

CHOICE HOTELS INTERNATIONAL INC /DE

Form 10-Q

August 04, 2016

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED June 30, 2016

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 (I.R.S. Employer
incorporation or organization) Identification No.)
1 CHOICE HOTELS CIRCLE, SUITE 400
ROCKVILLE, MD 20850
(Address of principal executive offices)
(Zip Code)
(301) 592-5000
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

CLASS SHARES OUTSTANDING AT JUNE 30, 2016

Common Stock, Par Value \$0.01 per share 56,106,071

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CHOICE HOTELS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED, IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
REVENUES:				
Royalty fees	\$86,195	\$81,183	\$151,054	\$143,614
Initial franchise and relicensing fees	5,706	5,816	10,862	11,533
Procurement services	10,308	8,589	16,104	13,396
Marketing and reservation system	133,814	133,122	260,175	231,835
Other	5,728	3,446	10,674	7,023
Total revenues	241,751	232,156	448,869	407,401
OPERATING EXPENSES:				
Selling, general and administrative	40,039	33,122	75,158	65,560
Depreciation and amortization	2,956	2,995	5,721	5,685
Marketing and reservation system	133,814	133,122	260,175	231,835
Total operating expenses	176,809	169,239	341,054	303,080
Operating income	64,942	62,917	107,815	104,321
OTHER INCOME AND EXPENSES, NET:				
Interest expense	11,224	11,057	22,316	21,236
Interest income	(827)	(277)	(1,666)	(623)
Other gains	(321)	(1,173)	(259)	(1,641)
Equity in net (income) losses of affiliates	(744)	431	1,436	1,436
Total other income and expenses, net	9,332	10,038	21,827	20,408
Income before income taxes	55,610	52,879	85,988	83,913
Income taxes	16,788	17,066	26,003	26,506
Net income	\$38,822	\$35,813	\$59,985	\$57,407
Basic earnings per share	\$0.69	\$0.62	\$1.06	\$1.00
Diluted earnings per share	\$0.68	\$0.62	\$1.06	\$0.99
Cash dividends declared per share	\$0.205	\$0.195	\$0.41	\$0.39

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

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

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	2015	2016	2015	2016
Net income	\$38,822	\$35,813	\$59,985	\$57,407
Other comprehensive income (loss), net of tax:				
Amortization of loss on cash flow hedge	216	216	431	431
Foreign currency translation adjustment	(629)	175	899	(1,272)
Other comprehensive income (loss), net of tax	(413)	391	1,330	(841)
Comprehensive income	\$38,409	\$36,204	\$61,315	\$56,566

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

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

	June 30, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$207,888	\$ 193,441
Receivables (net of allowance for doubtful accounts of \$7,950 and \$8,719, respectively)	126,689	89,352
Income taxes receivable	500	5,486
Notes receivable, net of allowance	8,235	5,107
Other current assets	34,731	17,567
Total current assets	378,043	310,953
Property and equipment, at cost, net	86,784	88,158
Goodwill	79,629	79,327
Franchise rights and other identifiable intangibles, net	11,676	11,948
Notes receivable, net of allowances	92,195	82,572
Investments, employee benefit plans, at fair value	16,516	17,674
Investments in unconsolidated entities	78,801	67,037
Deferred income taxes	38,631	42,434
Other assets	61,115	16,907
Total assets	\$843,390	\$ 717,010
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	\$74,925	\$ 64,431
Accrued expenses and other current liabilities	64,144	70,648
Deferred revenue	113,763	71,587
Current portion of long-term debt	833	1,191
Income taxes payable	5,632	159
Total current liabilities	259,297	208,016
Long-term debt	901,352	812,945
Deferred compensation and retirement plan obligations	20,873	22,859
Deferred income taxes	721	506
Other liabilities	34,975	68,583
Total liabilities	1,217,218	1,112,909
Commitments and Contingencies		
Common stock, \$0.01 par value, 160,000,000 shares authorized; 95,065,638 shares issued at June 30, 2016 and December 31, 2015 and 56,106,071 and 56,336,566 shares outstanding at June 30, 2016 and December 31, 2015, respectively	951	951
Additional paid-in-capital	152,596	149,895
Accumulated other comprehensive loss	(7,448)	(8,778)
Treasury stock (38,959,567 and 38,729,072 shares at June 30, 2016 and December 31, 2015, respectively), at cost	(1,071,676)	(1,052,864)
Retained earnings	551,749	514,897
Total shareholders' deficit	(373,828)	(395,899)
Total liabilities and shareholders' deficit	\$843,390	\$ 717,010
The accompanying notes are an integral part of these consolidated financial statements.		

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

	Six Months Ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$59,985	\$57,407
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,721	5,685
(Gain) loss on sale of assets	7	(1,595)
Provision for bad debts, net	962	1,197
Non-cash stock compensation and other charges	7,966	5,399
Non-cash interest and other (income) loss	958	1,340
Excess tax benefits from stock-based compensation	1,404	4,613
Deferred income taxes	4,030	(2,095)
Equity (earnings) losses from unconsolidated joint ventures, net of distributions received	2,193	2,781
Changes in assets and liabilities:		
Receivables	(39,058)	(28,856)
Advances to/from marketing and reservation activities, net	(42,671)	3,724
Forgivable notes receivable, net	(13,174)	(19,186)
Accounts payable	10,567	16,990
Accrued expenses and other current liabilities	(8,842)	(6,969)
Income taxes payable/receivable	9,059	2,450
Deferred revenue	42,164	4,041
Other assets	(10,834)	(5,152)
Other liabilities	(2,576)	769
Net cash provided by operating activities	27,861	42,543
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in property and equipment	(10,912)	(14,554)
Proceeds from sales of assets	1,700	6,283
Acquisitions of real estate	(25,389)	—
Contributions to equity method investments	(19,688)	(2,446)
Distributions from equity method investments	3,619	270
Purchases of investments, employee benefit plans	(1,140)	(1,736)
Proceeds from sales of investments, employee benefit plans	1,136	1,087
Issuance of mezzanine and other notes receivable	(13,048)	(1,500)
Collections of mezzanine and other notes receivable	10,158	3,567
Other items, net	(311)	(261)
Net cash used by investing activities	(53,875)	(9,290)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings pursuant to revolving credit facilities	87,950	13,000
Principal payments on long-term debt	(623)	(6,169)
Purchases of treasury stock	(28,278)	(6,244)
Dividends paid	(23,193)	(22,940)
Proceeds from exercise of stock options	4,234	5,696
Net cash provided (used) by financing activities	40,090	(16,657)
Net change in cash and cash equivalents	14,076	16,596
Effect of foreign exchange rate changes on cash and cash equivalents	371	(825)

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Cash and cash equivalents at beginning of period	193,441	214,879
Cash and cash equivalents at end of period	\$207,888	\$230,650
Supplemental disclosure of cash flow information:		
Cash payments during the period for:		
Income taxes, net of refunds	\$12,500	\$21,052
Interest, net of capitalized interest	\$21,035	\$19,800
Non-cash investing and financing activities:		
Dividends declared but not paid	\$11,498	\$11,233
Investment in property and equipment acquired in accounts payable	\$674	\$1,658
Non-cash sale of investment in unconsolidated joint venture	\$2,350	\$0
The accompanying notes are an integral part of these consolidated financial statements.		

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

1. Company Information and Significant Accounting Policies

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

Certain information and footnote disclosures normally included in financial statements presented in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted. The 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, 2015 and notes thereto included in the Company's Form 10-K, filed with the SEC on February 29, 2016 (the "10-K"). Interim results are not necessarily indicative of the entire year results. All inter-company transactions and balances between Choice Hotels International, Inc. and its subsidiaries have been eliminated in consolidation.

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

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less at the date of purchase to be cash equivalents.

