Competition, Non-Solicitation & Severance Benefit Agreement

This Non-Competition, Non-Solicitation & Severance Benefit Agreement ("Agreement") is entered into this ____ day of _____, 20__ between Choice Hotels International, Inc. ("Choice"), a Delaware corporation with principal offices at 1 Choice Hotels Circle, Rockville, Maryland 20850, and _____ ("Employee").

Recitals

- A. Employee is a management-level employee of Choice and/or a subsidiary of Choice (collectively, "Choice");
- B. Choice devotes significant time, resources and effort to the training and advancement of its management employees, and its management team constitutes a significant asset and important competitive edge;
- C. Choice has determined that it is in the best interest of the company and its shareholders to enter into an agreement with Employee whereby Employee agrees to certain non-competition, non-solicitation and confidentiality restrictions in consideration of, among other things, certain severance benefits.

NOW, THEREFORE, in consideration of the promises contained in this Agreement, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree to the following terms:

1. **Definitions** . As used in this Agreement, the following terms shall have the ascribed meaning:

(a) "Board" means the Board of Directors of Choice.

(b) "Cause" means any one or more of the following, whether occurring before or after the date hereof: (i) Employee's deliberate and continued refusal to carry out duties and instructions of the Board and CEO consistent with the position following notice by Choice and a five business days cure period; (ii) Employee's commission of an act materially detrimental to the financial condition, operations and/or goodwill of Choice; (iii) Employee's gross negligence or willful misconduct in the performance of duties to Choice; (iv) Employee's commission of any act of theft, fraud, dishonesty, breach of trust or breach of fiduciary duty involving Choice; (v) Employee's conviction of, or plea of guilty or nolo contendere to, a felony or any crime involving moral turpitude, fraud or embezzlement; (vi) any breach by Employee of the covenants contained in this Agreement, or (vii) the material violation by Employee of any Choice policy or any statutory or common law duty to Choice.

(c) "Change in Control" means the happening of the earliest of the following to occur:

(i) Any "person" as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (other than (i) Choice, (ii) any trustee or other fiduciary holding securities under an employee benefit plan of Choice, (iii) any corporations owned, directly or indirectly, by the stockholders of

Choice in substantially the same proportions as their ownership of stock, or (iv) any Existing Shareholder) becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of Choice representing 33% or more of the combined voting power of Choice’s then outstanding voting securities. An “Existing Stockholder” means:

(A) (i) Stewart Bainum, his wife, all the lineal descendants of Stewart Bainum, his wife, their lineal descendants, and their spouses (so long as they remain spouses) and adopted children of such descendants; (ii) all trusts for the benefit of any persons described in clause (i) and trustees of such trusts; (iii) all legal representatives of any person or trust described in clauses (i) and (ii); and (iv) all partnerships, corporations, limited liability companies or other entities controlled by the persons described in clauses (i), (ii) or (iii) (such persons referred to in this clause (A) collectively, “Bainum Affiliates”); and

(B) any other stockholder of Choice which, together with such stockholder’s affiliates, owns more than 5% of the common stock of Choice Hotels International, Inc. as of the date of this Agreement so long as the Bainum Affiliates continue to own more common stock of Choice Hotels International, Inc. than such stockholder.

(ii) Individuals constituting the Board on the date of this Agreement and the successors of such individuals (“Continuing Directors”) cease to constitute a majority of the Board. For this purpose, a director shall be a successor if and only if he or she was nominated by a Board (or a Nominating Committee thereof) on which individuals constituting the Board on the date of this Agreement and their successors (determined by prior application of this sentence) constituted a majority.

(iii) The stockholders of Choice approve a plan of merger or consolidation (“Combination”) with any other corporation or legal person, other than a Combination which would result in stockholders of Choice immediately prior to the Combination owning, immediately thereafter, more than sixty-five percent (65%) of the combined voting power of either the surviving entity or the entity owning directly or indirectly all of the common stock, or its equivalent, of the surviving entity; provided, however, that if stockholder approval is not required for such Combination, the Change in Control shall occur upon the consummation of such Combination.

