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 September 30, 2020

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	**52-1209792**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
1 Choice Hotels Circle, Suite 400 **Rockville, Maryland**	**20850**
(Address of Principal Executive Offices)	**(Zip Code)**

(Registrant's telephone number, including area code): (301) 592-5000
(Former name, former address and former fiscal year, if changed since last report): N/A

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, Par Value $0.01 per share	CHH	New York Stock Exchange

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 (or for such shorter period that the registrant was required to file such reports), 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	☒	Accelerated filer	☐
Non-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 ☒

The number of shares of common stock outstanding on October 30, 2020 was 55,458,082.

CHOICE HOTELS INTERNATIONAL, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
REVENUES				
Royalty fees	**$ 79,666**	$ 113,688	**$ 200,157**	$ 300,468
Initial franchise and relicensing fees	**6,071**	6,741	**20,031**	20,223
Procurement services	**10,115**	14,814	**34,609**	47,590
Marketing and reservation system	**107,141**	157,024	**297,203**	439,553
Owned hotels	**4,201**	8,710	**15,731**	8,710
Other	**3,577**	9,755	**12,948**	30,192
Total revenues	**210,771**	310,732	**580,679**	846,736
OPERATING EXPENSES				
Selling, general and administrative	**31,413**	38,308	**104,212**	124,802
Depreciation and amortization	**6,382**	5,568	**19,309**	12,589
Marketing and reservation system	**113,808**	158,430	**333,564**	438,390
Owned hotels	**3,812**	6,014	**12,822**	6,014
Total operating expenses	**155,415**	208,320	**469,907**	581,795
Impairment of goodwill	**—**	—	**—**	(3,097)
Loss on asset dispositions and impairments	**(4,290)**	33	**(5,516)**	(7,271)
Loss on sale of business	**—**	(25)	**—**	(4,666)
Gain on sale of assets, net	**—**	—	**—**	100
Operating income	**51,066**	102,420	**105,256**	250,007
OTHER INCOME AND EXPENSES, NET				
Interest expense	**12,691**	12,431	**37,153**	34,735
Interest income	**(1,744)**	(2,220)	**(6,277)**	(7,617)
Loss on extinguishment of debt	**15,958**	—	**16,565**	—
Other gains, net	**(1,664)**	(115)	**(972)**	(3,219)
Equity in net loss of affiliates	**1,731**	6,400	**7,172**	9,551
Total other income and expenses, net	**26,972**	16,496	**53,641**	33,450
Income before income taxes	**24,094**	85,924	**51,615**	216,557
Income tax expense (benefit)	**9,594**	9,685	**(15,907)**	35,848
Net income	**$ 14,500**	$ 76,239	**$ 67,522**	$ 180,709
Basic earnings per share	**$ 0.26**	$ 1.37	**$ 1.22**	$ 3.25
Diluted earnings per share	**$ 0.26**	$ 1.36	**$ 1.21**	$ 3.23
Cash dividends declared per share	**$ —**	$ 0.215	**$ 0.225**	$ 0.645

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income	**$ 14,500**	$ 76,239	**$ 67,522**	$ 180,709
Other comprehensive income (loss), net of tax:				
Amortization of loss on cash flow hedge	**—**	215	**—**	646
Foreign currency translation adjustment	**240**	(224)	**(237)**	(883)
Other comprehensive income (loss), net of tax	**240**	(9)	**(237)**	(237)
Comprehensive income	**$ 14,740**	$ 76,230	**$ 67,285**	$ 180,472

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

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

	September 30, 2020	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	**$ 191,967**	$ 33,766
Receivables (net of allowance for credit losses of $44,228 and $18,482, respectively)	**175,375**	141,566
Income taxes receivable	**4,470**	11,126
Notes receivable	**28,860**	26,265
Less: Allowance for notes receivable credit losses	**(3,252)**	(861)
Other current assets	**18,150**	24,727
Total current assets	**415,570**	236,589
Property and equipment, at cost, net	**339,000**	351,502
Operating lease right-of-use assets	**19,774**	24,088
Goodwill	**159,196**	159,196
Intangible assets, net	**290,913**	290,421
Notes receivable	**110,852**	106,749
Less: Allowance for notes receivable losses	**(13,043)**	(3,695)
Investments, employee benefit plans, at fair value	**26,454**	24,978
Investments in unconsolidated entities	**72,571**	78,655
Deferred income taxes	**54,240**	20,747
Other assets	**94,619**	97,442
Total assets	**$ 1,570,146**	$ 1,386,672
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	**$ 80,191**	$ 73,449
Accrued expenses and other current liabilities	**67,699**	90,364
Deferred revenue	**51,487**	71,594
Current portion of long-term debt	**6,977**	7,511
Liability for guest loyalty program	**46,066**	82,970
Total current liabilities	**252,420**	325,888
Long-term debt	**1,058,309**	844,102
Long-term deferred revenue	**122,285**	112,662
Deferred compensation and retirement plan obligations	**31,039**	29,949
Income taxes payable	**23,394**	26,147
Operating lease liabilities	**15,037**	21,270
Liability for guest loyalty program	**79,777**	46,698
Other liabilities	**9,289**	3,467
Total liabilities	**1,591,550**	1,410,183
Commitments and Contingencies		
Common stock, $0.01 par value; 160,000,000 shares authorized; 95,065,638 shares issued at September 30, 2020 and December 31, 2019; 55,458,248 and 55,702,628 shares outstanding at September 30, 2020 and December 31, 2019, respectively	**951**	951
Additional paid-in-capital	**228,521**	231,160
Accumulated other comprehensive loss	**(4,787)**	(4,550)
Treasury stock, at cost; 39,607,390 and 39,363,010 shares at September 30, 2020 and December 31, 2019, respectively	**(1,262,724)**	(1,219,905)
Retained earnings	**1,016,635**	968,833
Total shareholders' deficit	**(21,404)**	(23,511)
Total liabilities and shareholders' deficit	**$ 1,570,146**	$ 1,386,672

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

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

	Nine Months Ended September 30,	
	2020	**2019**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ **67,522**	$ 180,709
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**19,309**	12,589
Depreciation and amortization – marketing and reservation system	**14,994**	12,355
Franchise agreement acquisition cost amortization	**8,343**	7,537
Gain on disposal of assets	—	(2,181)
Loss on sale of business	—	4,666
Loss on asset disposition and impairments	**5,516**	7,271
Impairment of goodwill	—	3,097
Loss on extinguishment of debt	**16,565**	—
Non-cash stock compensation and other charges	**4,748**	12,433
Non-cash interest and other income	**(465)**	(2,615)
Deferred income taxes	**(31,411)**	3,268
Equity in net losses from unconsolidated joint ventures, less distributions received	**7,320**	12,234
Franchise agreement acquisition costs, net of reimbursements	**(16,960)**	(25,592)
Change in working capital and other, net of acquisition	**(25,801)**	(34,794)
Net cash provided by operating activities	**69,680**	190,977
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in property and equipment	**(32,176)**	(46,135)
Investment in intangible assets	**(1,212)**	(3,659)
Proceeds from sales of assets	—	10,585
Payment on business disposition, net	—	(10,783)
Asset acquisition, net of cash acquired	—	(168,954)
Proceeds from sale of unconsolidated joint venture	—	8,937
Contributions to equity method investments	**(4,620)**	(17,329)
Distributions from equity method investments	**3,362**	9,841
Purchases of investments, employee benefit plans	**(2,254)**	(2,748)
Proceeds from sales of investments, employee benefit plans	**2,372**	2,197
Issuance of notes receivable	**(9,845)**	(10,767)
Collections of notes receivable	**5,113**	10,491
Proceeds from sale of tax credits	**9,197**	—
Other items, net	**(473)**	(1,842)
Net cash used in investing activities	**(30,536)**	(220,166)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (repayments) borrowings pursuant to revolving credit facilities	**(18,200)**	97,800
Proceeds from issuance of Term Loan	**249,500**	—
Proceeds from issuance of 2020 Senior Notes	**447,723**	—
Principal payments on long-term debt	**(466,915)**	(371)
Payments to extinguish long-term debt	**(14,347)**	—
Purchase of treasury stock	**(55,158)**	(44,770)
Dividends paid	**(25,274)**	(36,103)
Debt issuance costs	**(4,620)**	(300)
Proceeds from issuance of long-term debt	—	23,863
Payments on transfer of interest in notes receivable	—	(24,409)
Proceeds from exercise of stock options	**6,615**	18,519
Net cash provided by financing activities	**119,324**	34,229
Net change in cash and cash equivalents	**158,468**	5,040
Effect of foreign exchange rate changes on cash and cash equivalents	**(267)**	(113)
Cash and cash equivalents at beginning of period	**33,766**	26,642
Cash and cash equivalents at end of period	$ **191,967**	$ 31,569

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

Supplemental disclosure of cash flow information:

Cash payments during the period for:				
Income taxes, net of refunds	**$**	**41**	$	25,681
Interest, net of capitalized interest	**$**	**37,338**	$	42,169
Non-cash investing and financing activities:				
Dividends declared but not paid	**$**	**—**	$	11,978
Investment in property and equipment acquired in accounts payable	**$**	**757**	$	1,575

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

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CHOICE HOTELS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)
(UNAUDITED)

	Common Stock - Shares Outstanding	Common Stock - Par Value	Additional Paid-in-Capital	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Retained Earnings	Total
Balance as of December 31, 2018	55,679,207	$ 951	$ 213,170	$ (5,446)	$ (1,187,625)	$ 795,178	$ (183,772)
Net income	—	—	—	—	—	30,081	30,081
Other comprehensive income (loss)	—	—	—	8	—	—	8
Other [(1)]	—	—	—	—	—	(614)	(614)
Share based payment activity	408,545	—	3,214	—	9,706	—	12,920
Dividends declared ($0.215 per share)	—	—	—	—	—	(12,149)	(12,149)
Treasury purchases	(414,077)	—	—	—	(31,951)	—	(31,951)
Balance as of March 31, 2019	55,673,675	$ 951	$ 216,384	$ (5,438)	$ (1,209,870)	$ 812,496	$ (185,477)
Net income	—	—	—	—	—	74,389	74,389
Other comprehensive income (loss)	—	—	—	(236)	—	—	(236)
Share based payment activity	151,856	—	6,010	—	5,102	—	11,112
Dividends declared ($0.215 per share)	—	—	—	—	—	(11,962)	(11,962)
Treasury purchases	(129,175)	—	—	—	(10,486)	—	(10,486)
Balance as of June 30, 2019	55,696,356	$ 951	$ 222,394	$ (5,674)	$ (1,215,254)	$ 874,923	$ (122,660)
Net income	—	—	—	—	—	76,239	76,239
Other comprehensive income (loss)	—	—	—	(9)	—	—	(9)
Other [(2)]	—	—	(2,250)	—	—	—	(2,250)
Share based payment activity	46,116	—	4,835	—	1,418	—	6,253
Dividends declared ($0.215 per share)	—	—	—	—	—	(11,975)	(11,975)
Treasury purchases	(26,695)	—	—	—	(2,333)	—	(2,333)
Balance as of September 30, 2019	55,715,777	$ 951	$ 224,979	$ (5,683)	$ (1,216,169)	$ 939,187	$ (56,735)

	Common Stock - Shares Outstanding	Common Stock - Par Value	Additional Paid-in-Capital	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Retained Earnings	Total
Balance as of December 31, 2019	**55,702,628**	**$ 951**	**$ 231,160**	**$ (4,550)**	**$ (1,219,905)**	**$ 968,833**	**$ (23,511)**
Cumulative-effect adjustment [3]	—	—	—	—	—	**(6,831)**	**(6,831)**
Net income	—	—	—	—	—	**55,463**	**55,463**
Other comprehensive income (loss)	—	—	—	**(664)**	—	—	**(664)**
Share based payment activity	**294,826**	—	**(9,607)**	—	**8,089**	—	**(1,518)**
Dividends declared ($0.225 per share) [4]	—	—	—	—	—	**(12,721)**	**(12,721)**
Treasury purchases	**(657,031)**	—	—	—	**(54,072)**	—	**(54,072)**
Balance as of March 31, 2020	**55,340,423**	**$ 951**	**$ 221,553**	**$ (5,214)**	**$ (1,265,888)**	**$ 1,004,744**	**$ (43,854)**
Net income	—	—	—	—	—	**(2,441)**	**(2,441)**
Other comprehensive income (loss)	—	—	—	**187**	—	—	**187**
Share based payment activity [4]	**29,997**	—	**2,166**	—	**1,825**	**(171)**	**3,820**
Dividends declared [4]	—	—	—	—	—	—	—
Treasury purchases	**(6,525)**	—	—	—	**(464)**	—	**(464)**
Balance as of June 30, 2020	**55,363,895**	**$ 951**	**$ 223,719**	**$ (5,027)**	**$ (1,264,527)**	**$ 1,002,132**	**$ (42,752)**
Net income	—	—	—	—	—	**14,500**	**14,500**
Other comprehensive income (loss)	—	—	—	**240**	—	—	**240**
Share based payment activity [4]	**101,857**	—	**4,802**	—	**1,803**	**3**	**6,608**
Dividends declared [4]	—	—	—	—	—	—	—
Treasury purchases	**(7,504)**	—	—	—	—	—	—
Balance as of September 30, 2020	**55,458,248**	**$ 951**	**$ 228,521**	**$ (4,787)**	**$ (1,262,724)**	**$ 1,016,635**	**$ (21,404)**

[1] Impact of adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue From Contracts with Customers (Topic 606)* and subsequent amendments to the initial guidance ("Topic 606") related to a foreign joint venture accounted for as an equity method investment.

[2] Impact of transaction resulting in an increase in ownership of a consolidated joint venture for the construction and operation of a Cambria Hotel.

[3] Reflects the cumulative effect of ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326),* which was adopted on January 1, 2020. Refer to Note 1 for additional details.

[4] During the fourth quarter of 2019, the Company's board of directors announced a 5% increase to the quarterly dividend rate to $0.225 per share from $0.215 per share, beginning with the dividend payable in the first quarter of 2020. On February 28, 2020, the Company's board of directors declared a quarterly cash dividend of $0.225 per share of common stock. The dividend was payable on April 16, 2020 to shareholders of record on April 2, 2020. Subsequent to the payment of the dividend, in light of uncertainty resulting from the COVID-19 pandemic, we suspended future, undeclared dividends for at least the remainder of 2020. In the second and third quarters of 2020, dividends were paid to certain shareholders upon vesting of certain performance-based stock grants which are captured in Share based payment activity.

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. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of Choice Hotels International, Inc. and its subsidiaries (together the "Company") have been prepared by the Company in accordance with United States of America generally accepted accounting principles ("GAAP") 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 prior year amounts in our Consolidated Statements of Income have been reclassified in order to maintain comparability with current year presentation.

Certain information and footnote disclosures normally included in financial statements presented in accordance with 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, 2019 and notes thereto included in the Company’s Annual Report on Form 10-K, filed with the SEC on March 2, 2020. 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.

Summary of Significant Accounting Policies

The Company’s significant accounting policies are detailed in the “Summary of Significant Accounting Policies” section of Note 1 in the Annual Report on Form 10-K for the year ended December 31, 2019. The significant accounting policies that changed in 2020 are set forth below.

Recently Adopted Accounting Standards

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)* and issued subsequent amendments to the initial guidance at various points thereafter ("Topic 326"). Under legacy standards, we recognized an impairment of receivables when it was probable that a loss had been incurred. Topic 326 requires 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 (which includes losses that may be incurred in future periods), and enhanced disclosures to provide insight to significant estimates and judgments used in estimating credit losses. The Company adopted Topic 326 on January 1, 2020 using the modified retrospective approach resulting in a cumulative-effect adjustment of $6.8 million (inclusive of deferred taxes) recorded in retained earnings as of the date of adoption.

The scope and provisions of Topic 326 impact the allowance for the Company's Notes and Trade receivables. During the three and nine months ended September 30, 2020, the Company recorded provisions for credit losses of $3.7 million and $14.6 million, respectively, with contemplation to economic and credit conditions resulting from the COVID-19 pandemic and estimates of other expected credit losses. Refer to Note 3 for further details on the adoption of Topic 326 and the impact to the Company's accounting policies for Notes receivable.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). ASU 2018-13 modifies disclosure requirements on fair value measurements. The Company adopted ASU 2018-13 on a retrospective basis on January 1, 2020, with limited modifications to its fair value footnote disclosure. Refer to Note 7.

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)*: *Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*

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("ASU 2018-15"). ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The Company adopted ASU 2018-15 on a prospective basis on January 1, 2020. As the majority of the Company's hosting arrangements are service contracts, the capitalization and subsequent amortization of implementation costs incurred after adoption are expected to impact the timing, but not classification, of expense recognition.

Recently Issued Accounting Standard

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes* ("ASU 2019-12"). ASU 2019-12 enhances and simplifies various aspects of the income tax accounting guidance in Accounting Standards Codification ("ASC") 740, *Income Taxes*. The guidance is effective for annual reporting periods beginning after December 15, 2020 and interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the effect of adopting ASU 2019-12, but does not expect adoption will have a material impact on the consolidated financial statements and disclosures.

2. Revenue

Contract Liabilities

Contract liabilities relate to (i) advance consideration received, such as initial franchise and relicensing fees paid when a franchise agreement is awarded and system implementation fees paid at time of installation, for services considered to be part of the brand intellectual property performance obligation and (ii) amounts received when Choice Privileges points are issued, but for which revenue is not yet recognized since the related points have not been redeemed.

Initial and relicensing fees are charged when (i) new hotels enter the franchise system, (ii) there is a change of ownership, or (iii) existing franchise agreements are extended. These revenues are recognized as revenue ratably as services are provided over the enforceable period of the franchise agreement. System implementation fees charged to franchisees are also deferred and recognized as revenue over the enforceable period of the franchise agreement. The enforceable period is the period from hotel opening to the first date the franchisee or the Company can terminate the franchise agreement without incurring a significant penalty. Deferred revenues from initial and relicensing fees and system implementation fees will typically be recognized over a five- to ten-year period, unless the franchise agreement is terminated and the hotel exits the franchise system whereby remaining deferred amounts will be recognized to revenue in the period of termination.