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

Recently Adopted Accounting Guidance

In January 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20) ("ASU No. 2015-01"). ASU No. 2015-01 changes the requirements for reporting extraordinary and unusual items in the income statement by eliminating the concept of extraordinary items. The presentation and disclosure guidance for items that are unusual in nature or occur infrequently is retained and expanded to include items that are both unusual in nature and infrequently occurring. ASU No. 2015-01 is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. The Company adopted this ASU on January 1, 2016 and it did not have an impact on our consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810) ("ASU No. 2015-02"). ASU No. 2015-02 changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This guidance must be applied using one of two retrospective application methods and is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. The Company adopted this ASU on January 1, 2016 and it did not have an impact on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, Intangibles-Goodwill - Internal Use Software (Subtopic 350-40) ("ASU No. 2015-05"). ASU No. 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license or should be accounted for as a service contract. The standard is effective for annual reporting periods, including interim periods within those annual periods beginning after December 15, 2015.

The Company adopted this ASU on January 1, 2016, and elected to apply the revised standard prospectively to all new or materially altered agreements signed by the Company. The adoption did not have a material impact on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU No. 2016-09"). ASU No. 2016-09 requires that excess tax benefits and tax deficiencies should be recognized as income tax expense or benefit to the income statement. The Company must also make an

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accounting policy election of whether to account for forfeitures based on an estimate of the number of awards that are expected to vest or to account for forfeitures when they occur. In addition, excess tax benefits are required to be classified along with other income tax cash flows as an operating activity on the statement of cash flows and cash paid by an employer when directly withholding shares for tax-withholding purposes should be classified as a financing activity. ASU No. 2016-09 is effective for fiscal years, and interim periods for those years, beginning after December 15, 2016. Early adoption is permitted, but if elected, a Company must adopt all of the amendments in the same period.

The Company adopted the new guidance in the second quarter of 2016 and in accordance with the provisions of ASU 2016-09 applied the required adjustments as of January 1, 2016, the beginning of the annual period that includes the interim period of adoption. The primary impact of adoption was the recognition of excess tax benefits in the Company's provision for income taxes rather than additional paid-in-capital during the six months ended June 30, 2016. Additional amendments to the accounting for income taxes and minimum statutory withholding tax requirements had no impact to retained earnings as of January 1, 2016, where the cumulative effect of these changes are required to be recorded. The Company has elected to continue to estimate forfeitures based on an estimate of the number of awards that are expected to vest.

The Company also elected to apply the presentation requirements for cash flows related to excess tax benefits retrospectively which resulted in an increase to net cash provided by operating activities and an increase in net cash used by financing activities of \$4.6 million for the six months ended June 30, 2015.

Adoption of the new standard resulted in the recognition of tax expense of \$0.2 million and tax benefits of \$1.4 million in our provision for income taxes rather than additional paid-in-capital for the three and six months ended June 30, 2016, respectively. The impact to our previously reported first quarter 2016 results was \$1.6 million, reflected as follows:

(In thousands, except per share amounts)	Three Months Ended	
	March 31, 2016	
	As Reported	As Adjusted
Consolidated Statements of Income:		
Income taxes	\$10,780	\$9,215
Net income	\$19,598	\$21,163
Basis earnings per share	\$0.35	\$0.38
Diluted earnings per share	\$0.35	\$0.37

Consolidated Statements of Cash Flows:		
Net cash used by operating activities	\$(22,945)	\$(21,380)
Net cash provided by financing activities	\$64,192	\$62,627

	March 31, 2016	
	As Reported	As Adjusted
	Consolidated Balance Sheets:	
Additional paid-in-capital	\$150,127	\$148,562
Retained earnings	\$522,854	\$524,419

Future Adoption of Recently Announced Accounting Guidance

In May 2014, the FASB issued ASU No. 2014-09, Revenue From Contracts with Customers ("ASU 2014-09"), which impacts virtually all aspects of an entity's revenue recognition. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, as well as most industry-specific guidance, and significantly enhances comparability of revenue recognition practices across entities and industries by providing a principles-based,

comprehensive framework for addressing revenue recognition issues. In order for a provider of promised goods or services to recognize as revenue the consideration that it expects to receive in exchange for the promised goods or services, the provider should apply the following five steps: (1) identify the contract with a customer(s); (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU No. 2014-09 also specifies the accounting for some costs to obtain or fulfill a contract with a customer and provides enhanced disclosure requirements. ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The guidance permits the retrospective or modified retrospective method when adopting ASU No. 2014-09 but early application is

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not permitted. The Company has not yet selected a transition method and is still assessing the impact that ASU 2014-09 will have on its financial statements and disclosures, but believes it could impact the timing of revenue recognition for the Company's initial franchise fees.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606) ("ASU No. 2016-10"), the amendment does not change the core principles of the standard, ASU 2014-09, Revenue from Contracts with Customers, but clarifies the accounting for licenses of intellectual property, as well as the identification of distinct performance obligations in a contract. The standard should be adopted concurrently with adoption of ASU 2014-09 which is effective for annual and interim periods beginning after December 15, 2017. The Company has not yet selected a transition method and is still assessing the impact that ASU 2016-10 will have on its financial statements and disclosures.

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

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

2. Other Current Assets

Other current assets consist of the following:

	June 30, December 31,	
	2016	2015
	(in thousands)	
Prepaid expenses	\$25,821	\$ 14,144
Other current assets	2,558	1,725
Assets held for sale	6,352	1,698
Total	\$34,731	\$ 17,567

3. Notes Receivable and Allowance for Losses

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

The Company considers loans to be past due and in default when payments are not made when due. Although the Company considers loans to be in default if payments are not received on the due date, the Company does not suspend the accrual of interest until those payments are more than 30 days past due. The Company applies payments received

for loans on non-accrual status first to interest and then principal. The Company does not resume interest accrual until all delinquent payments are received. For impaired loans, the Company recognizes interest income on a cash basis.

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

Credit Quality Indicator	June 30, 2016 (in thousands)			December 31, 2015 (in thousands)		
	Forgivable Notes Receivable	Mezzanine & Other Notes Receivable	Total	Forgivable Notes Receivable	Mezzanine & Other Notes Receivable	Total
Senior	\$—	\$ 45,047	\$45,047	\$—	\$ 40,388	\$40,388
Subordinated	—	6,816	6,816	—	6,197	6,197
Unsecured	52,167	4,397	56,564	44,333	3,526	47,859
Total notes receivable	52,167	56,260	108,427	44,333	50,111	94,444
Allowance for losses on non-impaired loans	5,136	1,214	6,350	4,615	1,364	5,979
Allowance for losses on receivables specifically evaluated for impairment	—	1,647	1,647	—	786	786
Total loan reserves	5,136	2,861	7,997	4,615	2,150	6,765
Net carrying value	\$47,031	\$ 53,399	\$100,430	\$39,718	\$ 47,961	\$87,679
Current portion, net	\$214	\$ 8,021	\$8,235	\$143	\$ 4,964	\$5,107
Long-term portion, net	46,817	45,378	92,195	39,575	42,997	82,572
Total	\$47,031	\$ 53,399	\$100,430	\$39,718	\$ 47,961	\$87,679

The Company classifies notes receivable due within one year as current assets in the Company's consolidated balance sheets.

The following table summarizes the activity related to the Company's Forgivable Notes Receivable and Mezzanine and Other Notes Receivable allowance for losses for the six months ended June 30, 2016:

	Forgivable Notes Receivable	Mezzanine & Other Notes Receivable
	(in thousands)	
Beginning balance	\$4,615	\$ 2,150
Provisions	1,049	861
Recoveries	(53)	—
Write-offs	(253)	(150)
Other ⁽¹⁾	(222)	—
Ending balance	\$5,136	\$ 2,861

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

Forgivable Notes Receivable

As of June 30, 2016 and December 31, 2015, the unamortized balance of the Company's forgivable notes receivable totaled \$52.2 million and \$44.3 million, respectively. The Company recorded an allowance for credit losses on these forgivable notes receivable of \$5.1 million and \$4.6 million at June 30, 2016 and December 31, 2015, respectively. Amortization expense included in the accompanying consolidated statements of income related to the notes for the three months ended June 30, 2016 and 2015 was \$2.2 million and \$2.1 million, respectively. Amortization expense included in the accompanying consolidated statements of income related to the notes for the six months ended June 30, 2016 and 2015 was \$4.4 million and \$3.9 million, respectively.