(iv) The stockholders of Choice approve a plan of complete liquidation of Choice or an agreement for the sale or disposition by Choice of all or substantially all of Choice’s stock and/or assets, or accept a tender offer for substantially all of Choice’s stock (or any transaction having a similar effect); provided, however, that if stockholder approval is not required for such transaction, the Change in Control shall occur upon consummation of such transaction.

(d) "Change in Control Termination" means and includes the termination of Employee's employment with Choice at any time during the twelve (12) month period after a Change in Control if such termination is (i) by Choice for any reason other than Cause, (ii) by Employee for Good Reason.

(e) "Competing Business" means any business or enterprise that: (i) is engaged in the mid-market or economy hotel franchising business, (ii) competes in the same upscale, select service segment as Cambria Hotels and Suites or any successor or substantially similar Choice brand, or (iii) competes in any other line of business in which Choice is materially engaged at the time of the Termination Date.

(f) "Confidential Information" means any non-public information, in any format, relating to the business of Choice, including, but not limited to, present or prospective operating, marketing and development plans, training manuals, training policies and procedures, financial and technical information, passwords, source codes, personnel information, franchisee information, business systems, trade secrets, pricing and cost information, contact lists, strategic plans or strategies, operating data or Choice policies.

(g) "Disability" means if Employee is unable to perform the essential functions of Employee's position, after any legally required reasonable accommodation, for more than 180 days (whether or not consecutive) in any period of 365 consecutive days.

(h) "Good Reason" means a voluntary termination by Employee following a material, substantial change in either Employee's compensation or position and responsibilities, provided such termination occurs within forty-five days of the change in compensation or position. Employee must provide Choice with at least thirty (30) days' prior written notice of electing a Good Reason termination.

(i) "Non-Renewal" shall have the meaning set forth in Section 2.

(j) "Release Agreement" means the release of claims attached as Exhibit A.

(k) "Severance Benefits" means the benefits specified in Section 6.

(l) "Severance Benefit Period" means the seventy (70) week period following the Termination Date.

(m) "Termination Date" means the date the Employee's employment with Choice ends.

(n) "Works" means any ideas, concepts, methods of operation, processes, programs or other materials (including training manuals, policies and procedures) that Employee conceived, created, developed or wrote while employed by Choice that relate in any manner to the business of Choice.

2. **Term.** The initial term of this Agreement shall be for a period commencing on _____, 20__ and will remain in effect until _____, 20__. The term of this Agreement shall be automatically extended for an additional three year period on _____, 20__ and each subsequent three year anniversary thereafter, unless and until Choice or the Employee provides written notice to the other party in accordance with Section 10 hereof not less than one hundred eighty (180) days before such date that such party is electing not to

extend the term of this Agreement ("Non-Renewal"). Anything herein to the contrary notwithstanding, if on the date of a Change in Control, the remaining term of this Agreement is less than twelve (12) months, the term of the Agreement shall be automatically extended to the end of the twelve month period following such Change in Control. References herein to the term of this Agreement shall include the initial term and any additional period for which this Agreement is extended.

3. **Confidentiality** . Employee acknowledges that Confidential Information and Works are valuable and unique assets belonging to Choice. During employment and after the Termination Date, Employee shall not, except as required by law or by Employee's duties for Choice and for the benefit of Choice, directly or indirectly, or cause others to, make use of or disclose to others any Confidential Information or Works. Notwithstanding the foregoing, Confidential Information does not include information which was or becomes generally available to the public other than as a result of a disclosure by Employee. Works constitute works made for hire and in all circumstances shall be and remain the sole and exclusive property of Choice, whether or not protectable under any laws, including patent, trademark, copyright or trade secret laws.

4. **Non-Solicitation**. During employment and for a period of seventy (70) weeks following the Termination Date, Employee agrees, except as required by Employee's duties for Choice and for the benefit of Choice or with the prior written consent of Choice, not to solicit or attempt to solicit, directly or indirectly, on Employee's behalf or on behalf of any other person or entity, any person or entity who then is or who was as of the Termination Date, an employee, business partner or franchisee of Choice, or was actively solicited to have such a relationship with Choice within six (6) months prior to the Termination Date, to cease, curtail or refrain from entering into such a relationship with Choice. Nothing in the foregoing shall be construed as preventing Employee from otherwise lawfully soliciting business from any then current or prospective business partner or franchisee that is for a line of business other than any Competing Business.