Loyalty points represent a performance obligation attributable to usage of the points, and thus revenues are recognized at the point in time when the loyalty points are redeemed by members for benefits. The estimated fair value of future redemptions is reflected in current and non-current Liability for guest loyalty program in the consolidated balance sheets. The amount of the loyalty program fees in excess of the point liability represents current and non-current deferred revenue, which is recognized to revenue as points are redeemed including an estimate of future forfeitures. The anticipated redemption pattern of the points is the basis for current and non-current designation of each liability, which was adjusted in the first quarter of 2020 to reflect an anticipated longer issuance to redemption period in light of impacts from the COVID-19 pandemic. Loyalty points are typically redeemed within three years of issuance.

Significant changes in the contract liabilities balances during the period December 31, 2019 to September 30, 2020 are as follows:

(in thousands)		
Balance as of December 31, 2019	$	163,847
Increases to the contract liability balance due to cash received		50,719
Revenue recognized in the period		(56,061)
Balance as of September 30, 2020	$	158,505

Remaining Performance Obligations

The aggregate amount of transaction price allocated to unsatisfied or partially unsatisfied performance obligations is $158.5 million as of September 30, 2020. This amount represents fixed transaction price that will be recognized as revenue in future periods, which is captured in the consolidated balance sheet as current and non-current deferred revenue.

Based on practical expedient elections permitted by Topic 606, the Company does not disclose the value of unsatisfied performance obligations for (i) variable consideration subject to the sales or usage-based royalty constraint or comprising a component of a series (including franchise, partnership, qualified vendor, and software as a service ("SaaS") agreements), (ii) variable consideration for which we recognize revenue at the amount to which we have the right to invoice for services performed, or (iii) contracts with an expected original duration of one year or less.

Disaggregation of Revenue

	Three Months Ended September 30, 2020			Three Months Ended September 30, 2019		
(in thousands)	Over time	Point in time	Total	Over time	Point in time	Total
Royalty fees	$ 79,666	$ —	$ 79,666	$ 113,688	$ —	$ 113,688
Initial franchise and relicensing fees	6,071	—	6,071	6,741	—	6,741
Procurement services	9,620	495	10,115	14,084	730	14,814
Marketing and reservation system	93,327	13,814	107,141	146,263	10,761	157,024
Owned hotels	3,498	595	4,093	7,460	1,201	8,661
Other	3,317	—	3,317	9,494	—	9,494
Total Topic 606 revenues	$ 195,499	$ 14,904	210,403	$ 297,730	$ 12,692	310,422
Non-Topic 606 revenues			368			310
Total revenues			$ 210,771			$ 310,732

	Nine Months Ended September 30, 2020			Nine Months Ended September 30, 2019		
(in thousands)	Over time	Point in time	Total	Over time	Point in time	Total
Royalty fees	$ 200,157	$ —	$ 200,157	$ 300,468	$ —	$ 300,468
Initial franchise and relicensing fees	20,031	—	20,031	20,223	—	20,223
Procurement services	33,069	1,540	34,609	45,219	2,371	47,590
Marketing and reservation system	247,092	50,111	297,203	380,544	59,009	439,553
Owned hotels	13,159	2,248	15,407	7,460	1,201	8,661
Other	12,167	—	12,167	29,249	141	29,390
Total Topic 606 revenues	$ 525,675	$ 53,899	579,574	$ 783,163	$ 62,722	845,885
Non-Topic 606 revenues			1,105			851
Total revenues			$ 580,679			$ 846,736

Non-Topic 606 revenues primarily represent revenue from leasing and are presented in Owned hotels and Other revenues in the consolidated statements of income.

As presented in Note 11, the Corporate & Other segment amounts represent $6.4 million and $10.2 million for the three months ended September 30, 2020 and 2019, respectively, and $21.8 million and $17.6 million for the nine months ended September 30, 2020 and 2019, respectively, and are included in the Over time column of Other revenues and the Owned Hotels and Non-Topic 606 revenues rows. The remaining revenues relate to the Hotel Franchising segment.

Royalty fees and Marketing and reservation system revenues are presented net of intersegment revenues of $0.3 million and $0.8 million for the three months ended September 30, 2020 and 2019, respectively, and $1.2 million and $0.8 million for the nine months ended September 30, 2020 and 2019, respectively, as described in Note 11.

3. Notes Receivable and Allowance for Credit Losses

The Company has provided financing in the form of notes receivable loans to franchisees to support the development of properties in strategic markets. As of September 30, 2020 and December 31, 2019, the Company had $139.7 million and $133.0 million, respectively, in notes receivable loans outstanding.

The Company has developed a systematic methodology to determine its allowance for credit losses across our portfolio of notes receivable loans. The Company monitors the risk and performance of our portfolio by the level of security in collateral (i.e., senior, subordinated or unsecured). As each of the Company’s notes receivable loans has unique risk characteristics, the Company deploys its methodology to calculate allowances for credit losses at the individual notes receivable loan level.

The Company primarily utilizes a discounted cash flow ("DCF") approach to measure the credit allowance, influenced by the key economic variables of each note receivable loan. The Company identified the key economic variables for these loans to be loan-to-cost ("LTC") or loan-to-value ("LTV") ratios and debt service coverage ratio ("DSCR"). The LTC or LTV ratio represents the loan principal relative to the project cost or value and is an indication of the ability to be re-paid principal at loan maturity. The DSCR represents borrower net operating income as a percentage of the interest and principal payments incurred (i.e., debt service) on all debt of the borrower and is an indication of the ability of the borrower to timely pay amounts due during the term of the loan. The LTC or LTV ratios and DSCR are considered during loan underwriting as indications of risk and, accordingly, we believe these factors are the most representative risk indicators for calculating the allowance for credit loss. Loans with higher LTC or LTV ratios and lower DSCR ratios generally are representative of loans with greater risk and, accordingly, have higher credit allowances as a percentage of loan principal. Conversely, loans with lower LTC or LTV ratios and higher DSCR ratios generally are representative of loans with lesser risk and, accordingly, have lower credit allowances as a percentage of loan principal.

The following table shows the composition of the Company's notes receivable balances based on the level of security credit quality indicator:

(in thousands)	**September 30, 2020**	**December 31, 2019**
Senior	**$ 105,592**	$ 98,545
Subordinated	**32,667**	32,153
Unsecured	**1,453**	2,316
Total notes receivable	**139,712**	133,014
Total allowance for notes receivable credit losses	**16,295**	4,556
Total notes receivable, net of allowance	**$ 123,417**	$ 128,458
Current portion, net of allowance	**$ 25,608**	$ 25,404
Long-term portion, net of allowance	**$ 97,809**	$ 103,054

Amortized cost basis by year of origination and level of security credit quality indicator are as follows:

(in thousands)	**2020**	**2019**	**2018**	**Prior**	**Total**
Senior	$ —	$ 28,297	$ 15,432	$ 61,863	$ 105,592
Subordinated	—	2,439	10,981	19,247	32,667
Unsecured	—	—	537	916	1,453
Total notes receivable	$ —	$ 30,736	$ 26,950	$ 82,026	$ 139,712

As disclosed in Note 1, Topic 326 required a cumulative-effect adjustment to the consolidated balance sheet as of the beginning of the first reporting period in which the guidance was effective. As of the adoption date of January 1, 2020, the Company established a credit allowance on its notes receivable loans of $12.9 million, an increase from a previous loan allowance of $4.6 million as of December 31, 2019. The cumulative-effect adjustment of adopting Topic 326 of $6.8 million, net of tax impact, is recorded in the consolidated balance sheets in the Retained earnings line item.

The following table summarizes the activity related to the Company's notes receivable allowance for credit losses, including the impacts of adopting Topic 326. The provisions recorded in the nine months ended September 30, 2020 reflect the increased likelihood of adverse outcomes on loans to borrowers with contemplation to impacts of the COVID-19 pandemic and estimates of other expected credit losses.

(in thousands)	September 30, 2020	December 31, 2019
Beginning balance	**$ 4,556**	$ 4,685
Reserves established from adoption of Topic 326	**8,348**	—
Provision for credit losses	**4,302**	—
Write-offs	**(911)**	(129)
Ending balance	**$ 16,295**	$ 4,556

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 to principal. The Company does not resume interest accrual until all delinquent payments are received. The amortized cost basis of notes receivable on non-accrual status was $28.9 million and $1.7 million at September 30, 2020 and December 31, 2019, respectively.

The Company has identified loans totaling approximately $13.1 million and $16.3 million, respectively, with stated interest rates that are less than market rate, representing a total discount of $1.0 million and $1.3 million as of September 30, 2020 and December 31, 2019, respectively. These discounts are reflected as a reduction of the outstanding loan amounts and are amortized over the life of the related loan.

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

(in thousands)	30-89 days Past Due	> 90 days Past Due	Total Past Due	Current	Total Notes Receivable
As of September 30, 2020					
Senior	**$ —**	**$ 15,432**	**$ 15,432**	**$ 90,160**	**$ 105,592**
Subordinated	**—**	**2,209**	**2,209**	**30,458**	**32,667**
Unsecured	**—**	**—**	**—**	**1,453**	**1,453**
	$ —	**$ 17,641**	**$ 17,641**	**$ 122,071**	**$ 139,712**
As of December 31, 2019					
Senior	$ —	$ —	$ —	$ 98,545	$ 98,545
Subordinated	—	—	—	32,153	32,153
Unsecured	—	—	—	2,316	2,316
	$ —	$ —	$ —	$ 133,014	$ 133,014

The Company evaluated its off-balance-sheet credit exposure for loan commitments and determined the likelihood of having to perform is remote as of September 30, 2020. Refer to Note 12.

Variable Interest through Notes Issued

The Company has issued notes receivables to certain entities that have created variable interests in these borrowers totaling $121.5 million and $126.5 million as of September 30, 2020 and December 31, 2019, respectively. The Company has determined that it is not the primary beneficiary of these variable interest entities ("VIEs"). These loans have stated fixed and/or variable interest amounts.

4. Investments in Unconsolidated Entities

The Company maintains a portfolio of investments owned through noncontrolling interests in equity method investments with one or more partners. The Company has equity method investments in joint ventures that represent VIEs totaling $71.9 million and $74.4 million on the consolidated balance sheets at September 30, 2020 and December 31, 2019, respectively. These investments relate to the Company's program to offer equity support to qualified franchisees to develop and operate Cambria 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 these 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 September 30, 2020 and 2019, the Company recognized losses totaling $2.3 million and $6.9 million, respectively, from these investments. For the nine months ended September 30, 2020 and 2019, the Company recognized losses totaling $6.9 million and $10.9 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 limited payment guaranties described in Note 12 of these financial statements.

5. Debt

Debt consists of the following:

	September 30, 2020	December 31, 2019
	(in thousands)	
$400 million senior unsecured notes due 2022 with an effective interest rate of 6.0%, less deferred issuance costs of $0.9 million and $2.3 million at September 30, 2020 and December 31, 2019, respectively	**$ 215,701**	$ 397,680
$400 million senior unsecured notes due 2029 with an effective interest rate of 3.88%, less a discount and deferred issuance costs of $5.5 million and $6.0 million at September 30, 2020 and December 31, 2019, respectively	**394,485**	394,039
$600 million senior unsecured revolving credit facility with an effective interest rate of 2.76%, less deferred issuance costs of $2.7 million at December 31, 2019 [(1)]	**—**	15,502
$450 million senior unsecured notes due 2031 with an effective interest rate of 3.86%, less a discount and deferred issuance costs of $6.3 million at September 30, 2020	**443,707**	—
Construction loan with an effective interest rate of 6.23%, less deferred issuance costs of $0.6 million at December 31, 2019.	**—**	32,465
Fixed rate collateralized mortgage with an effective interest rate of 4.57%, plus a fair value adjustment of $34 thousand and $0.2 million at September 30, 2020 and December 31, 2019, respectively	**6,977**	7,511
Economic development loans with an effective interest rate of 3.0% at September 30, 2020 and December 31, 2019, respectively	**4,416**	4,416
Total debt	**$ 1,065,286**	$ 851,613
Current portion of long-term debt	**$ 6,977**	$ 7,511
Long-term debt	**$ 1,058,309**	$ 844,102

[(1)] In September 2020, the Company utilized excess cash on hand to pay down its senior unsecured revolving credit facility balance in full. As there are no outstanding borrowings at September 30, 2020, deferred issuance costs of $2.5 million for the senior unsecured revolving credit facility are presented in non-current Other Assets in the Consolidated Balance Sheets.

In April 2020, the Company entered into a $250 million unsecured term loan (the "Term Loan") with a scheduled maturity date of April 15, 2021. In July 2020, the Company issued $450 million aggregate principal amount of 3.70% senior unsecured notes due 2031 (the "2020 Senior Notes") and announced the early tender results of a cash tender offer (the "Tender Offer") for the purchase of approximately $183.4 million aggregate principal amount of the Company's 5.75% senior unsecured notes due 2022 (the "2012 Senior Notes"). The Company used the net proceeds from the 2020 Senior Notes offering to repay the Term Loan in full and fund the $197.8 million purchase price of the 2012 Senior Notes tendered, inclusive of the aggregate principal, an early tender premium, settlement fees, and accrued interest paid. As a result of the early redemption of the 2012 Senior Notes and the early payoff of the Term Loan, the Company recognized a total charge of $16.0 million loss on extinguishment of debt.

On February 18, 2020, the Company entered into the First Amendment (the "Amendment") to the Amended and Restated Senior Unsecured Credit Agreement (the “Credit Agreement”) among the Company, Deutsche Bank AG New York Branch, as administrative agent and the lenders party thereto. Prior to the Amendment, the Credit Agreement provided that if certain subsidiaries of the Company were to incur certain recourse debt or become obligors in respect of certain recourse debt of the Company or certain of its other subsidiaries, those obligated subsidiaries were required to guarantee the Company’s obligations under the unsecured revolving credit facility provided pursuant to the Restated Credit Agreement (the “springing guarantee”). The Amendment, among other things, removes the springing guarantee and other provisions and references in the Credit Agreement related to the potential existence of subsidiary guarantors.

On March 5, 2020, the Company paid off the construction loan in the amount $33.1 million inclusive of accrued and unpaid interest and recorded a loss on extinguishment of debt of $0.6 million.

On August 12, 2020, the Company executed a one-year extension on the senior unsecured credit facility for $525 million of the $600 million total capacity in exchange for a fee of $0.3 million. The extended maturity date is August 20, 2025.

Refer to Note 12 and the Liquidity and Capital Resources header of "Management's Discussion and Analysis of Financial Condition and Results of Operations" for more information.

6. Accumulated Other Comprehensive Loss

The following represents the changes in accumulated other comprehensive loss, net of tax, by component for the nine months ended September 30, 2020 and 2019:

(in thousands)	Loss on Cash Flow Hedge	Foreign Currency Items	Total
Balance as of December 31, 2019	**$ —**	**$ (4,550)**	**$ (4,550)**
Other comprehensive loss before reclassification	**—**	**(237)**	**(237)**
Net current period other comprehensive income (loss)	**—**	**(237)**	**(237)**
Balance as of September 30, 2020	**$ —**	**$ (4,787)**	**$ (4,787)**

(in thousands)	Loss on Cash Flow Hedge	Foreign Currency Items	Total
Balance as of December 31, 2018	$ (1,436)	$ (4,010)	$ (5,446)
Other comprehensive loss before reclassification	—	(883)	(883)
Amounts reclassified from accumulated other comprehensive loss	646	—	646
Net current period other comprehensive income (loss)	646	(883)	(237)
Balance as of September 30, 2019	$ (790)	$ (4,893)	$ (5,683)

During the three and nine ended September 30, 2019, $0.2 million and $0.6 million, respectively, was reclassified from accumulated other comprehensive loss to Interest expense in the Company's Consolidated Statements of Income with reference to a cash flow hedge loss on an interest rate contract. There was no income tax expense or benefit. There were no amounts reclassified during the three and nine months ended September 30, 2020, as the debt related to the Interest rate contract was paid off in December 2019.

7. 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 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.

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 recorded at fair value whose fair value was determined using Level 3 inputs and there were no transfers of Level 3 assets during the three and nine months ended September 30, 2020.

As of September 30, 2020 and December 31, 2019, the Company had the following assets recorded in the consolidated balance sheets measured at fair value on a recurring basis:

		Fair Value Measurements at Reporting Date Using		
(in thousands)	Total	Level 1	Level 2	Level 3
As of September 30, 2020				
Mutual funds [1]	**$ 25,157**	**$ 25,157**	**$ —**	**$ —**
Money market funds [1]	**2,817**	**—**	**2,817**	**—**
Total	**$ 27,974**	**$ 25,157**	**$ 2,817**	**$ —**
As of December 31, 2019				
Mutual funds [1]	$ 24,927	$ 24,927	$ —	$ —
Money market funds [1]	2,192	—	2,192	—
Total	$ 27,119	$ 24,927	$ 2,192	$ —

[1] Included in Investments, employee benefit plans, at fair value and Other current assets on the consolidated balance sheets.

Other financial instruments disclosure

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 senior unsecured revolving 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 notes receivable, refer to Note 3.

The fair values of the Company's $400 million 2012 Senior Notes, $400 million senior unsecured notes due 2029 and $450 million 2020 Senior Notes are classified as Level 2, as the significant inputs are observable in an active market. At December 31, 2019, the $400 million 2012 Senior Notes had an approximate fair value of $432.0 million. On July 23, 2020, the Company purchased approximately $183.4 million aggregate principal amount of the 2012 Senior Notes. At September 30, 2020, the $216.6 million remaining 2012 Senior Notes had an approximate fair value of $231.7 million. At September 30, 2020 and December 31, 2019, the $400.0 million senior unsecured notes due 2029 had an approximate fair value of $426.8 million and $403.4 million, respectively. At September 30, 2020, the $450 million 2020 Senior Notes had an approximate fair value of $474.7 million.

Fair value estimates 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.

8. Income Taxes

The effective income tax rates were 39.4% and 11.3% for the three months ended September 30, 2020 and 2019, respectively. The effective income tax rates were (30.8)% and 16.6% for the nine months ended September 30, 2020 and 2019, respectively.