Past due balances of forgivable notes receivable are as follows:

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	> 90 30-89 days Past Due	Total Past Due	Current	Total Notes Receivable
(in thousands)				
As of June 30, 2016				
Forgivable Notes	\$-\$	\$1,047	\$51,120	\$ 52,167
	\$-\$	\$1,047	\$51,120	\$ 52,167

As of December 31, 2015				
Forgivable Notes	\$-\$	\$1,161	\$43,172	\$ 44,333
	\$-\$	\$1,161	\$43,172	\$ 44,333

Mezzanine and Other Notes Receivable

The Company determined that approximately \$1.9 million and \$0.8 million of its mezzanine and other notes receivable were impaired at June 30, 2016 and December 31, 2015, respectively. The Company recorded allowance for credit losses on these impaired loans totaling \$1.6 million and \$0.8 million at June 30, 2016 and December 31, 2015, respectively. The average mezzanine and other notes receivable on non-accrual status was approximately \$0.8 million for both the six months ended June 30, 2016 and 2015. The Company recognizes interest income for impaired loans on a cash basis. No interest income on impaired loans was recognized during the three months ended June 30, 2016, and 2015. Approximately \$43 thousand and \$33 thousand of interest income on impaired loans was recognized during the six months ended June 30, 2016, and 2015, respectively. The Company provided loan reserves on non-impaired loans totaling \$1.2 million and \$1.4 million at June 30, 2016 and December 31, 2015, respectively. Past due balances of mezzanine and other notes receivable by credit quality indicators are as follows:

	> 90 30-89 days Past Due	Total Past Due	Current	Total Notes Receivable
(in thousands)				
As of June 30, 2016				
Senior	\$-\$	-\$	-\$45,047	\$ 45,047
Subordinated	—	—	6,816	6,816
Unsecured	—	—	4,397	4,397
	\$-\$	-\$	-\$56,260	\$ 56,260
As of December 31, 2015				
Senior	\$-\$	-\$	-\$40,388	\$ 40,388
Subordinated	—	—	6,197	6,197
Unsecured	—	—	3,526	3,526
	\$-\$	-\$	-\$50,111	\$ 50,111

4. Marketing and Reservation Activities

The Company's franchise agreements require the payment of franchise fees, which include marketing and reservation system fees. The Company is obligated to use the marketing and reservation system fees it collects from the current franchisees comprising its various hotel brands to provide marketing and reservation services appropriate to support the operation of the overall system. In discharging its obligation to provide sufficient and appropriate marketing and reservation services, the Company has the right to expend funds in an amount reasonably necessary to ensure the provision of such services, whether or not such amount is currently available to the Company for reimbursement. The franchise agreements provide the Company the right to advance monies to the franchise system when the needs of the system surpass the balances currently available. As a result, expenditures by the Company in support of marketing and reservation services in excess of available revenues are deferred and recorded as an asset in the Company's financial

statements. Conversely, cumulative marketing and reservation system fees not expended in the current period are deferred and recorded as a liability in the financial statements and are carried over to the next fiscal year and expended in accordance with the franchise agreements or utilized to reimburse the Company for prior year advances.

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

At June 30, 2016, cumulative marketing and reservation system costs exceeded cumulative marketing and reservation system revenues earned by \$25.6 million with the excess reflected as a long-term asset in the accompanying consolidated balance sheet. At December 31, 2015 fees collected exceeded expenses by \$30.7 million, with the excess reflected as an other long-term liability in the accompanying consolidated balance sheets. Depreciation and amortization expense attributable to marketing and reservation activities for the three and six months ended June 30, 2016 were \$6.5 million and \$12.4 million, respectively. Depreciation and amortization expense attributable to marketing and reservation activities for the three and six months ended June 30, 2015 were \$5.8 million and \$11.2 million, respectively. Interest expense attributable to marketing and reservation activities for the three and six months ended June 30, 2016 were \$2 thousand and \$5 thousand, respectively. Interest expense attributable to marketing and reservation activities for the three and six months ended June 30, 2015 were \$7 thousand and \$16 thousand, respectively.

5. Other Assets

Other assets consist of the following:

	June 30, December 31,	
	2016	2015
	(in thousands)	
Land and buildings	\$28,981	\$ 10,206
Advances to marketing and reservation system activities (Note 4)	25,577	—
Other assets	6,557	6,701
Total	\$61,115	\$ 16,907

Land and buildings

Land and buildings represents the Company's purchase of real estate as part of its program to incent franchise development in strategic markets for certain brands. The Company has acquired this real estate with the intent to develop the properties for the eventual construction of a hotel operated under the Company's brands or contribute the land into joint ventures for the same purpose.

6. Investments in Unconsolidated Entities

The Company maintains a portfolio of investments owned through noncontrolling interest in equity method investments with one or more partners. Investments in unconsolidated entities include investments in joint ventures totaling \$76.3 million and \$64.3 million at June 30, 2016 and December 31, 2015, respectively, that the Company determined to be variable interest entities ("VIEs"). These investments relate to the Company's program to offer equity support to qualified franchisees to develop and operate Cambria hotel & suites hotels in strategic markets. Based on an analysis of who has the power to direct the activities that most significantly impact these entities performance and who has an obligation to absorb losses of these entities or a right to receive benefits from these entities that could potentially be significant to the entity, the Company determined that it is not the primary beneficiary of any of its VIEs. The Company based its qualitative analysis on its review of the design of the entity, its organizational structure

including decision-making ability and the relevant development, operating management and financial agreements. Although the Company is not the primary beneficiary of these VIEs, it does exercise significant influence through its equity ownership and as a result the Company's investment in these entities is accounted for under the equity method. For the three and six months ended June 30, 2016, the Company recognized loss (income) totaling \$(0.5) million and \$2.0 million, respectively, from these investments. For the three and six months ended June 30, 2015, the Company recognized losses totaling \$0.6 million and \$1.8 million, respectively, from these investments. The Company's maximum exposure to losses related to its investments in VIEs is limited to its equity investments as well as certain guarantees described in Note 17 "Commitments and Contingencies" of these financial statements.

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7. Deferred Revenue

Deferred revenue consists of the following:

	June 30, 2016	December 31, 2015
	(in thousands)	
Loyalty programs	\$103,274	\$ 62,258
Initial, relicensing and franchise fees	6,950	6,530
Procurement service fees	2,175	2,353
Other	1,364	446
Total	\$113,763	\$ 71,587

8. Debt

Debt consists of the following at:

	June 30, 2016	December 31, 2015
	(in thousands)	
\$400 million senior unsecured notes with an effective interest rate of 6.0% less deferred issuance costs of \$5.0 million and \$5.4 million at June 30, 2016 and December 31, 2015, respectively	\$394,962	\$ 394,618
\$250 million senior unsecured notes with an effective interest rate of 6.19%, less a discount and deferred issuance costs of \$1.3 million and \$1.4 million at June 30, 2016 and December 31, 2015, respectively	248,722	248,568
\$450 million senior unsecured credit facility with an effective interest rate of 1.95% and 1.87%, less deferred issuance costs of \$2.7 million and \$3.0 million at June 30, 2016 and December 31, 2015, respectively	244,350	156,025
Fixed rate collateralized mortgage with an effective interest rate of 4.57%, plus a fair value adjustment of \$0.8 million and \$0.9 million at June 30, 2016 and December 31, 2015, respectively	9,742	10,048
Economic development loans with an effective rate interest rate of 3.0% at June 30, 2016 and December 31, 2015	3,712	3,712
Capital lease obligations due 2016 with an effective interest rate of 3.18% at June 30, 2016 and December 31, 2015	62	430
Other notes payable	635	735
Total debt	\$902,185	\$ 814,136
Less current portion	833	1,191
Total long-term debt	\$901,352	\$ 812,945

Senior Unsecured Notes Due 2022

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

Senior Unsecured Notes Due 2020

On August 25, 2010, the Company issued unsecured senior notes in the principal amount of \$250 million (the "2010 Senior Notes") at a discount of \$0.6 million, bearing a coupon of 5.70% with an effective rate of 6.19%. The 2010

Senior Notes will mature on August 28, 2020, with interest to be paid semi-annually on February 28th and August 28th. The Company used the net proceeds from the offering, after deducting underwriting discounts and other offering expenses, to repay outstanding borrowings and for other general corporate purposes. The Company's 2010 Senior Notes are guaranteed jointly, severally, fully and unconditionally, subject to certain customary limitations by certain of the Company's domestic subsidiaries.