5. **Non-Competition**. During employment and for a period of seventy (70) weeks after the Termination Date, Employee will not, except as required by Employee's duties for Choice and for the benefit of Choice, or with the prior written consent of the Board, directly or indirectly, own, manage, operate, join, control, finance or participate in the ownership, management, operation, control or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant or in any other capacity, or use or permit Employee's name to be used in connection with, any business or enterprise that is engaged in a Competing Business in the U.S. or Canada; provided, however, that the foregoing shall not be construed as preventing Employee from otherwise lawfully (i) investing Employee's assets in (A) the securities of any Competing Business that is a public company, or (B) the securities of any Competing Business that is a privately-held corporation, limited partnership, limited liability company or other business entity, if such holdings are passive investments of one percent (1%) or less of such entity's outstanding securities or (ii) becoming an employee, agent or representative of, consultant to, or otherwise connected with, any business entity that has multiple lines of business, some of which are not a Competing Business, if Employee's services for such entity are restricted so that Employee will provide no services or other assistance in support of, and will not otherwise be involved with, any such Competing Business conducted by such entity.

6. **Severance Benefits.** If Employee terminates for Good Reason or is terminated by Choice for any reason other than Cause, Change in Control Termination, Disability or death and Employee executes the Release Agreement within twenty-one (21) days of the Termination Date (or forty-five (45) days if such longer review period is required by the ADEA) and has not revoked the Release Agreement as permitted therein, Choice shall provide to Employee, in consideration of Employee's promises and covenants contained in this Agreement and the Release Agreement, a Severance Benefit equal to:

- (a) During the Severance Benefit Period, a bi-weekly payment equal to Employee's bi-weekly base salary rate on the Termination Date, less standard deductions, payable in installments in accordance with Choice's normal payroll practices ("Discretionary Pay") ;
- (b) If the Termination Date occurs after June 30 in a given year, then Employee shall be eligible for full payout of the bonus for that fiscal year based on the actual attainment level for the company objectives and at a deemed 100% achievement of the individual Management Bonus Objectives. The bonus will be paid out, if at all, at such time as the other corporate officers receive their bonus.
- (c) Stock option and stock awards granted under Choice's Long-Term Incentive Plan after the date of this Agreement shall continue to vest and be exercisable during the Severance Benefit Period. At the end of the Severance Benefit Period, vesting shall cease and Employee shall have 90 days thereafter to exercise all stock options that are vested at the end of the Severance Benefit Period.
- (d) During the Severance Benefit Period, Choice will provide Employee at its expense with its standard outplacement services for executive level employees. Upon obtaining other employment, Employee will be ineligible to continue receiving these outplacement services at Choice's expense.
- (e) During the Severance Benefit Period, (i) Employee may continue deductions for medical, dental, and pre-tax spending accounts while receiving Discretionary Pay, and Employee consents to the customary deductions for such benefits from Discretionary Pay, and (ii) Choice will continue to pay employer contributions to Employee's medical and dental insurance, but not pre-tax spending accounts, while Employee is receiving Discretionary Pay. Choice will stop optional deductions for items such as retirement plans and life insurance with Employee's last paycheck for regular hours worked through the Termination Date. Employee will be eligible to continue group health and dental benefits at Employee's own expense in accordance with and to the extent required by the federal COBRA law.

7. **Re-employment** . After the Termination Date, Employee shall not be required to mitigate damages as a condition to receiving Severance Benefits, but nevertheless shall be entitled to pursue other employment as permitted by this Agreement. If Employee chooses to pursue and accept other employment or consulting during the Severance Benefit Period, Choice shall be entitled to receive as an offset, and thereby reduce its payment under Sections 6(a) and (b), the amounts received by Employee from any other active employment. Employee agrees to notify Choice within seven (7) days of accepting such employment by sending such notice to Choice Hotels International, 1 Choice Hotels Circle, Rockville, Maryland 20850, Attention: Vice

President -- Human Resources. As a condition to Employee receiving the Severance Benefits from Choice, Employee agrees to permit verification of Employee's employment records and Federal income tax returns by an independent attorney or accountant, selected by Choice but reasonably acceptable to Employee, who agrees to preserve the confidentiality of the information disclosed by Employee except to the extent required to permit Choice to verify the amounts received by Employee from other active employment. Choice shall receive credit for unemployment insurance benefits, social security insurance or like amounts actually received by Employee.