On January 1, 2018, the Company adopted ASU 2016-16, *Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other than Inventory* ("ASU 2016-16"), which provides guidance on recognition of current income tax consequences for inter-company asset transfers (other than inventory) at the time of transfer. On January 1, 2020, the Company completed a reorganization of its foreign legal entity structure that resulted in a $30.6 million tax benefit. In accordance with ASU 2016-16, the Company recorded the $30.6 million benefit and a corresponding deferred tax asset in the first quarter of 2020. Due to a decrease in the forecasted income of international entities resulting from adverse impacts of the COVID-19 pandemic, the Company recorded a valuation allowance of $5.1 million in the third quarter of 2020 reflecting a change in the anticipated realizability of this deferred tax asset.

The effective income tax rate for the three months ended September 30, 2020 was higher than the U.S. federal income tax rate of 21.0% due to the establishment of a valuation allowance of $5.1 million and state income taxes, partially offset by the impact of foreign operations, a $1.5 million adjustment to our deferred taxes, and $0.7 million of excess tax benefits from share-based compensation. The effective income tax rate for the three months ended September 30, 2019 was lower than the U.S. federal income tax rate of 21.0% due to $12.2 million of tax credits recognized in the period, $0.3 million of excess tax benefits from share-based compensation and the impact of foreign operations, offset by state income taxes.

The effective income tax rate for the nine months ended September 30, 2020 was lower than the U.S. federal income tax rate of 21.0% due to the impacts of ASU-2016 and the corresponding valuation allowance, $3.4 million of excess tax benefits from share-based compensation, an adjustment to our deferred taxes, and the impact of foreign operations, partially offset by state income taxes and a change in estimated uncertain tax positions. The effective income tax rate for the nine months ended September 30, 2019 was lower than the U.S. federal income tax rate of 21.0% due to $12.2 million of tax credits recognized in the period, $3.3 million of excess tax benefits from share-based compensation and the impact of foreign operations, partially offset by state income taxes.

9. Share-Based Compensation and Capital Stock

The components of the Company's pretax share-based compensation activity and associated income tax benefit are as follows for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2020**	**2019**	**2020**	**2019**
Stock options	**$ 497**	$ 541	**$ 1,478**	$ 1,667
Restricted stock	**2,206**	1,954	**6,249**	6,100
Performance vested restricted stock units	**675**	1,510	**(4,836)**	3,998
Total share-based compensation expense	**$ 3,378**	$ 4,005	**$ 2,891**	$ 11,765
Income tax benefit	**$ 805**	$ 964	**$ 689**	$ 2,831

Refer to the discussion of Performance Vested Restricted Stock Units ("PVRSUs") leveraging for unvested grants below.

A summary of stock-based award activity as of and changes during the nine months ended September 30, 2020 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, 2020	**873,895**	**$ 61.69**		**312,097**	**$ 75.23**	**330,716**	**$ 70.03**
Granted	**158,620**	**91.28**		**155,269**	**89.91**	**170,471**	**134.26**
Performance-Based Leveraging[(1)]	**—**	**—**		**—**	**—**	**30,116**	**61.31**
Exercised/Vested	**(131,800)**	**50.82**		**(120,052)**	**69.40**	**(176,471)**	**58.68**
Expired	**—**	**—**		**—**	**—**	**(16,117)**	**60.50**
Forfeited	**(3,696)**	**91.28**		**(36,860)**	**81.98**	**(16,963)**	**82.25**
Outstanding at September 30, 2020	**897,019**	**$ 68.40**	**2.5 years**	**310,454**	**$ 84.03**	**321,752**	**$ 109.25**
Options exercisable at September 30, 2020	**557,664**	**$ 58.71**	**2.5 years**				

(1) PVRSUs outstanding have been increased by 30,116 units due to the Company exceeding the targeted performance conditions contained in PVRSUs granted in prior periods which vested in the nine months ended September 30, 2020.

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:

	2020 Grants
Risk-free interest rate	**0.99%**
Expected volatility	**20.88%**
Expected life of stock option	**5.9 years**
Dividend yield	**0.99%**
Requisite service period	**4 years**
Contractual life	**10 years**
Weighted average fair value of options granted (per option)	**$ 17.25**

The fair value of restricted stock grants is measured by the market price of the Company's common 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. Vesting service period of shares granted during the nine months ended September 30, 2020 range from 12 to 48 months.

The Company grants two types of PVRSU awards: PVRSUs with performance conditions based on internal performance metrics and PVRSUs with market conditions based on the Company's total shareholder return ("TSR") relative to a predetermined peer group. The vesting of PVRSU stock awards is contingent upon the Company achieving internal performance or TSR targets over a specified period and the employees' continued employment for a service period. These performance and market conditions affect the number of shares that will ultimately vest. During the three months ended September 30, 2020, PVRSU awards granted had a service period of 31 months with award vesting ranges between 0% and 200% of the initial units granted.

The fair value of PVRSUs based on internal performance metrics is measured by the market price of the Company's common stock on the date of award grant. Compensation expense is recognized ratably over the requisite service period based on the Company's estimate of the achievement of the performance conditions. Management monitors current results and forecasts of the relevant internal performance metrics and, as necessary, adjusts the performance-based leveraging of unvested PVRSUs. During the nine months ended September 30, 2020, the Company reduced the leveraging factor for 230,647 unvested PVRSUs granted in the current and prior periods to 0%, based on management's estimate of achievement of performance targets with contemplation to impacts from the COVID-19 pandemic.

The fair value of TSR PVRSUs are estimated using a Monte Carlo simulation method as of the date of award grant. Compensation expense is recognized ratably over the requisite service period, regardless of whether the market conditions are achieved and the awards ultimately vest.

Share Repurchases and Redemptions

There were no purchases of common stock under the share repurchase program during the three months ended September 30, 2020. The Company purchased 548,031 shares of common stock under the share repurchase program at a total cost of $43.3 million during the nine months ended September 30, 2020. During the three and nine months ended September 30, 2020, the Company redeemed 7,504 and 123,029 shares of common stock at a total cost of approximately $0.7 million and $11.9 million, respectively, 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.

In light of uncertainty resulting from the COVID-19 pandemic, the Company has temporarily suspended activity under the share repurchase program. Refer to the Liquidity and Capital Resources header of "Management's Discussion and Analysis of Financial Condition and Results of Operations" for more information.

10. 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 September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Numerator:				
Net income	**$ 14,500**	$ 76,239	**$ 67,522**	$ 180,709
Income allocated to participating securities	**(78)**	(463)	**(378)**	(1,104)
Net income available to common shareholders	**$ 14,422**	$ 75,776	**$ 67,144**	$ 179,605
Denominator:				
Weighted average common shares outstanding – basic	**55,106**	55,366	**55,167**	55,346
Basic earnings per share	**$ 0.26**	$ 1.37	**$ 1.22**	$ 3.25
Numerator:				
Net income	**$ 14,500**	$ 76,239	**$ 67,522**	$ 180,709
Income allocated to participating securities	**(78)**	(461)	**(377)**	(1,100)
Net income available to common shareholders	**$ 14,422**	$ 75,778	**$ 67,145**	$ 179,609
Denominator:				
Weighted average common shares outstanding – basic	**55,106**	55,366	**55,167**	55,346
Diluted effect of stock options and PVRSUs	**304**	260	**273**	269
Weighted average common shares outstanding – diluted	**55,410**	55,626	**55,440**	55,615
Diluted earnings per share	**$ 0.26**	$ 1.36	**$ 1.21**	$ 3.23

The Company's unvested restricted shares contain rights to receive nonforfeitable 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.

As of both September 30, 2020 and 2019, the Company had 0.9 million outstanding stock options. Stock options are included in the diluted EPS calculation using the treasury stock method and average market prices during the period, unless the stock options would be anti-dilutive.

For both the three and nine months ended September 30, 2020, 0.2 million anti-dilutive stock options were excluded from the diluted EPS calculation. For the three months ended September 30, 2019, no anti-dilutive stock options were excluded from the diluted EPS calculation. For the nine months ended September 30, 2019, 0.2 million anti-dilutive stock options were excluded from the diluted EPS calculation.

PVRSUs are also included in the diluted EPS calculation when the performance conditions have been met at the reporting date. However, at September 30, 2020 and 2019, PVRSUs totaling 233,713 and 314,795, respectively, were excluded from the computation since the performance conditions had not been met.

11. Reportable Segment Information

Hotel Franchising: Hotel Franchising includes the Company's hotel franchising operations consisting of its fourteen brands. The fourteen 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 hotel 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.

The Company evaluates its hotel franchising segment 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 & Other column. Corporate & Other revenues include owned hotel revenues and rental income related to a commercial office building owned by the Company, as well as revenues related to the Company's SaaS technology solutions divisions which provide cloud-based property management software to non-franchised hoteliers. Equity in earnings or losses from hotel franchising related joint ventures is allocated to the Company's hotel franchising segment. The Company does not allocate interest expense, interest income, other gains and losses or income taxes to its segments.

Intersegment revenue adjustment is from the elimination of Hotel Franchising revenue which include royalty and marketing and reservation system fees charged to our owned hotels against franchise fee expense recognized by our owned hotels in Corporate & Other operating income (loss).

Our President and Chief Executive Officer, who is our chief operating decision maker, does not use assets by operating segment when assessing performance or making operating segment resource allocations and therefore assets by segment are not disclosed below.

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

	Three Months Ended September 30, 2020				Three Months Ended September 30, 2019			
(in thousands)	**Hotel Franchising**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**	**Hotel Franchising**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**$ 204,717**	**$ 6,368**	**$ (314)**	**$ 210,771**	**$ 301,280**	**$ 10,209**	**$ (757)**	**$ 310,732**
Operating income (loss)	**$ 70,940**	**$ (19,874)**	**$ —**	**$ 51,066**	**$ 116,227**	**$ (13,807)**	**$ —**	**$ 102,420**
Income (loss) before income taxes	**$ 69,208**	**$ (45,114)**	**$ —**	**$ 24,094**	**$ 109,828**	**$ (23,904)**	**$ —**	**$ 85,924**

	Nine Months Ended September 30, 2020				Nine Months Ended September 30, 2019			
(in thousands)	**Hotel Franchising**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**	**Hotel Franchising**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**$ 560,082**	**$ 21,785**	**$ (1,188)**	**$ 580,679**	**$ 829,901**	**$ 17,592**	**$ (757)**	**$ 846,736**
Operating income (loss)	**$ 154,770**	**$ (49,514)**	**$ —**	**$ 105,256**	**$ 306,020**	**$ (56,013)**	**$ —**	**$ 250,007**
Income (loss) before income taxes	**$ 147,598**	**$ (95,983)**	**$ —**	**$ 51,615**	**$ 296,469**	**$ (79,912)**	**$ —**	**$ 216,557**

12. 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

The Company entered into various limited payment guaranties with regards to the Company’s VIEs supporting the VIE’s efforts to develop and own hotels franchised under the Company’s brands. Under these limited payment guaranties, the Company has agreed to guarantee a portion of the outstanding debt until certain conditions are met such as (a) the loan matures, (b) certain debt covenants are achieved, (c) the maximum amount guaranteed by the Company is paid in full or (d) the Company, through its affiliates, ceases to be a member of the VIE. The maximum exposure of principal incidental to these limited payment guaranties is $5.7 million, plus unpaid expenses and accrued unpaid interest. As of September 30, 2020 and December 31, 2019, the Company believed the likelihood of having to perform under the aforementioned limited payment guaranties was remote. In the event of performance, the Company has recourse for one of the transactions in the form of a membership interest pledge as collateral for the guaranty.

Commitments

The Company has the following commitments outstanding at September 30, 2020:

- The Company provides financing in the form of franchise agreement acquisition payments to franchisees for property improvements, hotel development efforts and other purposes. These payments are typically made at commencement of construction or hotel opening, in accordance with agreed upon provisions in individual franchise agreements. At September 30, 2020, the Company had commitments to extend an additional $290.0 million for these purposes provided the conditions of the payment are met by its franchisees.

- To the extent existing unconsolidated joint ventures proceed to the hotel construction phase, the Company is committed to make capital contributions totaling $8.8 million to support their efforts to construct Cambria hotels.

- The Company committed to provide financing in the form of mezzanine loans or credit facilities to franchisees for Choice brand development efforts. In the third quarter of 2020, the Company has committed to provide an aggregate of approximately $1.0 million, upon certain conditions being met. As of September 30, 2020, no amounts have been disbursed.

- In March 2018, the Company entered into a construction loan agreement for the rehabilitation and development of a former office building into a hotel through a consolidated joint venture with a commercial lender, which is secured by the building. The construction loan can be drawn up to $34.9 million. On March 5, 2020, the Company paid off the construction loan in the amount $33.1 million inclusive of accrued and unpaid interest and recorded a loss on extinguishment of debt of $0.6 million.

- The Company's franchise agreements require the payment of franchise fees, which include marketing and reservation system fees. In accordance with terms of our franchise agreements, the Company is obligated to use the marketing and reservation system revenues it collects from the current franchisees comprising its various hotel brands to provide marketing and reservation services appropriate to support the operation of the overall system. To the extent revenues collected exceed expenditures incurred, the Company has a commitment to the franchisee system to make expenditures in future years. Conversely, to the extent expenditures incurred exceed revenues collected, the Company has the contractual enforceable right to assess and collect such amounts.

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.

13. 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 September 30, 2020 and 2019, fees earned and payroll costs reimbursed under this arrangement totaled $0.5 million and $0.8 million, respectively. For the nine months ended September 30, 2020 and 2019, fees earned and payroll costs reimbursed under this arrangement totaled $0.9 million and $1.7 million, respectively.

The Company has entered into franchise agreements with certain of the unconsolidated joint ventures discussed in Note 4. Pursuant to these franchise agreements, for the three months ended September 30, 2020 and 2019, the Company recorded royalty and marketing reservation system fees of approximately $3.6 million and $7.4 million, respectively. For the nine months ended September 30, 2020 and 2019, the Company recorded royalty and marketing reservation system fees of approximately $10.4 million and $19.0 million, respectively. The Company recorded $2.4 million and $1.4 million as a receivable due from these joint ventures as of September 30, 2020 and December 31, 2019, respectively.

14. Impairment of Long-Lived Assets

On December 30, 2014, a court awarded the Company title to a commercial office building as settlement of a portion of an outstanding loan receivable for which the building was pledged as collateral. At the time of settlement, a single tenant fully occupied the building. The initial lease term expiration is in December 2020 and the tenant has extension options for up to 30 years.

The tenant has recently provided notice that the lease renewal options will not be exercised. Management identified this as a triggering event requiring the interim reevaluation of the commercial office building's long-lived assets, comprised of $11.1 million in property and equipment and $0.2 million in intangible assets. Recoverability of the long-lived asset group is assessed based on net, undiscounted expected cash flows of the asset group. We have prepared undiscounted expected cash flows aligned with Management's present long-term strategy for the building and concluded the undiscounted expected cash flows are less than the carrying amount of the asset group.

An impairment charge was recorded for the excess of the carrying value over the fair value of the asset group. To estimate the fair value of the long-lived asset group, the Company utilized a combination of market and income approach valuation methods. The Company recognized a non-cash pretax long-lived asset group impairment charge in the amount of $4.3 million.

The results of the commercial office building are included in the Corporate & Other segment in Note 11. The impairment charge does not have an impact on the Company's liquidity or compliance with financial covenants under existing debt arrangements.

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", "we", or "our") 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.

Impact of the COVID-19 Pandemic

The evolving spread of COVID-19 has caused significant disruptions to the global economy and the hospitality industry, including in the United States, where more than 80% of our franchised hotels are located. The COVID-19 pandemic has led governments and other authorities and businesses around the world to impose or recommend measures intended to control its spread, including temporary closures of many businesses, "shelter in place" orders, travel restrictions, cancellation of events including sporting events, conferences and meetings, social distancing measures and other governmental regulations. As a result, the COVID-19 pandemic and its consequences have dramatically reduced travel and demand for hotel rooms, which has had, and is expected to continue to have, a material adverse impact on the hospitality industry and the Company both financially and operationally.

The impacts of COVID-19 on the Company's business were first experienced toward the end of the first quarter of 2020. Domestic occupancy levels fell below 50% overall for the month of March, ranging between 25.5% and 32.5% in the last ten days of the month, which was reflected in decreases in revenue per available room ("RevPAR"). Lower occupancy trends continued into the second quarter of 2020, where we experienced decreases in domestic RevPAR of 60.1% from the comparative prior year April and 49.6% from the comparative prior year second quarter. Since early April, we have observed steadily increasing domestic occupancy levels, with second quarter domestic occupancy at 39.1% and third quarter domestic occupancy at 52.1%. These increases in occupancy have led to lower relative RevPAR declines, with domestic RevPAR experiencing a decline of approximately 28.8% over the comparative prior year third quarter and 23.4% over the comparative prior year September monthly period. The extent to which the COVID-19 pandemic will continue to impact the hospitality industry and our operations is uncertain and will depend largely on future developments, including the severity and duration of resurgences of the virus and the effectiveness of actions by government authorities and the public to contain the pandemic. We continue to expect significant impact on our results of operations for the fourth quarter as well as the full year 2020. As of both September 30, 2020, and October 31, 2020, there were less than 1% of the Company's domestic hotel system that had temporarily suspended operations due to governmental restriction or a franchisee's election, compared to approximately 10% as of March 31, 2020.

While the ultimate impact and duration of COVID-19 is uncertain and will depend on future developments, which are difficult to predict, the Company believes that it will continue to benefit in the long-term from its primarily franchise-only business model, which has historically provided a relatively stable earnings stream and low capital expenditure requirements. Further, as of September 30, 2020, the Company had approximately $792.0 million in cash and additional available borrowing capacity through its senior unsecured revolving credit facility.

Based on our business model, the financial mitigation measures described below, and information known at this time, 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.