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Revolving Credit Facilities

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

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

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

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

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

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

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

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

The Credit Agreement includes customary events of default, the occurrence of which, following any applicable cure period, would permit the lenders to, among other things, declare the principal, accrued interest and other obligations of the Company under the Credit Agreement to be immediately due and payable. At June 30, 2016, the Company was in compliance with all financial covenants under the Credit Agreement.

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

Fixed Rate Collateralized Mortgage

On December 30, 2014, a court awarded the Company title to an office building as settlement for a portion of an outstanding loan receivable for which the building was pledged as collateral. In conjunction with the court award, the Company also assumed the \$9.5 million mortgage on the property with a fixed interest rate of 7.26%. The mortgage which is collateralized by

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the office building requires monthly payments of principal and interest and matures in December 2020 with a balloon payment due of \$6.9 million. At the time of acquisition, the Company determined that the fixed interest rate of 7.26% exceeded market interest rates and therefore the Company increased the carrying value of the debt by \$1.2 million to record the debt at fair value. The fair value adjustment is being amortized over the remaining term of the mortgage utilizing the effective interest method.

Economic Development Loans

The Company entered into economic development agreements with various governmental entities in conjunction with the relocation of its corporate headquarters in April 2013. In accordance with these agreements, the governmental entities agreed to advance approximately \$4.4 million to the Company to offset a portion of the corporate headquarters relocation and tenant improvement costs in consideration of the employment of permanent, full-time employees within the jurisdictions. At June 30, 2016, the Company had been advanced approximately \$3.7 million pursuant to these agreements and expects to receive the remaining \$0.7 million over the next several years, subject to annual appropriations by the governmental entities. These advances bear interest at a rate of 3% per annum.

Repayment of the advances is contingent upon the Company achieving certain performance conditions. Performance conditions are measured annually on December 31st and primarily relate to maintaining certain levels of employment within the various jurisdictions. If the Company fails to meet an annual performance condition, the Company may be required to repay a portion or all of the advances including accrued interest by April 30th following the measurement date. Any outstanding advances at the expiration of the Company's ten-year corporate headquarters lease in 2023 will be forgiven in full. The advances will be included in long-term debt in the Company's consolidated balance sheets until the Company determines that the future performance conditions will be met over the entire term of the agreement and the Company will not be required to repay the advances. The Company accrues interest on the portion of the advances that it expects to repay. The Company was in compliance with all current performance conditions as of June 30, 2016.

9. Accumulated Other Comprehensive Loss

The following represents the changes in accumulated other comprehensive loss, net of tax, by component for the six months ended June 30, 2016:

	Loss on Cash Flow Hedge	Foreign Currency Items	Total
	(in thousands)		
Beginning balance, December 31, 2015	\$ (4,022)	\$ (4,756)	\$ (8,778)
Other comprehensive income (loss) before reclassification	—	899	899
Amounts reclassified from accumulated other comprehensive income (loss)	431	—	431
Net current period other comprehensive income (loss)	431	899	1,330
Ending balance, June 30, 2016	\$ (3,591)	\$ (3,857)	\$ (7,448)

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The amounts reclassified from accumulated other comprehensive loss during the three and six months ended June 30, 2016 were reclassified to the following line items in the Company's Consolidated Statements of Income.

Component	Amount Reclassified from		Affected Line Item in the Consolidated Statement of Net Income
	Accumulated Other Comprehensive Loss Three Months Ended June 30, 2016 (in thousands)	Six Months Ended June 30, 2016	
Loss on cash flow hedge			
Interest rate contract	\$ 216	\$ 431	Interest expense
	—	—	Tax (expense) benefit
	\$ 216	\$ 431	Net of tax

10. Non-Qualified Retirement, Savings and Investment Plans

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

In 2002, the Company adopted the Choice Hotels International, Inc. Executive Deferred Compensation Plan ("EDCP") which became effective January 1, 2003. Under the EDCP, certain executive officers may defer a portion of their salary into an irrevocable trust and invest these amounts in a selection of available diversified investment options. In 1997, the Company adopted the Choice Hotels International, Inc. Non-Qualified Retirement Savings and Investment Plan ("Non-Qualified Plan"). The Non-Qualified Plan allows certain employees who do not participate in the EDCP to defer a portion of their salary and invest these amounts in a selection of available diversified investment options. Under the EDCP and Non-Qualified Plan, (together, the "Deferred Compensation Plan"), the Company recorded current and long-term deferred compensation liabilities of \$23.4 million and \$23.0 million at June 30, 2016 and December 31, 2015, respectively, related to these deferrals and credited investment return under these two deferred compensation plans. Compensation expense is recorded in SG&A expense on the Company's consolidated statements of income based on the change in the deferred compensation obligation related to earnings credited to participants as well as changes in the fair value of diversified investments. The net increase (decrease) in compensation expense recorded in SG&A for the three months ended June 30, 2016 and 2015 was \$0.5 million and \$(0.4) million, respectively. The net increase in compensation expense recorded in SG&A for the six months ended June 30, 2016 and 2015 was \$0.6 million and \$0.1 million respectively.

Under the Deferred Compensation Plan, the Company has invested the employee salary deferrals in diversified long-term investments which are intended to provide investment returns that offset the earnings credited to the participants. The diversified investments held in the trusts totaled \$18.1 million and \$17.8 million as of June 30, 2016 and December 31, 2015, respectively, and are recorded at their fair value, based on quoted market prices. At June 30, 2016, the Company expects \$1.6 million of the assets held in the trust to be distributed during the next twelve months to participants. These investments are considered trading securities and therefore the changes in the fair value of the

diversified assets is included in other gains and losses in the accompanying consolidated statements of income. The Company recorded investment gains (losses) during the three months ended June 30, 2016 and 2015 of approximately \$0.3 million and \$(0.1) million, respectively. The Company recorded investment gains during the six months ended June 30, 2016 and 2015 of approximately \$0.3 million and \$46 thousand, respectively.

11. Fair Value Measurements

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

Level 1: Quoted prices in active markets for identical assets and liabilities. The Company's Level 1 assets consist of marketable securities (primarily mutual funds) held in the Company's Deferred Compensation Plan.

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

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

The Company's policy is to recognize transfers in and transfers out of the three levels of the fair value hierarchy as of the end of each quarterly reporting period. There were no transfers between Level 1, 2 and 3 assets during the three and six months ended June 30, 2016.