8. Change in Control.

(a) If, within twelve (12) months after a Change in Control, there occurs a Change in Control Termination, Employee shall receive as severance compensation a lump sum payment in an amount equal to 200% of Employee's base salary at the rate in effect as of the Termination Date, plus 200% of the amount of Employee's eligible full year bonus for that fiscal year based on a 100% attainment level for the company objectives and a 100% attainment level for the individual Management Bonus Objectives. Additionally, all unvested restricted stock, performance vested restricted stock units and stock option awards granted after the date of this Agreement and then held by Employee shall automatically become fully vested as of the date of the Change of Control Termination.

(b) Employee's right to receive the benefits described in Section 8(a) shall be conditioned upon Employee executing the Release Agreement.

9. Acknowledgments. Employee and Choice acknowledge and agree as follows:

(a) The restrictions contained in Sections 3, 4 and 5 are reasonable and necessary to protect and preserve the legitimate interests, properties, goodwill and business of Choice, that Choice would not have entered into this Agreement in the absence of such restrictions and that irreparable injury will be suffered by Choice should the Employee breach any of those provisions. Employee represents and acknowledges that (i) the Employee has been advised by Choice to consult Employee's own legal counsel at Employee's expense prior to executing this Agreement, and (ii) that the Employee has had full opportunity, prior to execution of this Agreement, to review thoroughly this Agreement with the Employee's counsel.

(b) A breach of any of the restrictions in this Agreement cannot be adequately compensated by monetary damages and Choice shall be entitled to seek preliminary and permanent injunctive relief, without the necessity of proving actual damages, as well as any other appropriate equitable relief, which rights shall be cumulative and in addition to any other rights or remedies to which Choice may be entitled.

(c) In the event that any of the provisions of this Agreement should ever be adjudicated to exceed the time, geographic, service, or other limitations permitted by applicable law in any jurisdiction, it is the intention of the parties that the provision shall be amended to the extent of the maximum time, geographic, service, or other limitations permitted by applicable law, that such amendment shall apply only within the jurisdiction of the court that made such adjudication and that the provision otherwise be enforced to the maximum extent permitted by law. The invalidity of any provision of this Agreement shall not effect the validity of the remaining provisions of this Agreement.

(d) This Agreement supersedes and extinguishes any rights Employee may have under Choice's standard Severance Benefit Plan.

(e) This Agreement shall not be construed as giving the Employee the right to be retained in the service of Choice for any definite period or otherwise to change Employee's status as an at-will employee.

(f) If required under Section 409A of the Internal Revenue Code, any Severance Benefit or Change of Control payment will be made six (6) months following the Termination Date.

(g) Employee agrees that Employee is not entitled to any unemployment benefits, and, to the extent permitted by law, that Employee does not intend to seek any unemployment benefits, during the Severance Benefit Period. Choice will not contest Employee's claim for unemployment benefits after the Severance Benefit Period.

10. Notices. For purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when hand delivered, sent by overnight courier, or mailed by first-class, registered or certified mail, return receipt requested, postage prepaid, or transmitted fax, addressed as follows:

If to Choice:

Choice Hotels International, Inc.
1 Choice Hotels Circle
Rockville, Maryland 20850
Attn.: General Counsel
Fax: 301-592-6206

If to the Employee:

or to such other address as either party may have furnished to the other party in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

11. Arbitration.

(a) In the event of any dispute or claim relating to or arising out, directly or indirectly, of Employee's employment relationship with Choice, this Agreement, or the termination of employment with Choice for any reason (including, but not limited to, any claims of breach of contract, tort, wrongful termination, violation of any law, or unlawful discrimination, harassment or retaliation), Employee and Choice agree that all such disputes shall be fully resolved by private, binding arbitration conducted by the American Arbitration Association ("AAA") before a single arbitrator in Montgomery County, Maryland under the AAA's Employment Arbitration Rules then in effect, which rules are available online at the AAA's website at www.adr.org or by requesting a copy from Choice's Human Resources Department. The arbitrator shall be a

currently licensed attorney with at least ten (10) years experience in employment law in the United States. This arbitration provision shall apply to any and all claims asserted by Employee against Choice or any of its affiliates, and each of their respective employees, officers, agents, attorneys, owners, directors, or affiliates, and any and all claims against Employee by those entities.