In response to the COVID-19 pandemic, we have implemented measures to focus on the safety of our customers, employees, franchisees and their staff, while at the same time seeking to mitigate the impact on franchisees' and our Company's financial position and operations. The duration of these measures cannot be predicted at this time. These measures include, but are not limited to, the following:

- Implemented fee-deferral programs for domestic and international franchisees.
- Reduced one-time reputation management fees and guest relations handling fees.
- Extended capital-intensive brand deadlines and created more flexible brand standard options to assist franchisees.
- Advocated to increase the benefits and eligibility requirements for government relief SBA programs and other CARES Act benefits to support franchisees in retaining employees and servicing debt.
- Established a proactive, ongoing multi-channel franchisee outreach and education program that is actively assisting our franchisees in accessing newly available capital.
- Revised its guest cancellation policy to provide travelers greater flexibility during these challenging times and deferred the expiration of loyalty points.
- Implemented travel restrictions and work-from-home practices for the Company’s employees.

The Company made a priority of working closely with its franchisees to drive business to their hotels across a wide variety of industries and government and emergency-management agencies. Many of the Company's franchisees committed their rooms inventory at discounted rates, or on a complimentary basis, to support their communities in dealing with the effects of the pandemic, opening their hotels for hospital overflows and providing temporary housing for first responders, the National Guard, healthcare workers, critical infrastructure workers and others in dire need. In addition, the Company provided hotel rooms donations to Operation Homefront to help ill and injured service members that were displaced by the pandemic. The Company teamed up with Serta, Inc. to contribute to its “Stay Home, Send Beds” initiative, which provided bed donations to help address nationwide shortages at hospitals and temporary medical facilities.

Management and the Board of Directors have taken steps to adjust the Company’s cost structure and increase its financial flexibility, which include, but are not limited to, the following actions:

- Reduced the compensation of the Board of Directors, chief executive officer, and other executive officers for the remainder of 2020.
- Reduced global work force by more than 20% through a combination of layoffs and furloughs.
- Introduced a hiring freeze except with respect to certain critical positions.
- Suspended associates’ 401(k) match for the remainder of 2020.
- Eliminated, reduced or deferred non-essential expenditures, discretionary capital expenditures and investments. We are actively working with vendors to achieve relief on fees or timing of fee payment.
- Temporarily suspended activity under the Company’s share repurchase program.
- Determined to suspend future, undeclared dividends for at least the remainder of 2020.
- Entered into a $250 million unsecured term loan (the "Term Loan") on a precautionary basis, enhancing the Company’s financial flexibility by increasing its borrowing capacity.
- Offered $450 million of 3.70% senior unsecured notes due 2031 (the "2020 Senior Notes"), using net proceeds to repay the Term Loan in full and fund the $197.8 million purchase price of the cash tender offer (the "Tender Offer") for approximately $183.4 million aggregate principal amount of the Company's 5.75% senior unsecured notes due in 2022 (the "2012 Senior Notes").

As disclosed above, domestic occupancy has been severely impacted. However, approximately 90% of the Company’s domestic hotels are in suburban, small town and interstate locations and have to-date experienced less severe occupancy declines related to COVID-19 than hotels in urban centers or resorts. Based on industry data, the Company's brands have been performing ahead of its upper-midscale, midscale and economy chain scale competitors, and the Company's hotels have experienced relatively stronger same-store RevPAR share gains versus their local competition from mid-March to present.

Given the uncertainty as to the potential duration of the crisis, including a resurgence of the virus, and its severity, the Company does not expect material improvement in the industry until there is a sense that the spread of the virus has been contained, shelter-in-place orders have been lifted and economic forecasts begin to improve. As the industry continues to recover, the Company believes it will continue to benefit from the expected faster rebound of leisure demand as a result of its higher share of leisure travel mix relative to competitors. The Company's properties are also well distributed in drive-to markets, which the Company believes will lead in the demand recovery for the industry.

While the Company believes that the long-term fundamentals of the business remain strong, it will continue to adjust business contingency plans as the COVID-19 pandemic evolves. For additional information, see Risk Factors in Part II, Item 1A of this Form 10-Q.

Overview

We are primarily a hotel franchisor with franchise agreements and owned hotels representing 7,126 hotels open comprising 596,455 rooms and 993 hotels under construction, awaiting conversion or approved for development comprising 81,747 rooms as of September 30, 2020, located 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®, Clarion Pointe™, Ascend Hotel Collection®, Sleep Inn®, Econo Lodge®, Rodeway Inn®, MainStay Suites®, Suburban Extended Stay Hotel®, WoodSpring Suites®, Everhome™ Suites, and Cambria® Hotels (collectively, the "Choice brands").

On January 27, 2020, we announced the launch of Everhome Suites, a new-construction midscale extended-stay brand offering. We expect to open the first Everhome Suites hotel in 2021.

The Company's domestic operations are conducted through direct franchising relationships and the ownership of five Cambria hotels, 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 our business is primarily focused on the domestic operations, which encompasses the United States and Caribbean countries and territories.

Our Company generates revenues, income and cash flows primarily from our franchising operations and the initial, relicensing and continuing royalty fees attributable to our franchise agreements. Revenues are also generated from five owned hotels, partnerships with qualified vendors and travel partners that provide value-added solutions to our platform of guests and over 7,000 hotels, and other sources. Historically, the hotel industry has been seasonal in nature. For most hotels, demand is ordinarily lower in November through February than during the remainder of the year. Our principal source of revenues is franchise fees based on the gross room revenues or number of rooms of our franchised properties. The Company's franchise fees, as well as its owned hotels revenues, normally reflect the industry's seasonality and historically have been lower in the first and fourth quarters than in the second and third quarters. However, historical trends cannot currently be relied on to predict future performance as a result of the COVID-19 pandemic.

With a primary focus on hotel franchising, we benefit from the economies of scale inherent in the franchising business. The fee and cost structure of our franchising 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 and relicensing fee 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 and expanding the number of partnerships with travel related companies.

The principal factors that affect the Company’s results are: the number and relative mix of hotel rooms in the various hotel lodging price categories; growth in the number of hotel rooms owned and under franchise; occupancy and room rates achieved by the hotels in our system; the effective royalty rate achieved on our franchise agreements; the level of franchise sales and relicensing activity; the number of qualified vendor arrangements and travel related partnerships and the level of engagement with these partners by our franchisees and guests; and our ability to manage costs. The number of rooms in our hotel system and the 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 owned and franchised hotels. All of these factors have been and we expect will continue to be materially disrupted by the COVID-19 pandemic. 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, over the long-term, any continued growth of our franchise business should enable us to realize benefits from the operating leverage in place and improve operating results. The effects of the COVID-19 pandemic on our third quarter 2020 results and anticipated trends are discussed above under the heading "Impact of the COVID-19 Pandemic" and below under the heading "Operations Review."

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, 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. While we continue to actively manage and eliminate certain discretionary marketing and reservation system expenditures, as a result of lower occupancy and therefore lower marketing and reservation system fees generated, we continue to anticipate marketing and reservation expenditures will exceed fees for the remainder of this year.

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 hotels and reducing hotel operating costs.

As discussed above, the Company has taken numerous measures to combat the significant effects of the COVID-19 pandemic on our business. These measures are an immediate priority in order to mitigate the financial impacts to our franchisees and the Company. We believe these immediate measures support the Company's preparedness and complement the strategic priorities we execute against to create value for our shareholders over the long-term. These key long-term goals are as follows:

Profitable Growth. Our success is dependent on improving the performance of our hotels, increasing our system size by selling additional hotel franchises, improving our effective royalty rate, expanding our qualified vendor programs and travel related partnerships and maintaining a disciplined cost structure. As noted above, we have introduced several temporary measures designed to assist franchisees during the COVID-19 pandemic. We attempt to improve our revenues and overall profitability by providing a variety of products and services designed to increase business delivery and/or reduce operating and development costs. 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 services, quality assurance standards, qualified vendor relationships and expanding our partnerships with other travel related companies that provide services to our franchisees and guests. We believe that healthy brands, which deliver a compelling return on investment, will enable us to sell additional hotel franchises and raise royalty rates. We have 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 in our system, growing the system through additional franchise sales and improving franchise agreement pricing while maintaining a disciplined cost structure are the keys to profitable growth. As disclosed above, the Company's hotels are presently experiencing significant declines in occupancy and RevPAR and there remains a subset of hotels with temporarily suspended operations resulting from the impacts of the COVID-19 pandemic, both of which will impact the profitability of the Company in the current year and an indeterminate period in the future.

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 historically strong and predictable cash flows create a strong financial position that provides us a competitive advantage. We maintain a capital structure intended to generate high financial returns and use our excess cash flow to provide returns to our shareholders primarily through share repurchases, dividends or investing in growth opportunities. In light of uncertainty resulting from the COVID-19 pandemic, and as previously disclosed, we determined to suspend future, undeclared dividends for at least the remainder of 2020 and have temporarily suspended activity under the Company's share repurchase program. Given our long-standing commitment to returning value to shareholders, we expect to consider resuming payment of a quarterly dividend and/or resuming activity under the share repurchase program at such time that conditions are appropriate. We currently have no estimated time frame for when this may occur.

The Company also allocates capital to financing, investment and guaranty support to incent franchise development for certain brands in strategic markets; hotel ownership; and exploring 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. In light of uncertainty resulting from the COVID-19 pandemic and to preserve liquidity, we have limited significant discretionary investments and intend to continue to do so until such time as we determine conditions are appropriate to resume any such activity.

We believe our growth 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 our financial performance. 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.

Our discussion of results excludes the Company's marketing and reservation system revenues and expenses. The Company's franchise agreements require the payment of marketing and reservation system fees to be 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 obligated to expend the marketing and reservation system fees it collects from franchisees in accordance with the franchise agreements. Furthermore, franchisees are required to reimburse the Company for any deficits generated by these marketing and reservation system activities. Over time, the Company expects cumulative revenues and expenses to break even and, therefore, no income or loss will be generated from marketing and reservation system activities. As a result, the Company generally excludes the financial impacts of this program from the analysis of its operations.

Due to the seasonal nature of the Company's hotel franchising business and multi-year investments that are required to support franchise operations, in addition to incremental spend by the Company to support franchisees during the COVID-19 pandemic, quarterly or annual deficits and surpluses may be generated. During the three and nine months ended September 30, 2020, marketing and reservation system expenses exceeded revenues by $6.7 million and $36.4 million, respectively. During the three months ended September 30, 2019, marketing and reservation system expenses exceeded revenues by $1.4 million. During the nine months ended September 30, 2019, marketing and reservation system revenues exceeded expenses by $1.2 million.

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

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, in light of uncertainty resulting from the COVID-19 pandemic, and as previously discussed, we do not intend to declare dividends for at least the remainder of 2020 and have temporarily suspended activity under the share repurchase program. 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.

Inflation: Inflation has been moderate in recent years and has not had a significant impact on our business. We are monitoring the implications of governmental assistance programs related to COVID-19 on future inflation trends and any resulting impacts on our business.

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.

Revenues, excluding marketing and reservation system activities: The Company utilizes revenues, excluding marketing and reservation system activities rather than total revenues when analyzing the performance of the business. Marketing and reservation activities are excluded since the Company is contractually required by its franchise agreements to utilize the fees collected specifically for system-wide marketing and reservation activities. 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 Revenues, excluding marketing and reservation system activities

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2020**	**2019**	**2020**	**2019**
Total revenues	**$ 210,771**	$ 310,732	**$ 580,679**	$ 846,737
Adjustments:				
Marketing and reservation system revenues	**(107,141)**	(157,024)	**(297,203)**	(439,553)
Revenues, excluding marketing and reservation system activities	**$ 103,630**	$ 153,708	**$ 283,476**	$ 407,184

Operations Review

Comparison of Operating Results for the Three-Month Periods Ended September 30, 2020 and 2019

Summarized financial results for the three months ended September 30, 2020 and 2019 are as follows:

(in thousands)	2020	2019
REVENUES		
Royalty fees	**$ 79,666**	$ 113,688
Initial franchise and relicensing fees	**6,071**	6,741
Procurement services	**10,115**	14,814
Marketing and reservation system	**107,141**	157,024
Owned hotels	**4,201**	8,710
Other	**3,577**	9,755
Total revenues	**210,771**	310,732
OPERATING EXPENSES		
Selling, general and administrative	**31,413**	38,308
Depreciation and amortization	**6,382**	5,568
Marketing and reservation system	**113,808**	158,430
Owned hotels	**3,812**	6,014
Total operating expenses	**155,415**	208,320
Impairment of goodwill	**—**	—
Loss on asset dispositions and impairments	**(4,290)**	33
Loss on sale of business	**—**	(25)
Gain on sale of assets, net	**—**	—
Operating income	**51,066**	102,420
OTHER INCOME AND EXPENSES, NET		
Interest expense	**12,691**	12,431
Interest income	**(1,744)**	(2,220)
Loss on extinguishment of debt	**15,958**	—
Other gains, net	**(1,664)**	(115)
Equity in net loss of affiliates	**1,731**	6,400
Total other income and expenses, net	**26,972**	16,496
Income before income taxes	**24,094**	85,924
Income tax expense (benefit)	**9,594**	9,685
Net income	**$ 14,500**	$ 76,239

Results of Operations

The Company recorded income before income taxes of $24.1 million for the three-month period ended September 30, 2020, a $61.8 million decrease from the same period of the prior year. The decrease in income before income taxes primarily reflects a $51.3 million decrease in operating income and a $16.0 million loss on extinguishment of debt in the three-month period ended September 30, 2020, partially offset by a $4.7 million decrease in equity in net loss of affiliates and a $1.6 million increase in other gains.

Operating income decreased $51.3 million primarily due to a $34.0 million decrease in royalty revenues, a $6.2 million decrease in other revenues, a $5.3 million increase in the net deficit generated from marketing and reservation system activities, a $4.7 million decrease in procurement services revenues, recognition of a $4.3 million impairment of a long-lived asset in the three-month period ended September 30, 2020, a $2.3 million decrease in owned hotels revenues in excess of expenses, and a $0.8 million increase in depreciation and amortization, partially offset by a $6.9 million decrease in selling, general and administrative ("SG&A") expenses.

The primary reasons for these fluctuations, including the impact of the COVID-19 pandemic, are described in more detail below.

Royalty Fees

Domestic royalty fees for the three months ended September 30, 2020 decreased $31.4 million to $76.4 million from $107.8 million for the three months ended September 30, 2019, a decrease of 29%. The decrease in domestic royalties reflect a 28.8% decrease in domestic RevPAR. System-wide RevPAR decreased due to a 13.4% decrease in average daily rates and a 1,130 basis point decrease in occupancy. The decrease in domestic royalties is partially offset by an increase in the number of domestic franchised hotel rooms and a 7 basis point increase in the effective royalty rate from 4.84% for the three months ended September 30, 2019 to 4.91% for the three months ended September 30, 2020.

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

	Three Months Ended September 30, 2020			Three Months Ended September 30, 2019			Change		
	Average Daily Rate	Occupancy	RevPAR	Average Daily Rate	Occupancy	RevPAR	Average Daily Rate	Occupancy	RevPAR
Comfort	**$ 86.81**	**53.3%**	**$ 46.26**	$ 101.48	68.4%	$ 69.39	(14.5)%	(1,510) bps	(33.3)%
Sleep	**78.07**	**52.4%**	**40.89**	88.32	66.4%	58.62	(11.6)%	(1,400) bps	(30.2)%
Quality	**76.57**	**48.7%**	**37.25**	85.60	60.6%	51.87	(10.5)%	(1,190) bps	(28.2)%
Clarion	**78.58**	**37.3%**	**29.34**	91.80	55.7%	51.16	(14.4)%	(1,840) bps	(42.7)%
Econo Lodge	**63.63**	**47.2%**	**30.01**	68.67	53.3%	36.62	(7.3)%	(610) bps	(18.1)%
Rodeway	**63.02**	**50.2%**	**31.62**	68.98	54.3%	37.45	(8.6)%	(410) bps	(15.6)%
WoodSpring	**46.42**	**76.5%**	**35.50**	48.69	77.4%	37.67	(4.7)%	(90) bps	(5.8)%
MainStay	**79.23**	**62.4%**	**49.43**	88.05	70.5%	62.07	(10.0)%	(810) bps	(20.4)%
Suburban	**51.46**	**68.3%**	**35.16**	57.55	67.9%	39.11	(10.6)%	40 bps	(10.1)%
Cambria Hotels	**110.04**	**41.3%**	**45.44**	145.78	72.0%	104.95	(24.5)%	(3,070) bps	(56.7)%
Ascend Hotel Collection	**126.71**	**51.2%**	**64.84**	135.09	67.6%	91.29	(6.2)%	(1,640) bps	(29.0)%
Total	**$ 75.30**	**52.1%**	**$ 39.25**	$ 86.95	63.4%	$ 55.10	(13.4)%	(1,130) bps	(28.8)%

The impacts of COVID-19 on the Company's business were first experienced by the Company toward the end of the first quarter of 2020, with domestic occupancy ranging between 25.5% and 32.5% in the last ten days of March, which was reflected in decreases in RevPAR. Lower occupancy trends continued into the second quarter of 2020, where we experienced decreases in domestic RevPAR of 60.1% from the comparative prior year April and 49.6% from the comparative prior year second quarter. Since early April, we have observed steadily increasing domestic occupancy levels, with second quarter domestic occupancy at 39.1% and third quarter domestic occupancy at 52.1%. These increases in occupancy have led to lower relative RevPAR declines, with domestic RevPAR experiencing a decline of approximately 28.8% over the comparative prior year third quarter and 23.4% over the comparative prior year September monthly period. There is uncertainty as to the potential duration of the COVID-19 pandemic, including a resurgence, and its severity, and thus corresponding uncertainty as to the duration and severity of the impact on our occupancy, which we expect will continue to impact our future results.