As of June 30, 2016 and December 31, 2015, the Company had the following assets measured at fair value on a recurring basis:

	Fair Value Measurements at Reporting Date Using			
	Total	Level 1	Level 2	Level 3
Assets	(in thousands)			
As of June 30, 2016				
Money market funds, included in cash and cash equivalents	\$50,032	\$—	\$50,032	\$ —
Mutual funds ⁽¹⁾	16,196	16,196	—	—
Money market funds ⁽¹⁾	1,926	—	1,926	—
	\$68,154	\$16,196	\$51,958	\$ —
As of December 31, 2015				
Money market funds, included in cash and cash equivalents	\$50,001	\$—	\$50,001	\$ —
Mutual funds ⁽¹⁾	16,542	16,542	—	—
Money market funds ⁽¹⁾	1,307	—	1,307	—
	\$67,850	\$16,542	\$51,308	\$ —

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

Other Financial Instruments

The Company believes that the fair value of its current assets and current liabilities approximate their reported carrying amounts due to the short-term nature of these items. In addition, the interest rates of the Company's Credit Facility adjust frequently based on current market rates; accordingly its carrying amount approximates fair value. The Company estimates the fair value of notes receivable which approximate their carrying value, utilizing an analysis of future cash flows and credit worthiness for similar types of arrangements. Based upon the availability of market data, the notes receivable have been classified as Level 3 inputs. The primary sensitivity in these calculations is based on the selection of appropriate interest and discount rates. For further information on the notes receivables, see Note 3. The fair value of the Company's \$250 million and \$400 million senior notes are classified as Level 2 as the significant inputs are observable in an active market. At June 30, 2016 and December 31, 2015, the \$250 million senior notes had an approximate fair value of \$273.9 million and \$267.7 million, respectively. At June 30, 2016 and December 31, 2015, the \$400 million senior notes had an approximate fair value of \$429.0 million and \$432.0 million, respectively.

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

12. Income Taxes

The effective income tax rates were 30.2% and 32.3% for the three months ended June 30, 2016 and 2015, respectively. The effective income tax rates were 30.2% and 31.6% for the six months ended June 30, 2016 and 2015, respectively.

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The effective income tax rates for the three and six months ended June 30, 2016 and 2015 were lower than the U.S. federal income tax rate of 35.0% due the impact of foreign operations, partially offset by state income taxes. The effective income tax rate for the six months ended June 30, 2016, was also impacted by the adoption of ASU 2016-09, which requires that excess tax benefits and deficiencies be recorded as tax expense or benefit in the income statement. The adoption resulted in a \$1.4 million tax benefit for the six months ended June 30, 2016. The effective income tax rate for the six months ended June 30, 2015 was further reduced due to the settlement of uncertain tax positions.

13. Share-Based Compensation and Capital Stock

Stock Options

No stock options were granted during the three months ended June 30, 2016 and 2015. The Company granted 0.7 million and 0.5 million options to certain employees of the Company at a fair value of \$6.9 million and \$6.2 million for the six months ended June 30, 2016 and 2015, respectively. The stock options granted by the Company had an exercise price equal to the market price of the Company's common stock on the date of grant. The fair value of the options granted was estimated on the grant date using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2016	2015
	Grants	Grants
Risk-free interest rate	1.22 %	1.45 %
Expected volatility	23.76 %	23.94 %
Expected life of stock option	4.6 years	4.6 years
Dividend yield	1.59 %	1.23 %
Requisite service period	4 years	4 years
Contractual life	7 years	7 years
Weighted average fair value of options granted (per option)	\$9.30	\$12.39

The expected life of the options and volatility are based on historical data which is believed to be indicative of future exercise patterns or actual volatility. Historical volatility is calculated based on a period that corresponds to the expected term of the stock option. The dividend yield and the risk-free rate of return are calculated on the grant date based on the then current dividend rate and the risk-free rate of return for the period corresponding to the expected life of the stock option. Compensation expense related to the fair value of these awards is recognized straight-line over the requisite service period based on those awards that ultimately vest.

The aggregate intrinsic value of the stock options outstanding and exercisable at June 30, 2016 was \$15.8 million and \$14.7 million, respectively. The total intrinsic value of options exercised during the three months ended June 30, 2016 and 2015 was approximately \$4 thousand and \$0.1 million, respectively. The total intrinsic value of options exercised during the six months ended June 30, 2016 and 2015 was approximately \$4.4 million and \$8.6 million, respectively. The Company received approximately \$0.1 million and \$0.1 million in proceeds from the exercise of 2,126 and 3,829 employee stock options during the three months ended June 30, 2016 and 2015, respectively. The Company received approximately \$4.2 million and \$5.7 million in proceeds from the exercise of 192,956 and 232,792 employee stock options during the six months ended June 30, 2016 and 2015, respectively.

Restricted Stock

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Restricted share grants	42,042	20,653	167,152	106,445
Weighted average grant date fair value per share	\$52.00	\$62.57	\$51.62	\$63.29

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Aggregate grant date fair value (\$000)	\$2,186	\$ 1,292	\$8,628	\$6,737
Restricted shares forfeited	5,342	3,664	9,614	8,442
Vesting service period of shares granted	12 - 48	12 - 48	12 - 48	12 - 48
	months	months	months	months
Fair value of shares vested (\$000)	\$880	\$ 1,054	\$7,183	\$11,739

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

Performance Vested Restricted Stock Units

The Company has granted performance vested restricted stock units ("PVRSU") to certain employees. The fair value is measured by the market price of the Company's common stock on the date of the grant. The vesting of these stock awards is contingent upon the Company achieving performance targets at the end of specified performance periods and the employees' continued employment. The performance conditions affect the number of shares that will ultimately vest. The range of possible stock-based award vesting is generally between 0% and 200% of the initial target. If minimum performance targets are not attained, then no awards will vest under the terms of the various PVRSU agreements. Compensation expense related to these awards is recognized over the requisite service period based on the Company's estimate of the achievement of the various performance targets. The Company has currently estimated that between 0% and 160% of the various award targets will be achieved. Compensation expense is recognized ratably over the requisite service period only on those PVRSUs that ultimately vest.

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

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
Performance vested restricted stock units granted at target	44,524	20,956	79,557	51,309
Weighted average grant date fair value per share	\$44.92	\$57.27	\$47.81	\$60.94
Aggregate grant date fair value (\$000)	\$2,000	\$1,200	\$3,804	\$3,126
Stock units forfeited	—	—	28,193	—
Requisite service period	31 - 43 months	36 - 43 months	31 - 43 months	36 - 43 months

No PVRSU grants vested during the three months ended June 30, 2016. During the six months ended June 30, 2016, PVRSU grants totaling 22,062 vested at a grant date fair value of \$0.8 million. These PVRSU grants were initially granted at a target of 44,118 units. However, since the Company achieved only 50% of the targeted performance conditions contained in the stock awards granted in prior periods, 22,056 shares were forfeited. In addition, during the six months ended June 30, 2016, PVRSU grants totaling 6,126 vested at a grant date fair value of \$0.2 million. These PVRSU grants were initially granted at a target of 4,083 units. However, since the Company achieved 150% of the targeted performance conditions contained in the stock awards granted in prior periods, an additional 2,043 shares were earned and issued.

No PVRSU grants vested during the three months ended June 30, 2015. During the six months ended June 30, 2015, a total of 42,326 PVRSU grants vested at a grant date fair value of \$1.5 million. These PVRSU grants were initially granted at a target of 38,476 units. However, since the Company achieved 110% of the targeted performance conditions contained in the stock awards granted in prior periods, an additional 3,850 shares were earned and issued.