(b) The arbitrator shall permit the parties to conduct reasonable discovery and is empowered to award all remedies otherwise available in a court of competent jurisdiction and any judgment rendered by the arbitrator may be entered by any court of competent jurisdiction. The arbitrator shall issue an award in writing and state the essential findings and conclusions on which the award is based. This arbitration agreement shall provide the exclusive remedy of the parties to seek redress of claims, and each party knowingly and voluntarily waives the right to a trial before a judge or jury, and any right he, she, or it might have to seek redress in any other forum, except for the right to file a charge with applicable administrative agencies (including, but not limited to the National Labor Relations Board, Equal Employment Opportunity Commission, the Maryland Workers' Compensation Commission or Division of Unemployment Insurance). If Employee still has the right to and chooses to pursue such administrative claim after exhausting all administrative remedies, such claim would be subject to arbitration under this arbitration agreement to the extent permitted by applicable law.

(c) In any arbitration conducted under this provision, each party will bear his, her or its own fees, expenses and costs associated with the arbitration, provided that, to the extent applicable law requires Choice to pay any of Employee's portion of the fees, expenses and costs of the AAA and the arbitrator to make the arbitration agreement enforceable, Choice will pay or reimburse Employee for such fees, expenses and costs; and provided further, to the extent applicable law provides for the award of reasonable attorneys' fees and costs to the prevailing party, the arbitrator may award such fees and costs.

(d) In the event any provision of this arbitration agreement is found to be unenforceable by an arbitrator or court, such provision shall be deemed modified to the extent necessary to allow enforceability of the provision or deleted such that the enforceability of the remaining provisions remain unaffected. If the court or arbitrator declines to modify this arbitration agreement to render it enforceable, the parties agree to do so. This arbitration agreement shall be interpreted and construed under the Federal Arbitration Act and the Maryland Uniform Arbitration Act.

(e) By agreeing to arbitration, Choice and Employee do not intend to deprive any court of its jurisdiction to issue a pre-arbitral injunction, pre-arbitral attachment, or other order in aid of arbitration proceedings and the enforcement of any award. In any such judicial action: (a) each of the parties irrevocably and unconditionally consents to the exclusive jurisdiction and venue of the federal or state courts located in Montgomery County, Maryland (the "Maryland Courts") for the purpose of any pre-arbitral injunction, pre-arbitral attachment, or other order in aid of arbitration proceedings, and to the non-exclusive jurisdiction of such courts for the enforcement of any judgment on any award; (b) each of the parties irrevocably waives, to the fullest extent they may effectively do so, any objection, including any objection to the laying of venue or based on the grounds of forum non conveniens or any right of objection to jurisdiction on account of its place of incorporation or domicile, which it may now or hereafter have to the bringing of any such action or proceeding in any Maryland Court.

12. Miscellaneous.

- (a) This Agreement contains the entire agreement of the parties, and supersedes all other agreements, discussions or understandings concerning the subject matter. It may be changed only by an agreement in writing signed by both parties.
- (b) This Agreement shall be governed by the laws of the State of Maryland.
- (c) No failure by either party hereto at any time to give notice of any breach by the other party of, or to require compliance with, any condition or provision of this Agreement shall be deemed a waiver.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date first set forth above.

CHOICE HOTELS INTERNATIONAL, INC.

By: _____

Employee:

**EXHIBIT A
RELEASE AGREEMENT**

This Release Agreement ("Release Agreement") is made as of _____, 20__ by _____ ("Employee") in favor of Choice Hotels International, Inc. and its subsidiaries (collectively "Choice").

WHEREAS, Employee and Choice have previously entered into a Non-Competition, Non-Solicitation and Severance Benefit Agreement dated _____, 20__ ("Agreement"); and

WHEREAS, in consideration for certain covenants and benefits under the Agreement, Employee is obligated to execute this Release Agreement upon termination of employment;

NOW, THEREFORE, in consideration of the promises contained in this Agreement, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree to the following terms:

1. **Last Day Worked** . Employee's employment terminated, or will terminate, on _____, 20__ ("Termination Date"). Employee will return to Choice, no later than the close of business on the Termination Date, any Choice property, including original and copied computer hardware or software, credit cards, long distance telephone cards, and keys or passcards to Choice buildings, and all other property in Employee's possession, custody or control.