During the first quarter of 2020, the Company revised its calculation of Occupancy. Historically, Occupancy has excluded rooms unavailable to our guests for operational reasons, as reported by our franchisees. With the onset of the COVID-19 pandemic resulting in reduced travel and lesser demand, our franchisees began closing greater portions of inventory as compared to previous periods. To provide a more representative depiction of system occupancy and with reference to industry standards for RevPAR reporting for partially closed hotels during the COVID-19 pandemic, we have revised our Occupancy calculation to be reflective of full room availability for open hotels. The Company also made minor revisions to the calculation of Average Daily Rate ("ADR") with respect to complimentary rooms. The revised ADR, Occupancy, and RevPAR are reflected in the table above for all periods noted. Based on our previous calculation of ADR, Occupancy, and RevPAR, these metrics for the three months ended September 30, 2020 would have been $74.85, 60.2%, and $45.02, respectively, versus three months ended September 30, 2019 of $86.47, 68.4%, and $59.12, respectively, with period over period declines of 13.4%, 1,202 bps, and 23.8%, respectively.

The number of total domestic rooms in our franchise system increased by 1.9% to 462,139 rooms as of September 30, 2020 from 453,439 as of September 30, 2019. The total number of domestic hotels in our franchise system increased by 0.7% to 5,934 as of September 30, 2020 from 5,893 as of September 30, 2019.

A summary of domestic hotels and rooms in our franchise system at September 30, 2020 and 2019 by brand is as follows:

	September 30, 2020		September 30, 2019		Variance			
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	%	%
Comfort	1,629	128,213	1,618	126,931	11	1,282	0.7 %	1.0 %
Sleep	403	28,534	398	28,072	5	462	1.3 %	1.6 %
Quality	1,688	128,751	1,670	128,092	18	659	1.1 %	0.5 %
Clarion	179	22,364	176	22,113	3	251	1.7 %	1.1 %
Econo Lodge	781	47,036	815	49,197	(34)	(2,161)	(4.2)%	(4.4)%
Rodeway	567	32,251	585	34,090	(18)	(1,839)	(3.1)%	(5.4)%
WoodSpring	285	34,290	266	31,927	19	2,363	7.1 %	7.4 %
MainStay	74	4,673	72	4,642	2	31	2.8 %	0.7 %
Suburban	62	6,236	59	6,026	3	210	5.1 %	3.5 %
Cambria Hotels	53	7,599	47	6,679	6	920	12.8 %	13.8 %
Ascend Hotel Collection	213	22,192	187	15,670	26	6,522	13.9 %	41.6 %
Total Domestic Franchises	5,934	462,139	5,893	453,439	41	8,700	0.7 %	1.9 %

As of both September 30, 2020, and October 31, 2020, there were less than 1% of the Company's domestic hotel system that had temporarily suspended operations due to governmental restriction or a franchisee's election. These temporarily suspended hotels are included in the summary table above of domestic hotels in our franchise system. As of October 31, 2020, greater than 99% of the Company's domestic branded hotels are continuing to operate.

International royalty fees for the three months ended September 30, 2020 decreased $2.5 million to $3.3 million compared to the three months ended September 30, 2019 as a result of temporarily suspended operations and declines in RevPAR performance. International rooms in our franchise system increased by 13,029 from 121,287 as of September 30, 2019 to 134,316 as of September 30, 2020, with the total number of hotels in our franchise system increasing by 11 from 1,181 as of September 30, 2019 to 1,192 as of September 30, 2020. However, as of September 30, 2020 and October 31, 2020, approximately 3% and 5%, respectively, of the Company's international branded hotels temporarily suspended operations due to governmental restriction or a franchisee's election.

There is uncertainty as to the potential duration of the crisis, including a resurgence, and its severity, which will continue to impact the number of domestic and international hotels which temporarily suspend operations.

Initial Franchise and Relicensing Fees

Initial franchise fees are fees paid to the Company when a franchisee is awarded a franchise agreement; relicensing fees include fees charged to 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 existing franchise agreements.

During the third quarter of 2020, the Company awarded 81 domestic franchise agreements representing 6,573 rooms compared to 100 franchising agreements representing 7,468 rooms for the third quarter of 2019. Domestic franchise agreements awarded for new construction hotels totaled 21 contracts representing 1,805 rooms during the three months ended September 30, 2020, compared to 37 contracts representing 3,086 rooms for the three months ended September 30, 2019. Conversion hotel awarded franchise agreements totaled 60 representing 4,768 rooms for the three months ended September 30, 2020, compared to 63 agreements representing 4,382 rooms for the three months ended September 30, 2019.

The Company awarded 54 domestic relicensing contracts during the three months ended September 30, 2020, compared to 94 executed during the three months ended September 30, 2019. The Company awarded 5 domestic renewal agreements during the three months ended September 30, 2020, compared to 7 awarded during the three months ended September 30, 2019.

Initial franchise and relicensing fees are generally collected at the time the franchise agreement is awarded. However, the recognition of revenue is deferred until the hotel is open or the franchise agreement is terminated. Upon hotel opening, revenue is recognized ratably as services are provided over the enforceable period of the franchise license agreement. Upon the termination of a franchise agreement, previously deferred initial and relicensing fees are recognized immediately in the period the agreement is terminated. Initial franchise and relicensing fee revenue decreased from $6.7 million for the three months ended September 30, 2019 to $6.1 million for the three months ended September 30, 2020.

As of September 30, 2020, the Company had 945 franchised hotels with 76,155 rooms under construction, awaiting conversion or approved for development in its domestic system as compared to 975 hotels and 82,390 rooms at September 30, 2019. The number of new construction franchised hotels in the Company's domestic pipeline decreased 4% to 710 at September 30, 2020 from 741 at September 30, 2019. 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 1 hotel from 234 hotels at September 30, 2019 to 235 hotels at September 30, 2020. Conversion hotels typically open three to six months after the execution of a franchise agreement. The Company had an additional 48 franchised hotels with 5,592 rooms under construction, awaiting conversion or approved for development in its international system as of September 30, 2020 compared to 94 hotels and 20,750 rooms at September 30, 2019. Fluctuations in the Company's pipeline are primarily due to the timing of hotel openings and the timing of signing new franchise agreements. 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.

Given the uncertainty as to the potential duration of the COVID-19 pandemic and its severity, we anticipate a continued reduction in total new franchise agreements for the year. Further, these factors create additional uncertainty with respect to the opening of new construction hotels, which are reliant on, amongst other things, access to liquidity, availability of construction labor, and local governmental approvals and entitlements, all of which may be constrained during the pendency of the pandemic.

Procurement Services: Revenues decreased $4.7 million or 31.7% from $14.8 million for the three months ended September 30, 2019 to $10.1 million for the three months ended September 30, 2020. The decrease in revenues primarily reflects the decrease in fees affiliated with travel related partnerships. Because of impacts from COVID-19, for at least the remainder of the year we expect lower occupancy at our franchised hotels and as a result we expect there to be fewer purchases made from qualified vendors and travel related partners, from which we earn a fee.

Other Revenues: Other revenues declined $6.2 million from $9.8 million for the three months ended September 30, 2019 to $3.6 million in the same period of the current year. The decline primarily represents the reduction and, in some cases, suspension of reputation management, guest relation, and finance charges to our franchisees in addition to a decrease in termination fees.

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 $31.4 million for the three months ended September 30, 2020, a decrease of $6.9 million from the three months ended September 30, 2019.

SG&A expenses for the three months ended September 30, 2020 and 2019 include approximately $0.4 million and $1.5 million, respectively, related to the Company's alternative growth initiatives and expenses related to operations of an office building leased to a third party.

Excluding SG&A expenses for alternative growth initiatives and office building operations, SG&A for the three months ended September 30, 2020 decreased $5.8 million to $31.0 million in the current year primarily due to implemented cost mitigation measures resulting from the COVID-19 pandemic, including furloughs and layoffs of certain domestic and international positions and reduction of non-essential expenditures, partially offset by an increase in the Company's deferred compensation liabilities based on relative increases in the underlying investments and provisions for credit losses recorded in accordance with Topic 326.

Depreciation and amortization: Depreciation and amortization expense for the three months ended September 30, 2020 increased $0.8 million to $6.4 million from the same period of the prior year primarily due to an additional $0.8 million in depreciation related to the Company's owned hotels acquired and opened during the third quarter of 2019.

Loss on Asset Dispositions and Impairments: During the third quarter of 2020, the Company recognized a $4.3 million impairment charge related to the long-lived assets of a commercial office building owned by the Company.

Loss on Extinguishment of Debt: During the third quarter of 2020, the Company recorded a loss on the extinguishment of debt of $16.0 million related to the Tender Offer and early pay off of the Term Loan. Refer to the "Liquidity and Capital Resources" header for additional discussion.

Other Gains: The Company recorded other net gains of $1.7 million for the three months ended September 30, 2020, compared to other net gains of $0.1 million for the three months ended September 30, 2019. The gains relate to increases in the Company's deferred compensation assets based on increases in the underlying investments.

Equity in Net Loss of Affiliates: The Company recorded net losses of $1.7 million from its unconsolidated joint ventures for the three months ended September 30, 2020, compared to net losses of $6.4 million for the three months ended September 30, 2019. These investments relate to the Company's program to offer equity support to qualified franchisees to develop and operate Cambria Hotels in strategic markets. We anticipate the results recognized from these investments for the remainder of 2020 will be significantly impacted by the COVID-19 pandemic. The fluctuation is primarily attributable to the sale of an unconsolidated joint venture resulting in a loss of $6.0 million in the third quarter of 2019.

Income Tax (Benefit) Expense: The effective income tax rates were 39.4% and 11.3% for the three months ended September 30, 2020 and 2019, respectively.

On January 1, 2018, the Company adopted ASU 2016-16, which provides guidance on recognition of current income tax consequences for inter-company asset transfers (other than inventory) at the time of transfer. On January 1, 2020, the Company completed a reorganization of its foreign legal entity structure that resulted in a $30.6 million tax benefit. In accordance with ASU 2016-16, the Company recorded the $30.6 million benefit and a corresponding deferred tax asset in the first quarter of 2020. Due to a decrease in the forecasted income of international entities resulting from adverse impacts of the COVID-19 pandemic, the Company recorded a valuation allowance of $5.1 million in the third quarter of 2020 reflecting a change in the anticipated realizability of this deferred tax asset.

The effective income tax rate for the three months ended September 30, 2020 was higher than the U.S. federal income tax rate of 21.0% due to the establishment of a valuation allowance of $5.1 million and state income taxes, partially offset by the impact of foreign operations, a $1.5 million adjustment to our deferred taxes, and $0.7 million of excess tax benefits from share-based compensation. The effective income tax rate for the three months ended September 30, 2019 was lower than the U.S. federal income tax rate of 21.0% due to $12.2 million of tax credits recognized in the period, $0.3 million of excess tax benefits from share-based compensation and the impact of foreign operations, offset by state income taxes.

Operations Review

Comparison of Operating Results for the Nine-Month Periods Ended September 30, 2020 and 2019

Summarized financial results for the nine months ended September 30, 2020 and 2019 are as follows:

(In thousands)	2020	2019
REVENUES		
Royalty fees	**$ 200,157**	$ 300,468
Initial franchise and relicensing fees	**20,031**	20,223
Procurement services	**34,609**	47,590
Marketing and reservation system	**297,203**	439,553
Owned hotels	**15,731**	8,710
Other	**12,948**	30,192
Total revenues	**580,679**	846,736
OPERATING EXPENSES		
Selling, general and administrative	**104,212**	124,802
Depreciation and amortization	**19,309**	12,589
Marketing and reservation system	**333,564**	438,390
Owned hotels	**12,822**	6,014
Total operating expenses	**469,907**	581,795
Impairment of goodwill	**—**	(3,097)
Loss on asset dispositions and impairments	**(5,516)**	(7,271)
Loss on sale of business	**—**	(4,666)
Gain on sale of assets, net	**—**	100
Operating income	**105,256**	250,007
OTHER INCOME AND EXPENSES, NET		
Interest expense	**37,153**	34,735
Interest income	**(6,277)**	(7,617)
Loss on extinguishment of debt	**16,565**	—
Other gains, net	**(972)**	(3,219)
Equity in net loss of affiliates	**7,172**	9,551
Total other income and expenses, net	**53,641**	33,450
Income before income taxes	**51,615**	216,557
Income tax expense (benefit)	**(15,907)**	35,848
Net income	**$ 67,522**	$ 180,709

Results of Operations

The Company recorded income before income taxes of $51.6 million for the nine-month period ended September 30, 2020, a $165.0 million decrease from the same period of the prior year. The decrease in income before income taxes reflects a $144.8 million decrease in operating income, a $16.6 million loss on extinguishment of debt in the nine-month period ended September 30, 2020, a $2.5 million increase in interest expense, and a $2.2 million decrease in other gains, partially offset by a $2.4 million increase in net loss of affiliates,

Operating income decreased $144.8 million primarily due to a $100.3 million decrease in royalty revenues, a $37.5 million increase in the net deficit generated from marketing and reservation system activities, a $17.3 million decrease in other revenues, a $13.0 million decrease in procurement services revenues, a $6.7 million increase in depreciation and amortization, and recognition of $5.5 million loss on asset disposition and impairment during the nine-month period ended September 30, 2020, partially offset by a $20.6 million decrease in SG&A expenses and recognition of $15.0 million loss on impairment of long-lived assets and goodwill related to the Company's SaaS for vacation rentals reporting unit which was disposed of in the second quarter of 2019.

The primary reasons for these fluctuations are described in more detail below.

Royalty Fees

Domestic royalty fees for the nine months ended September 30, 2020 decreased $93.1 million to $191.1 million, a 33% decrease compared to the nine months ended September 30, 2019. The decrease in royalties reflect a 32.3% decrease in RevPAR. System-wide RevPAR decreased due to a 1,340 basis point decrease in occupancy rates and a 12.5% decrease in average daily rates. The decrease in domestic royalties is partially offset by a 1.9% increase in the number of domestic franchised hotel rooms and a 9 basis point increase in the effective royalty rate from 4.84% for the nine months ended September 30, 2019 to 4.93% for the nine months ended September 30, 2020.

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

	Nine Months Ended September 30, 2020			Nine Months Ended September 30, 2019			Change		
	Average Daily Rate	**Occupancy**	**RevPAR**	Average Daily Rate	Occupancy	RevPAR	**Average Daily Rate**	**Occupancy**	**RevPAR**
Comfort	**$ 85.22**	**46.2%**	**$ 39.40**	$ 97.39	63.9%	$ 62.26	(12.5)%	(1,770) bps	(36.7)%
Sleep	**77.36**	**46.5%**	**35.98**	86.50	63.0%	54.48	(10.6)%	(1,650) bps	(34.0)%
Quality	**73.23**	**42.1%**	**30.81**	81.51	55.9%	45.55	(10.2)%	(1,380) bps	(32.4)%
Clarion	**74.79**	**33.4%**	**24.97**	86.31	51.3%	44.32	(13.3)%	(1,790) bps	(43.7)%
Econo Lodge	**59.65**	**41.2%**	**24.55**	64.75	49.1%	31.78	(7.9)%	(790) bps	(22.8)%
Rodeway	**60.15**	**44.0%**	**26.45**	65.29	50.4%	32.89	(7.9)%	(640) bps	(19.6)%
WoodSpring	**46.15**	**72.0%**	**33.23**	47.34	76.9%	36.40	(2.5)%	(490) bps	(8.7)%
MainStay	**77.38**	**55.1%**	**42.61**	86.38	65.8%	56.86	(10.4)%	(1,070) bps	(25.1)%
Suburban	**52.14**	**63.7%**	**33.22**	58.36	68.9%	40.18	(10.7)%	(520) bps	(17.3)%
Cambria Hotels	**116.78**	**38.3%**	**44.78**	145.08	69.5%	100.88	(19.5)%	(3,120) bps	(55.6)%
Ascend Hotel Collection	**120.21**	**43.9%**	**52.73**	126.66	62.7%	79.41	(5.1)%	(1,880) bps	(33.6)%
Total	**$ 72.71**	**45.9%**	**$ 33.36**	$ 83.07	59.3%	$ 49.26	(12.5)%	(1,340) bps	(32.3)%

The impacts of COVID-19 on the Company's business were first experienced by the Company toward the end of the first quarter of 2020, with domestic occupancy ranging between 25.5% and 32.5% in the last ten days of March, which was reflected in decreases in RevPAR. Lower occupancy trends continued into the second quarter of 2020, where we experienced decreases in domestic RevPAR of 60.1% from the comparative prior year April and 49.6% from the comparative prior year second quarter. Since early April, we have observed steadily increasing domestic occupancy levels, with second quarter domestic occupancy at 39.1% and third quarter domestic occupancy at 52.1%. These increases in occupancy have led to lower relative RevPAR declines, with domestic RevPAR experiencing a decline of approximately 28.8% over the comparative prior year third quarter and 23.4% over the comparative prior year September monthly period. There is uncertainty as to the potential duration of the COVID-19 pandemic and its severity, and thus corresponding uncertainty as to the duration and severity of the impact on our occupancy, which we expect will continue to impact our future results.

During the first quarter of 2020, the Company revised its calculation of Occupancy, ADR, and RevPAR. The revised ADR, Occupancy, and RevPAR are reflected in the table above for all periods noted. Based on our previous calculation of ADR, Occupancy, and RevPAR, these metrics for the nine months ended September 30, 2020 would have been $72.24, 53.3%, and $38.49, respectively, versus nine months ended September 30, 2019 of $82.66, 64.6%, and $53.36, respectively, with period over period declines of 12.6%, 1,745 bps, and 27.9%, respectively.

International royalty fees for the nine months ended September 30, 2020 decreased $7.2 million to $9.1 million compared to the nine months ended September 30, 2019 as a result of the temporarily suspended operations and declines in RevPAR performance. International rooms in our franchise system increased by 13,029 from 121,287 as of September 30, 2019 to 134,316 as of September 30, 2020, with the total number of hotels in our franchise system increasing by 11 from 1,181 as of September 30, 2019 to 1,192 as of September 30, 2020. However, as of September 30, 2020 and October 31, 2020, approximately 3% and 5%, respectively, of the Company's international branded hotels temporarily suspended operations due to governmental restriction or a franchisee's election. There is uncertainty as to the potential duration of the crisis, including a resurgence, and its severity, which continues to impact the number of hotels which temporarily suspend operations.

Initial Franchise and Relicensing Fees

Initial franchise fees are fees paid to the Company when a franchisee executes a franchise agreement; relicensing fees include fees charged to 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 existing franchise agreements.