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A summary of stock-based award activity as of June 30, 2016 and changes during the six months ended are presented below:

	Stock Options			Restricted Stock		Performance Vested Restricted Stock Units	
	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2016	2,084,201	\$ 41.36		384,490	\$ 47.40	226,737	\$ 45.09
Granted	745,769	\$ 51.49		167,152	\$ 51.62	79,557	\$ 47.81
Performance based leveraging ⁽¹⁾	—	\$ —		—	\$ —	2,043	\$ 36.76
Exercised/Vested	(192,956)	\$ 21.94		(145,544)	\$ 43.49	(28,188)	\$ 36.76
Expired	—	\$ —		—	\$ —	—	\$ —
Forfeited	(21,825)	\$ 55.80		(9,614)	\$ 52.36	(28,193)	\$ 35.85
Outstanding at June 30, 2016	2,615,189	\$ 45.56	4.6 years	396,484	\$ 50.49	251,956	\$ 47.85
Options exercisable at June 30, 2016	1,164,548	\$ 36.62	3.0 years				

⁽¹⁾PVRSU units outstanding have been increased by 2,043 units due to the Company exceeding the targeted performance conditions contained in PVRSUs granted in prior periods during the six months ended June 30, 2016. The components of the Company's pretax share-based compensation expense and associated income tax benefits are as follows for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	2016	2015	2016	2015
(in millions)				
Stock options	\$1.5	\$0.9	\$2.6	\$1.6
Restricted stock	2.2	1.7	4.0	3.5
Performance vested restricted stock units	0.7	0.3	1.3	0.6
Total	\$4.4	\$2.9	\$7.9	\$5.7
Income tax benefits	\$1.6	\$1.1	\$2.9	\$2.1

In conjunction with the termination of a company officer stock option, restricted stock and performance vested restricted stock compensation expense for the three and six months ended June 30, 2016, included an additional \$0.4 million, \$0.4 million and \$0.1 million, respectively, of accelerated recognition of share based payment awards. During the three and six months ended June 30, 2015, the Company revised its estimate of the projected achievement of various performance conditions that affect the number of PVRSUs that will ultimately vest. As a result, previously recognized share-based compensation costs related to these PVRSUs has been decreased by \$0.2 million and \$0.2 million for the three and six months ended June 30, 2015.

Dividends

The Company currently pays a quarterly dividend on its common stock of \$0.205 per share, however the declaration of future dividends is subject to the discretion of the board of directors. During the three and six months ended June 30, 2016, the Company's board of directors declared dividends totaling \$0.205 and \$0.41 per share or approximately \$11.5 million and \$23.1 million, respectively, in the aggregate.

In addition, during the six months ended June 30, 2016, the Company recorded dividends totaling \$0.1 million related to previously declared dividends that were contingent upon the vesting of performance vested restricted stock units.

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Share Repurchases and Redemptions

The Company purchased 0.4 million and 0.5 million shares of common stock under the share repurchase program at a total cost of \$19.4 million and \$23.0 million during the three and six months ended June 30, 2016, respectively. During the three and six months ended June 30, 2016, the Company redeemed 556 and 116,779 shares of common stock at a total cost of approximately \$29 thousand and \$5.3 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.

14. Earnings Per Share

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

(In thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Computation of Basic Earnings Per Share:				
Numerator:				
Net income	\$38,822	\$35,813	\$59,985	\$57,407
Income allocated to participating securities	(272)	(243)	(411)	(413)
Net income available to common shareholders	\$38,550	\$35,570	\$59,574	\$56,994
Denominator:				
Weighted average common shares outstanding – basic	56,060	57,212	56,043	57,108
Basic earnings per share	\$0.69	\$0.62	\$1.06	\$1.00
Computation of Diluted Earnings Per Share:				
Numerator:				
Net income	\$38,822	\$35,813	\$59,985	\$57,407
Income allocated to participating securities	(271)	(241)	(410)	(411)
Net income available to common shareholders	\$38,551	\$35,572	\$59,575	\$56,996
Denominator:				
Weighted average common shares outstanding – basic	56,060	57,212	56,043	57,108
Diluted effect of stock options and PVRsUs	296	476	304	525
Weighted average common shares outstanding – diluted	56,356	57,688	56,347	57,633
Diluted earnings per share	\$0.68	\$0.62	\$1.06	\$0.99

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

At June 30, 2016 and 2015, the Company had 2.6 million and 2.2 million outstanding stock options, respectively. Stock options are included in the diluted earnings per share calculation using the treasury stock method and average market prices during the period, unless the stock options would be anti-dilutive. For the three and six months ended June 30, 2016, the Company excluded 1.2 million of anti-dilutive stock options from the diluted earnings per share calculation. For the three and six months ended June 30, 2015, the Company excluded 0.5 million of anti-dilutive stock options from the diluted earnings per share calculation.

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PVRSUs are also included in the diluted earnings per share calculation when the performance conditions have been met at the reporting date. However, at June 30, 2016 and 2015, PVRSUs totaling 251,956 and 213,119, respectively, were excluded from the computation since the performance conditions had not been met.

15. Condensed Consolidating Financial Statements

The Company's 2010 and 2012 Senior Notes are guaranteed jointly, severally, fully and unconditionally, subject to certain customary limitations, by certain of the Company's domestic subsidiaries. There are no legal or regulatory restrictions on the payment of dividends to Choice Hotels International, Inc. from subsidiaries that do not guarantee the Senior Notes. As a result of the guarantee arrangements, the following condensed consolidating financial statements are presented. Investments in subsidiaries are accounted for under the equity method of accounting.

Choice Hotels International, Inc.

Condensed Consolidating Statement of Income

For the Three Months Ended June 30, 2016

(Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES:					
Royalty fees	\$80,981	\$ 44,695	\$ 8,105	\$ (47,586)	\$ 86,195
Initial franchise and relicensing fees	5,498	—	208	—	5,706
Procurement services	10,122	—	186	—	10,308
Marketing and reservation system	123,218	109,342	4,125	(102,871)	133,814
Other	3,597	63	2,345	(277)	5,728
Total revenues	223,416	154,100	14,969	(150,734)	241,751
OPERATING EXPENSES:					
Selling, general and administrative	42,701	40,772	4,429	(47,863)	40,039
Depreciation and amortization	545	1,784	627	—	2,956
Marketing and reservation system	128,161	104,498	4,026	(102,871)	133,814
Total operating expenses	171,407	147,054	9,082	(150,734)	176,809
Operating income	52,009	7,046	5,887	—	64,942
OTHER INCOME AND EXPENSES, NET:					
Interest expense	11,082	—	142	—	11,224
Other items, net	(402)	(452)	(1,038)	—	(1,892)
Equity in earnings of consolidated subsidiaries	(11,211)	(232)	—	11,443	—
Total other income and expenses, net	(531)	(684)	(896)	11,443	9,332
Income before income taxes	52,540	7,730	6,783	(11,443)	55,610
Income taxes	13,718	2,761	309	—	16,788
Net income	\$38,822	\$ 4,969	\$ 6,474	\$ (11,443)	\$ 38,822

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Choice Hotels International, Inc.
Condensed Consolidating Statement of Income
For the Three Months Ended June 30, 2015
(Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES:					
Royalty fees	\$75,564	\$ 39,280	\$ 10,549	\$ (44,210)	\$ 81,183
Initial franchise and relicensing fees	5,624	—	192	—	5,816
Procurement services	8,440	—	149	—	8,589
Marketing and reservation system	122,627	124,342	3,951	(117,798)	133,122
Other	2,973	—	473	—	3,446
Total revenues	215,228	163,622	15,314	(162,008)	232,156
OPERATING EXPENSES:					
Selling, general and administrative	36,705	35,307	5,320	(44,210)	33,122
Depreciation and amortization	794	1,952	249	—	2,995
Marketing and reservation system	127,748	119,617	3,555	(117,798)	133,122
Total operating expenses	165,247	156,876	9,124	(162,008)	169,239
Operating income	49,981	6,746	6,190	—	62,917
OTHER INCOME AND EXPENSES, NET:					
Interest expense	10,947	1	109	—	11,057
Other items, net	(254)	(825)	60	—	(1,019)
Equity in earnings of consolidated subsidiaries	(10,533)	240	—	10,293	—
Total other income and expenses, net	160	(584)	169	10,293	10,038
Income before income taxes	49,821	7,330	6,021	(10,293)	52,879
Income taxes	14,008	3,206	(148)	—	17,066
Net income	\$35,813	\$ 4,124	\$ 6,169	\$ (10,293)	\$ 35,813