2. **Release** . Employee agrees, in exchange for the benefits set forth in the Agreement, to irrevocably and unconditionally release Choice and its parents, subsidiaries and affiliated entities, and each of their respective officers, directors, shareholders, employees, agents, representatives, insurers, attorneys, employee welfare benefit plans and pension or deferred compensation plans under Section 401 of the Internal Revenue Code of 1954, as amended, and their trustees, administrators and other fiduciaries; and all persons acting by, through, under or in concert with them, and each of their predecessors, successors and assigns or any of them (collectively "Choice Releasees"), of and from any and all manner of action or actions, cause or causes of action, in law or equity, suits, debts, liens, contracts, agreements, promises, liability, claims, demands, grievances, damages, loss, cost or expense, of any nature, known or unknown, fixed or contingent, which Employee now has or may later have against the Choice Releasees, or any one of them, by reason of any matter, cause, or thing from the beginning of time to the Effective Date of this Agreement, including without limitation those arising out of, based on, or relating to the hire, employment, termination, remuneration (including any severance, salary, bonus, incentive or other compensation; vacation sick leave or medical insurance benefits; or any benefits from any employee stock ownership, profit-sharing and/or any deferred compensation plan under Section 401 of the Internal Revenue Code of 1954 ("Claims"). The Claims that Employee is releasing include, but are not limited to, a release of any rights or claims Employee may have under:

- the Age Discrimination in Employment Act, which prohibits age discrimination in employment;
- Title VII of the Civil Rights Act of 1964, which prohibits discrimination in employment based on race, color, national origin, religion or sex;
- the Civil Rights Act of 1991;
- the Equal Pay Act, which prohibits paying men and women unequal pay for equal work;
- the Americans with Disabilities Act;
- the Family and Medical Leave Act;
- and any other federal, state or local laws or regulations prohibiting employment discrimination, harassment or retaliation.

Employee also releases any Claims for wrongful discharge or breach of contract, Claims for any personal injury or tort, Claims for any compensation, benefits, expenses, bonuses, or any other employee rights or benefits, Claims for employment or reinstatement, Claims for attorneys' fees and costs, and all other Claims under any applicable statute, contract or other cause of action. This Agreement covers both Claims Employee knows about and those Employee may not know about. Employee assumes the risk of any and all unknown Claims which may exist at the time Employee signs this Agreement, and Employee agrees that this Agreement shall apply to any and all known and unknown Claims.

3. No Release of Rights Under Agreement . By signing this Release Agreement, Employee does not waive or release Employee's right to enforce the Agreement. Employee does not release claims for or rights to earned compensation, vested benefits or indemnification under Choice's bylaws.

4. Lawsuits . To the fullest extent permitted by law, Employee promises never to file a lawsuit, claim, complaint, charge, demand, administrative proceeding, agency action or any other legal proceeding (collectively "Lawsuit") asserting any Claims that are released in this Agreement. Employee agrees to withdraw with prejudice all Lawsuits, if any, Employee has filed against any Choice Releasee asserting any Claims with any agency or court. Employee also waives the right to seek or receive any monetary benefits with respect to Lawsuits asserted by administrative agencies or other third parties on Employee's behalf. Employee further agrees not to assist any other person in bringing any Lawsuit against any Choice Releasee, unless compelled to do so pursuant to a valid court order or subpoena. Employee agrees not to make any derogatory remarks or provide and disparaging information about any Choice Releasee. Employee agrees to reasonably assist Choice in any Lawsuit arising from circumstances that took place during Employee's employment, to the extent reasonably necessary to protect Choice's interests. Choice will reimburse Employee for all reasonable and necessary expenses Employee incurs in complying with the foregoing sentence, provided they are approved by Choice in writing prior to being incurred.

5. No Admission . Employee agrees that this Release Agreement is not an admission of guilt or wrongdoing by the Choice Releasees, and Employee acknowledges that the Choice Releasees do not believe or admit that they have done anything wrong. Employee acknowledges that Employee has not suffered any wrongful treatment by any Choice Releasee.