During the nine months ended September 30, 2020, the Company awarded 232 domestic franchise agreements representing 18,022 rooms compared to 377 franchise agreements representing 34,341 rooms for the nine months ended September 30, 2019. Domestic franchise agreements awarded for new construction hotels totaled 71 representing 6,102 rooms during the nine months ended September 30, 2020 compared to 129 franchise agreements representing 10,795 rooms for the nine months ended September 30, 2019. Conversion hotel awarded franchise agreements totaled 161 representing 11,920 rooms for the nine months ended September 30, 2020 compared to 248 franchise agreements representing 23,546 rooms for the nine months ended September 30, 2019.

The Company awarded 164 domestic relicensing contracts during the nine months ended September 30, 2020, compared to 286 executed during the nine months ended September 30, 2019. The Company awarded 25 domestic renewal agreements during the nine months ended September 30, 2020, compared to 26 executed during the nine months ended September 30, 2019.

Initial franchise and relicensing fees are generally collected at the time the franchise agreement is awarded. However, the recognition of revenue is deferred until the hotel is open or the franchise agreement is terminated. Upon hotel opening, revenue is recognized ratably as services are provided over the enforceable period of the franchise license agreement. Upon the termination of a franchise agreement, previously deferred initial and relicensing fees are recognized immediately in the period the agreement is terminated. Initial franchise and relicensing fee revenue decreased $0.2 million from $20.2 million during the nine months ended September 30, 2019 to $20.0 million during nine months ended September 30, 2020.

Given the uncertainty as to the potential duration of the COVID-19 pandemic and its severity, we anticipate a continued reduction in total new franchise agreements for the year. Further, these factors create additional uncertainty with respect to the opening of new construction hotels, which are reliant on, amongst other things, access to liquidity, availability of construction labor, and local governmental approvals and entitlements, all of which may be constrained during the pendency of the pandemic.

Procurement Services: Revenues decreased $13.0 million or 27% from $47.6 million for the nine months ended September 30, 2019 to $34.6 million for the nine months ended September 30, 2020. The decrease in revenues primarily reflects the cancellation of the Company's annual convention as a result of the COVID-19 pandemic and a decrease in fees affiliated with travel related partnerships. Because of impacts from COVID-19, for at least the remainder of the year we expect lower occupancy at our franchised hotels and as a result we expect there to be fewer purchases made from qualified vendors and travel related partners, from which we earn a fee.

Other Revenues: Other revenues declined $17.3 million from $30.2 million for the nine months ended September 30, 2019 to $12.9 million in the same period of the current year. The decline primarily represents the reduction and, in some cases, suspension of reputation management, guest relation, and finance charges to our franchisees in addition to a decrease in termination fees.

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 $104.2 million for the nine months ended September 30, 2020, a decrease of $20.6 million from the nine months ended September 30, 2019.

SG&A expenses for the nine months ended September 30, 2020 and 2019 include approximately $1.9 million and $7.8 million, respectively, related to the Company's alternative growth initiatives and expenses related to the operations of an office building leased to a third party. The decrease of $5.9 million from the same period of the prior year is primarily due to the sale of the SaaS for vacation rentals reporting unit on June 3, 2019.

Excluding SG&A for alternative growth initiatives and office building operations, SG&A for the nine months ended September 30, 2020 decreased $14.7 million to $102.3 million primarily due to implemented cost mitigation and cash preservation measures resulting from the COVID-19 pandemic, including cancellation of the annual convention; furloughs and layoffs of certain domestic and international positions and reduction of non-essential expenditures; and reductions in the Company's deferred compensation liabilities based on relative declines in the underlying investments; partially offset by provisions for credit losses recorded in accordance with Topic 326.

Depreciation and amortization: Depreciation and amortization expense for the nine months ended September 30, 2020 increased $6.7 million to $19.3 million from the same period of the prior year primarily due to an additional $7.1 million in depreciation related to the Company's owned hotels acquired and opened during the third quarter of 2019.

Impairment of Goodwill, Loss on Asset Dispositions and Impairments, and Loss on Sale of Business: For the nine months ended September 30, 2020, the Company recognized a $1.2 million charge related to a prospective self-development project the Company is no longer pursing and a $4.3 million impairment charge related to the long-lived assets of a commercial office building owned by the Company.

For the nine months ended September 30, 2019, the Company recognized a $15.0 million loss on impairment of long-lived assets and goodwill related to the Company's SaaS for vacation rentals reporting unit which was disposed of in the second quarter of 2019.

Interest Expense: The Company recorded interest expense of $37.2 million for the nine months ended September 30, 2020, an increase of $2.5 million from the nine months ended September 30, 2019. The increase in interest expense is a result of increased borrowings over the course of 2020 in response to the COVID-19 pandemic. We anticipate borrowings and associated interest expense will remain elevated relative to comparable periods for the remainder of 2020.

Loss on Extinguishment of Debt: During the first quarter of 2020, the Company recorded a loss on the extinguishment of debt of $0.6 million related to the early pay off of a construction loan in the amount of $33.1 million, inclusive of accrued and unpaid interest.

During the third quarter of 2020, the Company recorded a loss on the extinguishment of debt of $16.0 million related to the Tender Offer and early pay off of the Term Loan. Refer to the "Liquidity and Capital Resources" header for additional discussion.

Other Gains: The Company recorded other net gains of $1.0 million for the nine months ended September 30, 2020, compared to other net gains of $3.2 million for the nine months ended September 30, 2019. The gains relate to increases in the Company's deferred compensation assets based on increases in the underlying investments.

Equity in Net Loss of Affiliates: The Company recorded net losses of $7.2 million from its unconsolidated joint ventures for the nine months ended September 30, 2020 compared to net losses of $9.6 million for the nine months ended September 30, 2019. These investments relate to the Company's program to offer equity support to qualified franchisees to develop and operate Cambria Hotels in strategic markets. We anticipate the results recognized from these investments for the remainder of 2020 will be significantly impacted by the COVID-19 pandemic. The fluctuation is primarily attributable to the sale of an unconsolidated joint venture resulting in a loss of $6.0 million in the third quarter of 2019, partially offset by increased losses of operating joint venture hotels. We anticipate the results recognized from these investments in the fourth quarter of 2020 will continue to be significantly impacted by the COVID-19 pandemic.

Income Tax (Benefit) Expense: The effective income tax rates were (30.8)% and 16.6% for the nine months ended September 30, 2020 and 2019, respectively.

On January 1, 2018, the Company adopted ASU 2016-16 which provides guidance on recognition of current income tax consequences for inter-company asset transfers (other than inventory) at the time of transfer. On January 1, 2020, the Company completed a reorganization of its foreign legal entity structure that resulted in a $30.6 million tax benefit. In accordance with ASU 2016-16, the Company recorded the $30.6 million benefit and a corresponding deferred tax asset in the first quarter of 2020. Due to a decrease in the forecasted income of international entities resulting from adverse impacts of the COVID-19 pandemic, the Company recorded a valuation allowance of $5.1 million in the third quarter of 2020 reflecting a change in the anticipated realizability of this deferred tax asset.

The effective income tax rate for the nine months ended September 30, 2020 was lower than the U.S. federal income tax rate of 21.0% due to the impacts of ASU-2016 and the corresponding valuation allowance, $3.4 million of excess tax benefits from share-based compensation, an adjustment to our deferred taxes, and the impact of foreign operations, partially offset by state income taxes and a change in estimated uncertain tax positions. The effective income tax rate for the nine months ended September 30, 2019 was lower than the U.S. federal income tax rate of 21.0% due to $12.2 million of tax credits recognized in the period, $3.3 million of excess tax benefits from share-based compensation and the impact of foreign operations, partially offset by state income taxes.

Liquidity and Capital Resources

In response to the COVID-19 pandemic, we have taken steps to adjust the company's cost structure and increase its financial flexibility and liquidity. At September 30, 2020, the Company had approximately $792.0 million in cash and additional available borrowing capacity through its senior unsecured revolving credit facility,

In April 2020, the Company entered into the $250 million Term Loan. In July 2020, the Company issued the $450 million 2020 Senior Notes and announced the Tender Offer for the purchase of approximately $183.4 million aggregate principal amount of the Company's 2012 Senior Notes. The Company used the net proceeds from the 2020 Senior Notes offering to repay the Term Loan in full and fund the $197.8 million purchase price of the 2012 Senior Notes tendered, inclusive of the aggregate principal, an early tender premium, settlement fees, and accrued interest paid. In September 2020, the Company utilized excess cash on hand to pay down the senior unsecured revolving credit facility balance in full.

To preserve capital, we determined to suspend future, undeclared dividends for at least the remainder of 2020 and have temporarily suspended activity under our share repurchase program as well as limited discretionary spending and investments until such time as we determine conditions are appropriate to resume any such activity.

Based on our business model, the financial mitigation measures taken, and information known at this time, 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. As of September 30, 2020, we were in compliance with the financial covenants of our credit agreements and expect to remain in such compliance.

Operating Activities

During the nine months ended September 30, 2020 and 2019, net cash provided by operating activities totaled $69.7 million and $191.0 million, respectively. Operating cash flows decreased $121.3 million primarily due to a decrease in operating income as driven by a reduction in royalty fees and the net deficit generated from marketing and reservation system activities, excluding certain non-cash charges, and timing of working capital items.

In conjunction with brand and development programs, we make certain payments to franchisees as an incentive to enter into new franchise agreements or perform designated improvements to properties under existing franchise agreements. These payments are typically made at commencement of construction or hotel opening, in accordance with agreed upon provisions in individual franchise agreements. We recognize such payments as an adjustment to transaction price and capitalize as an intangible asset. These intangibles are amortized on a straight-line basis over the estimated benefit period of the arrangement as an offset to revenues. If the franchisee remains in the franchise system in good standing over the term specified in the incentive agreement, the Company forgives the incentive ratably. If the franchisee exits our franchise system or is not operating their franchise in accordance with our quality or credit standards, the franchisee must repay the unamortized incentive payment plus interest. During the nine months ended September 30, 2020 and 2019, the Company's net advances for these purposes totaled $17.0 million and $25.6 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 ability of our franchisees to complete construction or convert their hotels to one of the Company's brands. At September 30, 2020, the Company had commitments to extend an additional $290.0 million for these purposes provided the conditions of the payment are met by its franchisees.

The Company's franchise agreements require the payment of marketing and reservation system fees. In accordance with the terms of our franchise agreements, the Company is obligated to use these marketing and reservation system fees to provide marketing and reservation services such as advertising, providing a centralized reservation and property management system, providing reservation and revenue management services, and performing certain franchise services to support the operation of the overall franchise system. Marketing and reservation system expenses are those expenses incurred to facilitate the delivery of marketing and reservation system services, including direct expenses and an allocation of costs for certain administrative activities required to carry out marketing and reservation services. Marketing and reservation system expenses are recognized as services are incurred or goods are received, and as such may not equal marketing and reservation system revenues in a specific period but are expected to equal revenues earned from franchisees over time. To the extent revenues collected exceed expenditures incurred, the Company has a commitment to the franchisee system to make expenditures in future years. Conversely, to the extent expenditures incurred exceed revenues collected, the Company has the contractual enforceable right to recover such advances in future periods through additional fee assessments or reduced spending. During the nine months ended September 30, 2020, marketing and reservation system expenses exceeded revenues by $36.4 million. During the nine months ended September 30, 2019 marketing and reservation system revenues exceeded expenses by $1.2 million.

Investing Activities

Cash utilized for investing activities totaled $30.5 million and $220.2 million for the nine months ended September 30, 2020 and 2019, respectively. The decrease in cash utilized for investing activities for the nine months ended September 30, 2020 primarily reflects the following items:

During the nine months ended September 30, 2020 and 2019, the Company invested $4.6 million and $17.3 million, respectively, in joint ventures accounted for under the equity method of accounting. In addition, the Company received distributions from these joint ventures totaling $3.4 million and $9.8 million for the nine months ended September 30, 2020 and 2019, respectively. The Company's investment in these joint ventures primarily relates to ventures that support the Company's efforts to promote the growth of our Cambria Hotels brand. To the extent existing unconsolidated joint ventures proceed to the hotel construction phase, the Company is committed to make capital contributions totaling $8.8 million to support these efforts.

During the nine months ended September 30, 2020 and 2019, capital expenditures in property and equipment totaled $32.2 million and $46.1 million, respectively. The decrease in capital expenditures primarily reflects the Company's 2019 improvements to a historic building that was converted to a Cambria Hotel. The hotel opened in the third quarter of 2019. During the nine months ended September 30, 2020, the Company realized proceeds of $9.2 million from the sale of state historic rehabilitation tax credits earned from the improvements made to this building. The proceeds of $9.2 million were applied to lower the basis of the owned hotel property and equipment.

The Company provides financing to franchisees for hotel development efforts and other purposes in the form of notes receivable. These loans bear interest and are expected to be repaid in accordance with the terms of the loan arrangements. During the nine months ended September 30, 2020, the Company advanced and received repayments totaling $9.8 million and $5.1 million for these purposes, respectively. For the nine months ended September 30, 2019, the Company advanced and received repayments totaling $10.8 million and $10.5 million for these purposes, respectively. At September 30, 2020, the Company had commitments to extend an additional $1.0 million for these purposes provided certain conditions are met by its franchisees.

During the nine months ended September 30, 2019, the Company realized proceeds of $10.6 million from the sale of one parcel of land. The Company did not sell any land parcels during the nine months ended September 30, 2020.

During the nine months ended September 30, 2019, the Company sold the SaaS for vacation rentals reporting unit and made payments, net of sales proceeds, of $10.8 million for net costs incurred to complete the disposition.

During the nine months ended September 30, 2019, the Company held a 40% ownership interest of a joint venture that owned five Cambria Hotels recorded as an investment in unconsolidated entities of $40.0 million. On July 23, 2019, the Company redeemed the remaining 60% ownership interest in four of the hotels for approximately $169.0 million, net of cash acquired, and sold its 40% ownership interest in the fifth hotel for approximately $8.9 million. The transaction was funded with cash and borrowings under the Company's revolving credit facility.

From time to time, our board of directors authorizes specific transactions and general programs which permit us to provide financing, investment and guaranties, and similar credit support to qualified franchisees, as well as to acquire, develop, and resell real estate and hotels to incent franchise development. Since 2006, we have engaged in these financial support activities to encourage acceleration of the growth of our Cambria Hotels 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 outstanding investment not to exceed $725 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, and our assessment of the on-going impacts of the COVID-19 pandemic. Our support of the Cambria Hotels brand's growth is expected to be primarily in the form of joint venture investments, hotel ownership, 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, hotel ownership and joint venture investments, we generally expect to recycle these loans and investments within a five year period. At September 30, 2020, the Company had approximately $566.8 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

Restated Senior Unsecured Credit Facility

On August 20, 2018, the Company entered into the Restated Credit Agreement, which amended and restated the Company's existing senior unsecured revolving credit agreement, dated July 21, 2015.

The Restated Credit Agreement provides for a $600 million unsecured credit facility with a maturity date of August 20, 2023, 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 Restated Credit Agreement. The effectiveness of such extensions are subject to the consent of the lenders under the Restated Credit Agreement and certain customary conditions. The Restated Credit Agreement also provides that up to $35 million of borrowings under the Restated Credit Agreement may be used for alternative currency loans and up to $25 million of borrowings under the Restated Credit Agreement may be used for swingline loans. The Company may from time to time designate one or more wholly owned subsidiaries of the Company as additional borrowers under the Restated Credit Agreement, subject to the consent of the lenders and certain customary conditions.

On July 2, 2019, the Company exercised a one-year extension option on the Restated Credit Agreement, extending the maturity date from August 20, 2023 to August 20, 2024. On August 12, 2020, the Company executed an additional one-year extension on the Restated Credit Agreement for $525 million of the $600 million total capacity. The extended maturity date is August 20, 2025.

There are no subsidiary guarantors under the Restated Credit Agreement. However, if certain subsidiaries of the Company subsequently incur certain recourse debt or become obligors in respect of certain recourse debt of the Company or certain of its other subsidiaries, the Restated Credit Agreement requires such obligated subsidiaries to guarantee the Company's obligations under the Restated Credit Agreement (the "springing guarantee"). In the event that these subsidiary guarantees are triggered under the Restated Credit Agreement, the same subsidiary guarantees would be required under the Company's $400 million senior unsecured notes due 2022 and certain hedging and bank product arrangements, if any, with lenders that are parties to the Restated Credit Agreement.

On February 18, 2020, the Company entered into the First Amendment to the Amended and Restated Senior Unsecured Credit Agreement (the "Amendment") among the Company, Deutsche Bank AG New York Branch, as administrative agent (the "Administrative Agent") and the lenders party thereto. The Amendment, among other things, removes the springing guarantee and other provisions and references in the Restated Credit Agreement related to the potential existence of subsidiary guarantors.

The Company may at any time prior to the final maturity date increase the amount of the Restated Credit Agreement or add one or more term loan facilities under the Restated Credit Agreement by up to an additional $250 million in the aggregate to the extent that any one or more lenders commit to being a lender for the additional amount of such term loan facility and certain other customary conditions are met.

The Restated Credit Agreement provides that the Company may elect to have borrowings bear interest at a rate equal to (i) LIBOR plus a margin ranging from 90 to 150 basis points or (ii) a base rate plus a margin ranging from 0 to 50 basis points, in each case, with the margin determined according to the Company's senior unsecured long-term debt rating or under circumstances as set forth in the Restated Credit Agreement, the Company's total leverage ratio in the event that such total leverage ratio is less than 2.5 to 1.0.

The Restated Credit Agreement requires the Company to pay a fee on the total commitments, calculated on the basis of the actual daily amount of the commitments (regardless of usage) times a percentage per annum ranging from 0.075% to 0.25% (depending on the Company's senior unsecured long-term debt rating or under circumstances as set forth in the Restated Credit Agreement, the Company's total leverage ratio in the event that such total leverage ratio is less than 2.5 to 1.0).

The Restated 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.