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Choice Hotels International, Inc.
Condensed Consolidating Statement of Income
For the Six Months Ended June 30, 2016
(Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES:					
Royalty fees	\$ 141,255	\$ 77,113	\$ 19,020	\$ (86,334)	\$ 151,054
Initial franchise and relicensing fees	10,554	—	308	—	10,862
Procurement services	15,744	—	360	—	16,104
Marketing and reservation system	239,361	244,566	7,551	(231,303)	260,175
Other	6,596	137	4,402	(461)	10,674
Total revenues	413,510	321,816	31,641	(318,098)	448,869
OPERATING EXPENSES:					
Selling, general and administrative	81,928	69,534	10,491	(86,795)	75,158
Depreciation and amortization	847	3,686	1,188	—	5,721
Marketing and reservation system	250,139	233,941	7,398	(231,303)	260,175
Total operating expenses	332,914	307,161	19,077	(318,098)	341,054
Operating income	80,596	14,655	12,564	—	107,815
OTHER INCOME AND EXPENSES, NET:					
Interest expense	22,030	—	286	—	22,316
Other items, net	(848)	831	(472)	—	(489)
Equity in earnings of consolidated subsidiaries	(22,505)	575	—	21,930	—
Total other income and expenses, net	(1,323)	1,406	(186)	21,930	21,827
Income before income taxes	81,919	13,249	12,750	(21,930)	85,988
Income taxes	21,934	4,197	(128)	—	26,003
Net income	\$ 59,985	\$ 9,052	\$ 12,878	\$ (21,930)	\$ 59,985

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Choice Hotels International, Inc.
Condensed Consolidating Statement of Income
For the Six Months Ended June 30, 2015
(Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES:					
Royalty fees	\$ 133,151	\$ 70,520	\$ 21,704	\$ (81,761)	\$ 143,614
Initial franchise and relicensing fees	11,120	—	413	—	11,533
Procurement services	13,106	—	290	—	13,396
Marketing and reservation system	210,863	214,727	7,572	(201,327)	231,835
Other	6,075	—	948	—	7,023
Total revenues	374,315	285,247	30,927	(283,088)	407,401
OPERATING EXPENSES:					
Selling, general and administrative	75,404	63,359	8,558	(81,761)	65,560
Depreciation and amortization	1,568	3,657	460	—	5,685
Marketing and reservation system	219,772	206,428	6,962	(201,327)	231,835
Total operating expenses	296,744	273,444	15,980	(283,088)	303,080
Operating income	77,571	11,803	14,947	—	104,321
OTHER INCOME AND EXPENSES, NET:					
Interest expense	20,979	1	256	—	21,236
Other items, net	(546)	(528)	246	—	(828)
Equity in earnings of consolidated subsidiaries	(21,865)	378	—	21,487	—
Total other income and expenses, net	(1,432)	(149)	502	21,487	20,408
Income before income taxes	79,003	11,952	14,445	(21,487)	83,913
Income taxes	21,596	5,490	(580)	—	26,506
Net income	\$ 57,407	\$ 6,462	\$ 15,025	\$ (21,487)	\$ 57,407

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Choice Hotels International, Inc.
Condensed Consolidating Statement of Comprehensive Income
For the Three Months Ended June 30, 2016
(Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	\$38,822	\$ 4,969	\$ 6,474	\$ (11,443)	\$ 38,822
Other comprehensive income, net of tax:					
Amortization of loss on cash flow hedge	216	—	—	—	216
Foreign currency translation adjustment	(629)	—	(629)	629	(629)
Other comprehensive income (loss), net of tax	(413)	—	(629)	629	(413)
Comprehensive income	\$38,409	\$ 4,969	\$ 5,845	\$ (10,814)	\$ 38,409

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Choice Hotels International, Inc.
 Condensed Consolidating Statement of Comprehensive Income
 For the Three Months Ended June 30, 2015
 (Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	\$35,813	\$ 4,124	\$ 6,169	\$ (10,293)	\$ 35,813
Other comprehensive income, net of tax:					
Amortization of loss on cash flow hedge	216	—	—	—	216
Foreign currency translation adjustment	175	—	175	(175)	175
Other comprehensive income, net of tax	391	—	175	(175)	391
Comprehensive income	\$36,204	\$ 4,124	\$ 6,344	\$ (10,468)	\$ 36,204

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Choice Hotels International, Inc.
 Condensed Consolidating Statement of Comprehensive Income
 For the Six Months Ended June 30, 2016
 (Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	\$59,985	\$ 9,052	\$ 12,878	\$ (21,930)	\$ 59,985
Other comprehensive income, net of tax:					
Amortization of loss on cash flow hedge	431	—	—	—	431
Foreign currency translation adjustment	899	—	899	(899)	899
Other comprehensive income, net of tax	1,330	—	899	(899)	1,330
Comprehensive income	\$61,315	\$ 9,052	\$ 13,777	\$ (22,829)	\$ 61,315

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Choice Hotels International, Inc.
 Condensed Consolidating Statement of Comprehensive Income
 For the Six Months Ended June 30, 2015
 (Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	\$57,407	\$ 6,462	\$ 15,025	\$ (21,487)	\$ 57,407
Other comprehensive income (loss), net of tax:					
Amortization of loss on cash flow hedge	431	—	—	—	431
Foreign currency translation adjustment	(1,272)	—	(1,272)	1,272	(1,272)
Other comprehensive income (loss), net of tax	(841)	—	(1,272)	1,272	(841)
Comprehensive income	\$56,566	\$ 6,462	\$ 13,753	\$ (20,215)	\$ 56,566

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Choice Hotels International, Inc.
Condensed Consolidating Balance Sheet
As of June 30, 2016
(Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	\$ 17,928	\$ 782	\$ 189,178	\$—	\$ 207,888
Receivables, net	116,356	1,481	9,002	(150)	126,689
Other current assets	8,762	36,324	10,954	(12,574)	43,466
Total current assets	143,046	38,587	209,134	(12,724)	378,043
Property and equipment, at cost, net	44,399	26,124	16,261	—	86,784
Goodwill	65,812	—	13,817	—	79,629
Franchise rights and other identifiable intangibles, net	4,011	—	7,665	—	11,676
Notes receivable, net of allowances	13,663	42,773	35,759	—	92,195
Investments, employee benefit plans, at fair value	—	16,516	—	—	16,516
Investment in affiliates	500,804	57,126	—	(557,930)	—
Advances to affiliates	8,647	128,640	—	(137,287)	—
Deferred income taxes	27,830	12,855	—	(2,054)	38,631
Other assets	25,578	61,588	52,803	(53)	139,916
Total assets	\$ 833,790	\$ 384,209	\$ 335,439	\$(710,048)	\$ 843,390
LIABILITIES AND SHAREHOLDERS' DEFICIT					
Accounts payable	\$ 12,777	\$ 58,608	\$ 3,690	\$(150)	\$ 74,925
Accrued expenses and other current liabilities	47,269	27,777	7,199	(12,469)	69,776
Deferred revenue	112,694	63	1,111	(105)	113,763
Current portion of long-term debt	—	62	771	—	833
Total current liabilities	172,740	86,510	12,771	(12,724)	259,297
Long-term debt	888,034	3,712	9,606	—	901,352
Deferred compensation and retirement plan obligations	—	20,862	11	—	20,873
Advances from affiliates	134,496	1,399	1,392	(137,287)	—
Other liabilities	12,348	15,699	9,756	(2,107)	35,696
Total liabilities	1,207,618	128,182	33,536	(152,118)	1,217,218
Total shareholders' (deficit) equity	(373,828)	256,027	301,903	(557,930)	(373,828)
Total liabilities and shareholders' deficit	\$ 833,790	\$ 384,209	\$ 335,439	\$(710,048)	\$ 843,390