6. Breach . If Employee breaches this Release Agreement and files a Lawsuit against any Choice Releasee on Claims that Employee released in this Release Agreement, Employee agrees to pay for all costs incurred by the Choice Releasee, including reasonable attorneys' fees, in defending against Employee's Lawsuit. Employee further agrees not to assist any other person in bringing any Lawsuit against any Choice Releasee, unless compelled to do so pursuant to a valid subpoena or court order. If Employee breaches the promises in this Release Agreement, Choice may terminate all Severance Benefits under the Agreement that are still owed to Employee.

7. Governing Law . This Agreement is governed by Maryland law, without regard to the principles of conflicts of laws. If a dispute arises under this Agreement, any Lawsuit must be brought exclusively in the courts for Montgomery County, Maryland. Employee and Choice voluntarily submit to the jurisdiction and venue of said court.

8. Binding . Employee agrees and acknowledges this Release Agreement binds Employee's heirs, administrators, representatives, executors, successors, and assigns, and will inure to the benefit of all Choice Releasees and their respective heirs, administrators, representatives, executors, successors, and assigns.

9. Severability . Any invalidity, in whole or in part, of any provision of this Release Agreement shall not affect the validity of any other of its provisions.

10. Period for Review and Consideration . Employee has 21 days from the date Employee receives this Release Agreement to review and consider this document before signing it. Employee may use as much of this 21 day period as Employee wishes before signing this Release Agreement. Choice advises Employee to consult with an attorney at Employee's own expense before signing this Release Agreement; whether to do so is Employee's decision. If Employee wishes to sign this Release Agreement and thereafter be eligible to receive the Severance Benefits under the Agreement, Employee must deliver one fully executed original of this Release Agreement, to Choice Hotels International, 1 Choice Hotels Circle, Rockville, Maryland 20850, Senior Vice President-- Human Resources, no later than the close of business on the 21st day after Employee receives this Release Agreement. Employee's failure to deliver timely the executed Release Agreement will nullify the Agreement, and Employee will not be entitled to receive the Severance Benefits.

11. Revocation of Release Agreement . Employee may revoke this Release Agreement within 7 days after signing it (the "Revocation Period"). If Employee wishes to revoke this Release Agreement after signing it, Employee must deliver a written notice of revocation to Choice Hotels International, 1 Choice Hotels Circle, Rockville, Maryland 20850, Attention: Senior Vice President, Human Resources. Choice must receive this revocation no later than the close of business on the 7th day after Employee signs this Release Agreement. If Employee revokes this Release Agreement, it shall not be effective or enforceable and Employee will not receive the Severance Benefits under the Agreement.] This Agreement will not become effective or enforceable until such date that is is signed by both parties and the Revocation Period expires without Employee exercising Employee's right of revocation (the "Effective Date").

EMPLOYEE ACKNOWLEDGES THAT EMPLOYEE HAS HAD AN OPPORTUNITY TO REVIEW AND CONSIDER THIS RELEASE AGREEMENT WITH AN ATTORNEY, AND THAT EMPLOYEE HAS HAD SUFFICIENT TIME TO CONSIDER IT. AFTER SUCH CAREFUL CONSIDERATION, EMPLOYEE KNOWINGLY AND VOLUNTARILY ENTERS INTO THIS RELEASE AGREEMENT WITH FULL UNDERSTANDING OF ITS MEANING AND EFFECT.

Employee:

CERTIFICATION

I, Stephen P. Joyce, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Choice Hotels International, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - (d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 5, 2017

/s/ STEPHEN P. JOYCE

Stephen P. Joyce
Chief Executive Officer

CERTIFICATION

I, Dominic E. Dragisich, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Choice Hotels International, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - (d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 5, 2017

/s/ DOMINIC E. DRAGISICH

Dominic E. Dragisich
Chief Financial Officer

**WRITTEN STATEMENT
OF
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER**

The undersigned hereby certify that the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 filed by Choice Hotels International, Inc. with the Securities and Exchange Commission fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

May 5, 2017

/s/ STEPHEN P. JOYCE

Stephen P. Joyce
Chief Executive Officer

May 5, 2017

/s/ DOMINIC E. DRAGISICH

Dominic E. Dragsich
Chief Financial Officer