The Restated Credit Agreement imposes financial maintenance covenants requiring the Company to maintain a consolidated fixed charge coverage ratio of at least 2.5 to 1.0 and a total leverage ratio of not more than 4.5 to 1.0 or, on up to two nonconsecutive occasions, 5.5 to 1.0 for up to three consecutive quarters following a material acquisition commencing with the fiscal quarter in which such material acquisition occurred. The Company maintains an Investment Grade Rating, as defined in the Restated Credit Agreement, and therefore is not currently required to comply with the consolidated fixed charge coverage ratio covenant.

The Restated 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 Restated Credit Agreement to be immediately due and payable. At September 30, 2020, the Company maintained a total leverage ratio of 3.54x and was in compliance with all financial covenants under the Restated Credit Agreement. The Company decreased borrowings on its senior unsecured revolving credit facility by $18.2 million in the nine months ended September 30, 2020, utilizing excess cash on hand to pay down the balance in full.

The proceeds of the Restated Credit Agreement are generally 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 Restated Credit Agreement. However, in light of uncertainty resulting from the COVID-19 pandemic, and as previously discussed, we determined to suspend future, undeclared dividends for at least the remainder of 2020 and have temporarily suspended activity under our share repurchase program.

Term Loan

To preserve financial flexibility and liquidity during the COVID-19 pandemic, on April 16, 2020, the Company entered into a Credit Agreement, which provides for the $250 million Term Loan with a scheduled maturity date of April 15, 2021, subject to an optional one-year extension that can be requested by the Company prior to the initial maturity date. The effectiveness of such extension is subject to the consent of the lenders under the Credit Agreement and certain customary conditions.

The Term Loan and all accrued but unpaid interest thereon must be repaid in full on the maturity date. Upon the occurrence of certain asset sales, debt issuances and equity issuances, subject to the exceptions set forth in the Credit Agreement, the Company is required to make certain mandatory principal prepayments of the Term Loan in an amount equal to 100% of the net cash proceeds of such transactions.

The Credit Agreement provides that the Company may elect to have the Term Loan bear interest at a rate equal to (i) LIBOR (subject to a floor of 1.00%) plus a margin ranging from 200 to 275 basis points or (ii) a base rate plus a margin ranging from 100 to 175 basis points, in each case, with the margin determined according to 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 and stock repurchases, the Company may not declare or make any payment, subject to certain exceptions set forth in the Credit Agreement, if (i) there is an existing event of default or if the payment would create an event of default or (ii) (x) the Company's total leverage ratio exceeds 4.0 to 1.0 or (y) liquidity (defined in the Credit Agreement as the Company's unrestricted cash and cash equivalents plus undrawn amounts under the Company's existing senior unsecured revolving credit facility) is less than $250 million, in each case, both before or immediately after giving effect to such payment.

The Credit Agreement imposes financial maintenance covenants requiring the Company to maintain a consolidated fixed charge coverage ratio of at least 2.5 to 1.0 and a total leverage ratio of not more than 4.5 to 1.0. If the Company maintains an Investment Grade Rating, as defined in the Credit Agreement, 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.

The proceeds of the Term Loan were utilized to reduce borrowings on the Company's senior unsecured revolving credit facility. The Term Loan was subsequently paid off in full in July 2020 utilizing the proceeds of the 2020 Senior Notes. In combination with the Tender Offer, the Company recorded a loss on extinguishment of debt of $16.0 million in the third quarter of 2020.

Senior Unsecured Notes Due 2031

On July 23, 2020, the Company issued unsecured senior notes in the principal amount of $450 million (the "2020 Senior Notes") bearing a coupon of 3.70%. The 2020 Senior Notes will mature on January 15, 2031, with interest to be paid semi-annually on January 15th and July 15th beginning January 15, 2021. The Company used the net proceeds of the 2020 Senior Notes, after deducting underwriting discounts, commissions and other offering expenses, to repay the Term Loan in full and fund the purchase price of the 2012 Notes tendered and accepted by the Company for purchase pursuant to the tender offer (discussed below under "Senior Unsecured Notes due 2022").

Interest on the 2020 Senior Notes is payable semi-annually on January 15th and July 15th of each year, commencing on January 15, 2021. The interest rate payable on the 2020 Senior Notes will be subject to adjustment based on certain rating events. The

Company may redeem the 2020 Senior Notes, in whole or in part, at its option at the applicable redemption price before maturity. If the Company redeems the 2020 Senior Notes prior to October 15, 2030 (three months prior to the maturity date) (the “2020 Notes Par Call Date”), the redemption price will be equal to the greater of (a) 100% of the principal amount of the notes to be redeemed, or (b) the sum of the present values of the remaining scheduled principal and interest payments that would have been payable had the 2020 Senior Notes matured on the 2020 Notes Par Call Date, discounted to the redemption date on a semi-annual basis at the applicable Treasury Rate plus 50 basis points, plus accrued and unpaid interest. If the Company redeems the 2020 Senior Notes on or after the 2020 Notes Par Call Date, the redemption price will equal 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest. Additionally, at the option of the holders of the 2020 Senior Notes, the Company may be required to repurchase all or a portion of the 2020 Senior Notes of a holder upon the occurrence of a change of control event at a price equal to 101% of their aggregate principal amount, plus accrued and unpaid interest, to the date of repurchase.

Senior Unsecured Notes Due 2029

On November 27, 2019, the Company issued unsecured senior notes in the principal amount of $400.0 million (the "2019 Senior Notes") at a discount of $2.4 million, bearing a coupon of 3.70% with an effective rate of 3.88%. The 2019 Senior Notes will mature on December 1, 2029, with interest to be paid semi-annually on December 1st and June 1st. The Company used the net proceeds of this offering, after deducting underwriting discounts, commissions and other offering expenses, to repay previously outstanding senior notes and for working capital and other general corporate purposes.

The Company may redeem the 2019 Senior Notes, in whole or in part, at its option at the applicable redemption price before maturity. If the Company redeems the 2019 Senior Notes prior to September 1, 2029 (three months prior to the maturity date) (the “2019 Notes Par Call Date”), the redemption price will be equal to the greater of (a) 100% of the principal amount of the notes to be redeemed, or (b) the sum of the present values of the remaining scheduled principal and interest payments that would have been payable had the 2019 Senior Notes matured on the 2019 Notes Par Call Date, discounted to the redemption date on a semi-annual basis at the applicable Treasury Rate plus 30 basis points, plus accrued and unpaid interest. If the Company redeems the 2019 Senior Notes on or after the 2019 Notes Par Call Date, the redemption price will equal 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest. Additionally, at the option of the holders of the 2019 Senior Notes, the Company may be required to repurchase all or a portion of the 2019 Senior Notes of a holder upon the occurrence of a change of control event at a price equal to 101% of their aggregate principal amount, plus accrued and unpaid interest, to the date of repurchase.

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 5.750% with an effective rate of 6.00%. 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 unsecured credit facility, to pay a special cash dividend totaling approximately $600.7 million paid to stockholders on August 23, 2012.

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. Additionally, at the option of the holders of the 2012 Senior Notes, the Company may be required to repurchase all or a portion of the 2012 Senior Notes of a holder upon the occurrence of a change of control event at a price equal to 101% of their aggregate principal amount, plus accrued and unpaid interest, to the date of repurchase.

On July 9, 2020, the Company commenced the Tender Offer to purchase up to $160.0 million aggregate principal amount of the Company’s 2012 Senior Notes subject to increase or decrease. The Tender Offer was subsequently upsized to $180.0 million aggregate principal amount of the 2012 Notes. On July 23, 2020, the Company amended the Tender Offer by increasing the aggregate principal maximum tender amount from $180.0 million to $183.4 million. The Tender Offer settled on July 24, 2020 for $197.8 million, including an early tender premium, settlement fees, and accrued interest paid. In combination with the early pay off of the Term Loan, the Company recorded a loss on extinguishment of debt of $16.0 million in the third quarter of 2020.

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 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 September 30, 2020, the Company had been fully advanced the amounts due pursuant to these agreements. 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 10 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 applicable current performance conditions as of September 30, 2020.

Construction Loan Commitment

In March 2018, the Company entered into a construction loan agreement for the rehabilitation and development of a former office building into a Cambria Hotel through a consolidating joint venture with a commercial lender, which is secured by the building. The construction loan can be drawn up to $34.9 million. The Company has a carve-out guaranty and the unaffiliated joint venture partner has a completion guaranty in relation to the loan, in which both parties are required to meet certain financial covenants relating to liquidity and net worth. The rehabilitation of the building is considered a qualified asset in which requires a significant amount of time to prepare for its intended use. Therefore, any interest costs incurred during the development period of the building is considered an element of the historical cost of the qualifying asset. The construction was completed and the hotel opened in the third quarter of 2019, resulting in the satisfaction of the completion guaranty. On March 5, 2020, the Company paid off the construction loan in the amount $33.1 million inclusive of accrued and unpaid interest and recorded a loss on extinguishment of debt of $0.6 million.

Dividends

The Company commenced paying quarterly dividends in 2004. In 2012, the Company elected to pay a special cash dividend totaling approximately $600 million.

During the nine months ended September 30, 2020, the Company paid cash dividends totaling $25.3 million. The most recent dividend declaration from the Company's board of directors was on February 28, 2020 in the amount of $0.225 per share and paid on April 16, 2020. In light of uncertainty resulting from the COVID-19 pandemic, and as previously disclosed, we determined to suspend future, undeclared dividends for at least the remainder of 2020.

Share Repurchases

In 1998, we instituted a share repurchase program which has generated substantial value for our shareholders.

During the nine months ended September 30, 2020, the Company repurchased 0.5 million shares of its common stock under the share repurchase program at a total cost of $43.3 million. Through September 30, 2020, the Company had repurchased 51.6 million shares of its common stock (including 33.0 million prior to the two-for-one stock split effected in October 2005) under the program at a total cost of $1.5 billion. Considering the effect of the two-for-one stock split, the Company has repurchased 84.6 million shares at an average price of $17.55 per share. As of September 30, 2020, the Company had 3.4 million shares remaining under the current share repurchase authorization. However, in light of uncertainty resulting from the COVID-19 pandemic, and as previously disclosed, we have temporarily suspended activity under our share repurchase program.

During the nine months ended September 30, 2020, the Company redeemed 123,029 shares of common stock at a total cost of approximately $11.9 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.

Given our long-standing commitment to returning value to shareholders, we expect to consider resuming payment of a quarterly dividend and/or resuming the repurchase of the Company's stock in the future, at such time that conditions are appropriate. We currently have no estimated time frame for when this may occur.

Off Balance Sheet Arrangements

The Company has entered into various limited payment guaranties with regards to the Company’s VIEs supporting the VIE’s efforts to develop and own hotels franchised under the Company’s brands. Under these limited payment guaranties, the Company has agreed to guarantee a portion of the outstanding debt until certain conditions are met, such as (a) the loan matures, (b) certain debt covenants are achieved, (c) the maximum amount guaranteed by the Company is paid in full or (d) the Company, through its affiliates, ceases to be a member of the VIE. The maximum exposure of principal incidental to these limited payment guaranties is $5.7 million, plus unpaid expenses and accrued unpaid interest. As of September 30, 2020 and December 31, 2019, the Company believed the likelihood of having to perform under the aforementioned limited payment guaranties was remote. In the event of performance, the Company has recourse for one of the transactions in the form of a membership interest pledge as collateral for our guaranty. Refer to Note 12 for further discussion of our off-balance sheet arrangements.

Critical Accounting Policies

Our accounting policies comply with principles generally accepted in the United States. Discussion of these policies is included in Note 1 to our consolidated financial statements as of and for the year ended December 31, 2019 included in our Annual Report on Form 10-K, which incorporates description of our critical accounting policies that involve subjective and complex judgments that could potentially affect reported results.

New Accounting Standards

Refer to the "Recently Adopted Accounting Standards" and "Recently Issued Accounting Standard" sections of Note 1 for information related to our adoption of new accounting standards in 2020 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. Certain, but not necessarily all, of such forward-looking statements can be identified by the use of forward-looking terminology, such as "expect," "estimate," "believe," "anticipate," "should," "will," "forecast," "plan," "project," "assume" or similar words of futurity. All statements other than historical facts are 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, expenses, earnings, debt levels, ability to repay outstanding indebtedness, payment of dividends, repurchases of common stock, and other financial and operational measures, including occupancy and open hotels, the our ability to benefit from any rebound in travel demand, our liquidity, our ability to assist franchisees through relief or other financial measures, our ability to minimize or manage disruptions posed by COVID-19, our ability to achieve cost savings and reduce discretionary spending and investments, and the impact of COVID-19 and economic conditions on our 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 our actual results, performance or achievements to differ materially from those expressed in or contemplated by the forward-looking statements. Such risks include, but are not limited to, continuation, resurgence or worsening of the COVID-19 pandemic, including quarantines, "shelter-in-place" orders, or other travel restrictions; new information which may emerge concerning the severity or impact of the COVID-19 pandemic and the development of vaccines and treatments for COVID-19; changes in consumer demand and confidence, including the impact of the COVID-19 pandemic on unemployment rates, consumer discretionary spending and the demand for travel, transient and group business; the impact of COVID-19 on the global hospitality industry, particularly but not exclusively in the U.S. travel market; the success of our mitigation efforts in response to the COVID-19 pandemic; the performance of our brands and categories in any recovery from the COVID-19 pandemic disruption; the timing and amount of future dividends and share repurchases; changes to general, domestic and foreign economic conditions, including access to liquidity and capital as a result of COVID-19; future domestic or global outbreaks of COVID-19 or other epidemics, pandemics or contagious diseases or fear of such outbreaks; changes in law and regulation applicable to the travel, lodging or franchising industries; foreign currency fluctuations; impairments or declines in the value of our assets; operating risks common in the travel, lodging or 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 SaaS technology solutions division's products and services; our ability to grow our franchise system; exposure to risks related to our hotel development, financing, and ownership activities; exposures to risks associated with our investments in new businesses; fluctuations in the supply and demand for hotel rooms; our ability to realize anticipated benefits from acquired businesses; impairments or losses relating to acquired businesses; the level of acceptance of alternative growth strategies we may implement; cyber security and data breach risks; ownership and financing activities; hotel closures or financial difficulties of our franchisees; operating risks associated with our international operations, especially in areas currently most affected by COVID-19; the outcome of litigation; our ability to effectively manage our indebtedness and secure our indebtedness; and any future resurgence of COVID-19. These and other risk factors are discussed in detail in the Risk Factors section of this quarterly report on Form 10-Q and of the Company's Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on March 2, 2020. 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 $28.0 million and $27.1 million at September 30, 2020 and December 31, 2019, 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 September 30, 2020, the Company had no variable interest rate debt instruments outstanding or 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, has 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 September 30, 2020.

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 September 30, 2020, 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 material 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

As a result of the COVID-19 pandemic, there have been material changes in our risk factors from those disclosed in Part I, "Item 1A. Risk Factors" to our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 filed on March 2, 2020. The information presented below updates, and should be read in conjunction with, the risk factors and information disclosed in our Form 10-K. 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, 2019, 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.

The recent COVID-19 pandemic has negatively affected and will continue to negatively affect our business, financial condition and results of operations.

The global spread and unprecedented impact of COVID-19 is complex and rapidly evolving and has resulted in significant disruption and additional risks to our business, the global hospitality industry and the global economy. The COVID-19 pandemic has led governments and other authorities around the world to impose or recommend measures intended to control its spread, including travel bans, business and school closures, quarantines, shelter-in-place orders and implementation of other social distancing measures. As a result, the COVID-19 pandemic and its consequences have dramatically reduced travel and demand for hotel rooms which has had, and is expected to continue to have, a material adverse impact on our business, financial condition and results of operations.

As the COVID-19 pandemic continues to spread, federal, state and local governments, as well as businesses, have implemented significant restrictions in attempt to mitigate this public health crisis. A majority of our franchised properties are operated within the United States and currently many states have begun phased re-openings. However, several states that began phased re-openings have re-implemented restrictions in response to a surge in COVID-19 cases, which includes states where the company has a significant presence of franchised properties.

The extent, duration and magnitude of the COVID-19 pandemic’s effects is highly uncertain and will continue to depend on future developments, all of which are difficult to predict, including the continuation or worsening of the COVID-19 pandemic, and travel and other restrictions; new information which may emerge concerning the severity or resurgence of the COVID-19 pandemic; changes in consumer demand and confidence, including the impact of the COVID-19 pandemic on unemployment rates, consumer discretionary spending and the demand for travel and transient and group business; the impact of the COVID-19 pandemic on the global hospitality industry, particularly on the U.S. leisure travel market; the development of effective vaccines and treatments; the performance of our brands and categories in any recovery from the COVID-19 pandemic disruption; changes to general, domestic, and foreign economic conditions, including access to liquidity and capital as a result of COVID-19; and any future resurgence of COVID-19. The resulting economic uncertainty is expected to make it difficult for us, as well as our franchisees and others in the hospitality industry, to meaningfully forecast and plan future business activity. However, in general, we expect that, the longer the pandemic and related travel and other restrictions remain in place, the more severe the health impacts of the pandemic are, and if repeat resurgent or cyclical outbreaks of the virus beyond the one being currently experienced occur, the more adverse the effect will be on our business, financial condition and results of operations.

The COVID-19 pandemic has subjected our business to a number of significant risks, which include:

- ***Risks Related to the Traveling Public:*** During the pandemic, the occupancy at our franchised hotels that remain open has been significantly and materially adversely impacted, and we expect that our hotels will continue to experience difficulties attracting guests, especially leisure travelers in the United States, which comprises the majority of our historical guest base, until the government-imposed travel restrictions implemented in response to the COVID-19 pandemic are loosened or eliminated. More than 80% of our franchised properties are operated within the United States and, while many states have begun phased re-openings, certain states have re-implemented restrictions in response to a surge in COVID-19 cases, which include states where the company has a significant presence of franchised properties. Even when travel and other restrictions are loosened or eliminated, we expect that certain of our hotels will continue to struggle to attract guests if commercial airline traffic continues to be down, if closures of attractions that promote leisure travel continue, or if there is a prevailing unwillingness of guests to travel and stay in hotels due to actual or perceived risks of contracting COVID-19. We cannot predict whether the COVID-19 pandemic will result in temporary or permanent changes to the travel preferences, expectations and behavior of hotel guests; however, if these changes continue to result in reduction in travel or a decreased willingness of the traveling public to stay in hotels, these changes could have a significant negative impact on our franchised hotels and our business. In addition, the significant increase in unemployment in the United States and other regions due to the adoption of social distancing and other policies to slow the spread of COVID-19 is likely to have a sustained negative impact on travel demand and consumer discretionary spending for a period of time that we cannot predict. Once the unemployment rates and general economic environment improve, there is no guarantee that the demand for lodging, and consumer confidence in travel generally, will recover as quickly as other industries.

- ***Risks Related to the Health of our Franchised Hotel Operations:*** With the global spread of COVID-19, our franchise system has experienced material decreases in demand, occupancy and system-wide RevPAR, accompanied by forced or voluntary hotel closures and disruptions. The effects of the pandemic have materially adversely affected, and we expect will continue to materially adversely affect, the revenues and profitability of our franchised properties and, in turn, the amount of royalty and other fees (which are primarily based on hotel revenue) that we are able to generate and collect from our franchisees. While governments have and may continue to implement various stimulus and relief programs and certain of our franchisees are participating in such stimulus and relief, financing difficulties and significant declines in revenues for our franchised hotels make it more likely that our franchisees could declare bankruptcy or face other financial difficulties, including with their lenders. With the goal of reducing the near-term payment obligations of our franchisees, we have implemented fee deferral and fee relief programs for and agreed to similar arrangements with our franchisees. However, we cannot be certain whether the availability of government stimulus and relief programs or our fee deferral and similar relief programs and arrangements will be effective in avoiding or significantly mitigating the financial impacts on our franchisees of the COVID-19 pandemic. Further, for franchisees not participating in government stimulus and/or relief programs, it is uncertain whether such programs will continue and to what extent our franchisees will be eligible for or are willing to participate in such programs, where conditions or restrictions imposed under such programs will be acceptable to our franchisees, or whether such programs will have sufficient funds available to permit participation by our eligible franchisees. Even if franchisees do not declare bankruptcy, they may be unable or unwilling to pay us amounts that we are entitled to, without reductions or other concessions (or, in the case of our franchisees who are already participating in fee deferral and relief programs and arrangements, further reductions or other concessions), on a timely basis or at all, which would adversely affect our revenues and liquidity. Even after the COVID-19 pandemic subsides, our franchisees could experience a significant increase in their operating costs, including the need to invest in new equipment, technology, amenities, products, and services in order to satisfy newly issued heath, hygiene, and safety regulations and requirements or to conform to evolving guest expectations. If franchisees are unable to make these investments, their ability to continue operations or generate revenue may be adversely impacted, which would in turn have an adverse effect on our revenue and cash flow.
- ***Risks Related to Our Operations and Employee Matters:*** In response to the uncertainty created by the global spread of COVID-19, we have taken and expect to continue to take corporate-level actions designed to manage operating expenses and enhance our future financial flexibility. These actions have included implementation of furlough and layoffs for approximately 15% of our employees in the United States and additional employees in Europe. As a result of these actions, we may be subject to increased risks related to employment matters, including increased litigation and claims for severance or other benefits. Additionally, because many of our team members are currently required to work from home, COVID-19 could negatively affect our ability to ensure compliance with various regulatory regimes applicable to our business, including internal controls over financial reporting. The severity of the impact from this risk would increase if the availability and continuing service of executives and other key team members or their families become ill from COVID-19, rendering the impacted executive or other employee unable to perform their duties. In addition, some actions we have taken, or that we may take in the future, to reduce costs for us or our franchisees may negatively impact franchisee satisfaction or guest loyalty, and our reputation and market share may suffer as a result.
- ***Risks Related to Financial Condition and Indebtedness:*** Our overall level of indebtedness may increase substantially in the future as we manage through the effects of the pandemic. A default under our debt obligations may enable the lenders to terminate their commitments thereunder and could trigger a cross-default, acceleration or other consequences under our other indebtedness or financial instruments. There is no guarantee that debt financings will be available in the future to fund our obligations or will be available on terms consistent with our expectations. The impact of the COVID-19 pandemic on the financial markets could adversely affect our ability or willingness to raise funds through equity financing. Changes in the credit ratings of our debt, including our revolving credit facility and

our outstanding senior notes, could have an adverse impact on our interest expense, and also negatively impact our access to capital and the cost of debt financing.

- ***Risks Related to Growth:*** Our plans for growth could be negatively impacted by the COVID-19 pandemic. The commitments of franchisees with whom we have signed agreements for hotels that are not yet open are subject to numerous conditions, and the eventual development and opening of our pipeline of new hotels is subject to numerous risks, including the ability of a franchisee to obtain adequate financing for development or renovation. As a result, some portion of our current development pipeline may not be completed and developed into new hotels, and those hotels may not open when anticipated, which will impact our net unit and rooms growth. Further, our development pipeline may not grow at the same rate as in the past, and properties in our existing system-wide inventory may be reduced as a result of the COVID-19 pandemic, which would further negatively impact our net unit and rooms growth. COVID-19 could also negatively impact other related sources of revenues for us, including, for example, our fees from our platform business, which is reflected in our procurement services revenues.
- ***Risks Related to Capital Market Volatility:*** The global stock markets have experienced, and may continue to experience, significant volatility as a result of the COVID-19 pandemic, and the price of our common stock has been volatile and has decreased in recent months. The COVID-19 pandemic and the significant uncertainties it has caused for the global economy, business activity and business confidence have had, and is likely to continue to have, a significant effect on the market price of securities generally, including our securities, and may adversely impact our ability to access capital markets in the future.

The COVID-19 pandemic could also have the effect of heightening many of the other factors set forth under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019 (our “Annual Report”), including, but not limited to, operating risks common in the lodging and franchising industries, our ability to grow our franchise system, compete effectively and manage the reputation of our brands, our handling of disputes with the owners of our franchised hotels or their formal or informal representative franchisee associations, risks related to our ownership of operating hotels and development and brand support activities that involve our co-investment or financing and guaranty support for third parties or self-development of hotels, growth of alternative internet reservation channels outside of our system, performance of our information technology systems and risks related to cybersecurity, risks of doing business outside of the U.S. and risks related to the deterioration in the general financial condition of our franchisees. Because the COVID-19 pandemic is unprecedented and continuously evolving, the other potential impacts to our risk factors that are further described in our Annual Report are uncertain.

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 nine months ended September 30, 2020:

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 [3]
January 31, 2020	28,438	$ 100.66	18,353	3,928,004
February 29, 2020	79,841	100.52	5,978	3,922,916
March 31, 2020	548,752	78.70	523,700	3,399,216
April 30, 2020	5,630	71.04	—	3,399,216
May 31, 2020	895	71.26	—	3,399,216
June 30, 2020	—	—	—	3,399,216
July 31, 2020	250	85.27	—	3,399,216
August 31, 2020	5,122	94.84	—	3,399,216
September 30, 2020	2,132	93.04	—	3,399,216
Total	671,060	$ 82.32	548,031	3,399,216

[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. The share repurchase program is discretionary in nature and the board of directors has the ability to modify, suspend, or discontinue the program at any time. Since the program's inception through September 30, 2020, the Company has repurchased 51.6 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 $1.5 billion. Considering the effect of the two-for-one stock split, the Company has repurchased 84.6 million shares at an average price of $17.55 a share.

[2] During the nine months ended September 30, 2020, the Company redeemed 123,029 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.

(3) On April 8, 2020, the Company adopted mitigation efforts to alleviate the impact of the COVID-19 pandemic on the business. As part of the mitigation efforts, the Company's management announced that no shares would be purchased under the Company's share repurchase program until the impacts of the pandemic have subsided and the Company's cash position improves. We currently have no estimated time frame for when this may occur.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number and Description

Exhibit Number	Description
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.
4.01(f)	Fourth Supplemental Indenture dated July 23, 2020 among Choice Hotels International, Inc. and Wells Fargo Bank, National Association
10.01*	Extension Confirmation Letter dated as of August 12, 2020 in connection with Senior Unsecured Credit 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*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* 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.
(f) 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 July 23, 2020.

SIGNATURES

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.

November 5, 2020	By:	/s/ PATRICK S. PACIOUS
		Patrick S. Pacious
		President & Chief Executive Officer

CHOICE HOTELS INTERNATIONAL, INC.

November 5, 2020	By:	/s/ DOMINIC E. DRAGISICH
		Dominic E. Dragisich
		Chief Financial Officer

Deutsche Bank AG New York Branch
60 Wall Street
New York, New York 10005

Dated as of August 12, 2020

Choice Hotels International, Inc.
1 Choice Hotels Circle
Suite 400
Rockville, Maryland 20850
Attention: Scott Oaksmith, Senior Vice President, Finance

Re: *$600,000,000 Amended and Restated Senior Unsecured Credit Facility*
Choice Hotels International, Inc.
Extension Confirmation

Ladies and Gentlemen:

Reference is made to (i) the Amended and Restated Senior Unsecured Credit Agreement dated as of August 20, 2018 (as amended, amended and restated, supplemented or otherwise modified to date, the "***Credit Agreement***"; the terms defined therein, unless otherwise defined herein, being used herein as therein defined), by and among Choice Hotels International, Inc., a Delaware corporation (the "***Borrower***"), the Lenders, Deutsche Bank AG New York Branch, as Administrative Agent, Deutsche Bank Securities Inc., JPMorgan Chase Bank, N.A. and Wells Fargo Securities, LLC, as the Joint Lead Arrangers and the Joint Book Running Managers, JPMorgan Chase Bank, N.A. and Wells Fargo Bank, National Association, as Co-Syndication Agents and Wells Fargo Bank, National Association as Swingline Lender and (ii) that certain letter dated as of July 6, 2020 from the Borrower to the Administrative Agent requesting that each Lender (a) extend such Lender's current Maturity Date by one year (from August 20, 2024 to August 20, 2025) and (b) consent to the Administrative Agent accepting the letter as effective notice under Section 2.16(a) of the Credit Agreement notwithstanding the expiration of the time period for delivery set forth therein (the "***Extension Request***").

The Administrative Agent hereby confirms (a) the Administrative Agent's receipt from the Borrower of an extension fee, paid to the Administrative Agent for the ratable account of each undersigned Extending Lender (as defined in the Credit Agreement), in an amount equal to 5 bps *multiplied by* each such Extending Lender's Commitment as of the date hereof (the "***Extension Fee***"), (b) that each Extending Lender has consented to the Extension Request, subject to such Extending Lender's receipt of the Extension Fee and (c) the extension of the Maturity Date of the Facility with respect to each Extending Lender, with the New Maturity Date being August 20, 2025 (or such earlier date on which the Commitments may terminate in accordance with clauses (b), (c) or (d) of the definition of "Maturity Date" in the Credit Agreement)

The Administrative Agent, the Borrower and each undersigned Extending Lender acknowledge that in accordance with Sections 2.11(c) and 2.28(c) of the Credit Agreement, the Loans and Commitments of the Lenders that are not Extending Lenders may be repaid and terminated on their applicable Maturity Date. The Commitment of each Lender as of the date hereof is set forth in Exhibit A attached hereto.

The Borrower hereby confirms that the Credit Agreement and each of the other Loan Documents (as so extended) are and shall continue to be in full force and effect and are hereby in all respects ratified and confirmed.

This letter may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement. Delivery of an executed counterpart of a signature page to this letter by facsimile or other electronic means shall be as effective as delivery of a manually executed counterpart of this letter.

Yours truly,

DEUTSCHE BANK AG NEW YORK BRANCH, as
Administrative Agent

DocuSigned by:

By: ______________________
0BC2090407664CE...
Name: Darrell Gustafson
Title: Managing Director

By: ______________________
Name:
Title:

ACKNOWLEDGED AND AGREED:

CHOICE HOTELS INTERNATIONAL, INC.,
a Delaware corporation, as Borrower

By: ______________________
Name: Maria Uy
Title: Vice President, Treasurer

Yours truly,

DEUTSCHE BANK AG NEW YORK BRANCH, as Administrative Agent

By: ______________________________
Name:
Title:

DocuSigned by:

By: ______________________________
ED6E9FD57B2E4F0...
Name: James Rolison
Title: Managing Director

ACKNOWLEDGED AND AGREED:

CHOICE HOTELS INTERNATIONAL, INC.,
a Delaware corporation, as Borrower

By: ______________________________
Name:
Title:

ACKNOWLEDGED AND AGREED:

DEUTSCHE BANK AG NEW YORK BRANCH, as
an Extending Lender

DocuSigned by:

By: Ming K Chu
5601DC86AA804E0...
Name: Ming K Chu
Title:

ACKNOWLEDGED AND AGREED:

DEUTSCHE BANK AG NEW YORK BRANCH, as
an Extending Lender

DocuSigned by:

By: Annie Chung
AABC096D0188441...
Name: Annie Chung
Title:

ACKNOWLEDGED AND AGREED:

BANK OF AMERICA, N.A., as an Extending Lender

By: Will Bowers Jr.

Name: Will Bowers Jr.
Title: Senior Vice President

ACKNOWLEDGED AND AGREED:

CAPITAL ONE, NATIONAL ASSOCIATION, as an Extending Lender

By: *[signature]*
Name: Benjamin Lucas
Title: Vice President

ACKNOWLEDGED AND AGREED:

FIFTH THIRD BANK, NATIONAL ASSOCIATION, as an Extending Lender

By: ______________________
Name: Knight D. Kieffer
Title: Managing Director

ACKNOWLEDGED AND AGREED:

GOLDMAN SACHS BANK USA, as an Extending Lender

By: ______________________________
Name: Ryan Durkin
Title: Authorized Signatory

ACKNOWLEDGED AND AGREED:

PNC BANK, NATIONAL ASSOCIATION, as an Extending Lender

By: ____________________________
Name: David Notaro
Title: Senior Vice President

ACKNOWLEDGED AND AGREED:

Truist Bank, as an Extending Lender

By: ______________________
Name: Matthew J. Davis
Title: Senior Vice President

ACKNOWLEDGED AND AGREED:

U.S. Bank National Association, as an Extending Lender

By: ______________________
Name: Steven L Sawyer
Title: Senior Vice President

ACKNOWLEDGED AND AGREED:

Wells Fargo Bank, N.A, as an Extending Lender

By: Katherine A. Marcotte

Name: Katherine A. Marcotte
Title: Senior Vice President

<u>EXHIBIT A</u>

COMMITMENTS

Five Year Tranche Lender Name and Address	Commitment	Pro Rata Percentage
Deutsche Bank AG New York Branch c/o DB Services New Jersey, Inc. 5022 Gate Parkway, Suite 400 Jacksonville, Florida 32256 Attention: Phelecia Parker	$75,000,000.00	12.5%
Wells Fargo Bank, N.A. 7711 Plantation Road Roanoke, Virginia 24019 Facsimile: (866) 270-7214 Attention: Wholesale Loan Servicing, Roanoke Loan Center	$75,000,000.00	12.5%
Bank of America, N.A. 101 N Tryon Street Charlotte, North Carolina 28255 Facsimile: (312) 453-4750 Attention: Kavitha Thakur, Credit Service Representative	$60,000,000.00	10.00%
Barclays Bank PLC c/o Barclays Loan Operations 10, South Colonnade London, United Kingdom E14 4PU Facsimile: +44 (0) 20 7516 3867 For ABR and Swingline Loans only: Barclays Bank PLC London c/o Barclays Capital Services LLC Global Services Unit as US Dollar Funding Administrator 700 Prides Crossing Newark, Delaware 19713 Facsimile: (201) 510-8101	$60,000,000.00	10.00%
Truist Bank 211 Perimeter Center Parkway Atlanta, Georgia 30346 Facsimile: (801) 567-6267 Attention: Charlene Conley, Operations Analyst	$60,000,000.00	10.00%
US Bank, National Association 401 City Center Oshkosh, Wisconsin 54901 Facsimile: (920) 237-7993 Attention: CLS Syndication Services	$50,000,000.00	8.34%
Fifth Third Bank 5050 Kingsley Drive	$36,250,000.00	6.04%

<u>**Five Year Tranche Lender Name and Address**</u>	<u>**Commitment**</u>	<u>**Pro Rata Percentage**</u>
Cincinnati, Ohio 45227 Facsimile: (513) 358-3480 Attention: Joyce Elam, Commercial Participation Analyst		
Capital One, National Association 6200 Chevy Chase Drive Laurel, Maryland 20707 Facsimile: (855) 267-0849 Attention: Richard Fath, Sr. Ops Coordinator	$36,250,000.00	6.04%
Goldman Sachs Bank USA 200 West Street New York, NY 10282 Facisimile: (212) 902 1099 Attention: Loan Operations	$36,250,000.00	6.04%
PNC Bank, National Association 249 Fifth Avenue One PNC Plaza Pittsburgh, Pennsylvania 15222 Facsimile: (866) 641-2751 Attention: Derrell Groce	$36,250,000.00	6.04%
Subtotal	$525,000,000	87.5%
<u>**Four Year Tranche Lender Name and Address**</u>	<u>**Commitment**</u>	<u>**Pro Rata Percentage**</u>
JPMorgan Chase Bank, N.A. 10 South Deaborn L2 Chicago, Illinois 60603 Facsimile: (214) 307-6874 Attention: Jitesh Chaurasia, Deal Administrator	$75,000,000.00	12.5%
Subtotal	$75,000,000	12.5%
TOTAL:	**$600,000,000.00**	**100%**

Exhibit 31.1

CERTIFICATION

I, Patrick S. Pacious, 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.

November 5, 2020

/s/ PATRICK S. PACIOUS

Patrick S. Pacious
President & Chief Executive Officer

Exhibit 31.2

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.

November 5, 2020

/s/ DOMINIC E. DRAGISICH

Dominic E. Dragisich

Chief Financial Officer

Exhibit 32

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 September 30, 2020 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.

November 5, 2020	/s/ PATRICK S. PACIOUS
	Patrick S. Pacious
	President & Chief Executive Officer
November 5, 2020	/s/ DOMINIC E. DRAGISICH
	Dominic E. Dragisich
	Chief Financial Officer