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Choice Hotels International, Inc.
Condensed Consolidating Balance Sheet
As of December 31, 2015
(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	\$13,529	\$ 19	\$ 179,893	\$—	\$ 193,441
Receivables, net	79,381	1,132	8,992	(153)	89,352
Other current assets	19,029	14,176	5,331	(10,376)	28,160
Total current assets	111,939	15,327	194,216	(10,529)	310,953
Property and equipment, at cost, net	37,857	33,575	16,726	—	88,158
Goodwill	60,620	5,193	13,514	—	79,327
Franchise rights and other identifiable intangibles, net	2,965	1,013	7,970	—	11,948
Notes receivable, net of allowances	18,866	38,957	24,749	—	82,572
Investments, employee benefit plans, at fair value	—	17,674	—	—	17,674
Investment in affiliates	473,448	37,182	—	(510,630)	—
Advances to affiliates	17,144	212,773	7,789	(237,706)	—
Deferred income taxes	10,664	33,936	—	(2,166)	42,434
Other assets	319	45,383	38,348	(106)	83,944
Total assets	\$733,822	\$ 441,013	\$ 303,312	\$(761,137)	\$ 717,010
LIABILITIES AND SHAREHOLDERS' DEFICIT					
Accounts payable	\$12,359	\$ 48,238	\$ 3,987	\$(153)	\$ 64,431
Accrued expenses and other current liabilities	29,099	45,601	6,378	(10,271)	70,807
Deferred revenue	8,749	61,890	1,053	(105)	71,587
Current portion of long-term debt	—	430	761	—	1,191
Total current liabilities	50,207	156,159	12,179	(10,529)	208,016
Long-term debt	799,212	3,712	10,021	—	812,945
Deferred compensation and retirement plan obligations	—	22,849	10	—	22,859
Advances from affiliates	235,629	257	1,820	(237,706)	—
Other liabilities	44,673	15,755	10,933	(2,272)	69,089
Total liabilities	1,129,721	198,732	34,963	(250,507)	1,112,909
Total shareholders' (deficit) equity	(395,899)	242,281	268,349	(510,630)	(395,899)
Total liabilities and shareholders' deficit	\$733,822	\$ 441,013	\$ 303,312	\$(761,137)	\$ 717,010

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Choice Hotels International, Inc.
Condensed Consolidating Statement of Cash Flows
For the Six Months Ended June 30, 2016
(Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
Net cash provided (used) by operating activities	\$(34,467)	\$ 45,562	\$ 16,766	\$ —	\$ 27,861
Cash Flows From Investing Activities					
Investment in property and equipment	(6,427)	(4,261)	(224)	—	(10,912)
Proceeds from sales of assets	—	—	1,700	—	1,700
Acquisitions of real estate	—	—	(25,389)	—	(25,389)
Contributions to equity method investments	—	(19,648)	(40)	—	(19,688)
Distributions from equity method investments	—	—	3,619	—	3,619
Purchases of investments, employee benefit plans	—	(1,140)	—	—	(1,140)
Proceeds from sales of investments, employee benefit plans	—	1,136	—	—	1,136
Issuance of mezzanine and other notes receivable	(5,306)	—	(7,742)	—	(13,048)
Collections of mezzanine and other notes receivable	10,158	—	—	—	10,158
Advances to and investment in affiliates	—	(25,816)	—	25,816	—
Divestment in affiliates	—	5,298	—	(5,298)	—
Other items, net	(322)	—	11	—	(311)
Net cash used by investing activities	(1,897)	(44,431)	(28,065)	20,518	(53,875)
Cash Flows from Financing Activities:					
Net borrowings pursuant to revolving credit facilities	88,000	—	(50)	—	87,950
Principal payments on long-term debt	—	(368)	(255)	—	(623)
Purchases of treasury stock	(28,278)	—	—	—	(28,278)
Dividends paid	(23,193)	—	—	—	(23,193)
Proceeds from contributions from affiliates	—	—	25,816	(25,816)	—
Distributions to affiliates	—	—	(5,298)	5,298	—
Proceeds from exercise of stock options	4,234	—	—	—	4,234
Net cash provided (used) by financing activities	40,763	(368)	20,213	(20,518)	40,090
Net change in cash and cash equivalents	4,399	763	8,914	—	14,076
Effect of foreign exchange rate changes on cash and cash equivalents	—	—	371	—	371
Cash and cash equivalents at beginning of period	13,529	19	179,893	—	193,441
Cash and cash equivalents at end of period	\$17,928	\$ 782	\$ 189,178	\$ —	\$ 207,888

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Choice Hotels International, Inc.
Condensed Consolidating Statement of Cash Flows
For the Six Months Ended June 30, 2015
(Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided (used) by operating activities	\$25,952	\$ (893)	\$ 18,141	\$ (657)	\$ 42,543
Cash Flows From Investing Activities					
Investment in property and equipment	(11,351)	(3,187)	(16)	—	(14,554)
Proceeds from sales of assets	29	4,661	1,593	—	6,283
Contributions to equity method investments	—	(1,659)	(787)	—	(2,446)
Distributions from equity method investments	—	—	270	—	270
Purchases of investments, employee benefit plans	—	(1,736)	—	—	(1,736)
Proceeds from sales of investments, employee benefit plans	—	1,087	—	—	1,087
Issuance of mezzanine and other notes receivable	(1,500)	—	—	—	(1,500)
Collections of mezzanine and other notes receivable	3,567	—	—	—	3,567
Advances to and investment in affiliates	—	(35)	—	35	—
Divestment in affiliates	—	2,122	—	(2,122)	—
Other items, net	(261)	—	—	—	(261)
Net cash provided (used) by investing activities	(9,516)	1,253	1,060	(2,087)	(9,290)
Cash Flows from Financing Activities:					
Net borrowings pursuant to revolving credit facility	13,000	—	—	—	13,000
Principal payments on long-term debt	(5,625)	(356)	(188)	—	(6,169)
Proceeds from contributions from affiliates	—	—	35	(35)	—
Purchases of treasury stock	(6,244)	—	—	—	(6,244)
Dividends paid	(22,940)	—	(657)	657	(22,940)
Distributions to affiliates	—	—	(2,122)	2,122	—
Proceeds from exercise of stock options	5,696	—	—	—	5,696
Net cash provided (used) by financing activities	(16,113)	(356)	(2,932)	2,744	(16,657)
Net change in cash and cash equivalents	323	4	16,269	—	16,596
Effect of foreign exchange rate changes on cash and cash equivalents	—	—	(825)	—	(825)
Cash and cash equivalents at beginning of period	25,290	25	189,564	—	214,879
Cash and cash equivalents at end of period	\$25,613	\$ 29	\$ 205,008	\$ —	\$ 230,650

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16. Reportable Segment Information

Franchising: Franchising includes the Company's hotel franchising operations consisting of its eleven brands. The eleven brands are aggregated within this segment considering their similar economic characteristics, types of customers, distribution channels and regulatory business environments. Revenues from the franchising business include royalty fees, initial franchise and relicensing fees, marketing and reservation system fees, procurement services revenue and other franchising related revenue. The Company is obligated under its 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 franchising business. The revenues received from franchisees that are used to pay for part of the Company's ongoing operations are included in franchising revenues and are offset by the related expenses paid for marketing and reservation activities to calculate franchising operating income.

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

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

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

(In thousands)	Three Months Ended June 30, 2016				Three Months Ended June 30, 2015			
	Franchising	SkyTouch Technology	Corporate & Other	Consolidated	Franchising	SkyTouch Technology	Corporate & Other	Consolidated
Revenues	\$239,683	\$ 463	\$ 1,605	\$ 241,751	\$231,745	\$ 223	\$ 188	\$ 232,156
Operating income (loss)	\$83,573	\$ (4,750)	\$ (13,881)	\$ 64,942	\$76,573	\$ (4,459)	\$ (9,197)	\$ 62,917
Income (loss) before income taxes	\$84,317	\$ (4,750)	\$ (23,957)	\$ 55,610	\$76,142	\$ (4,459)	\$ (18,804)	\$ 52,879
(In thousands)	Six Months Ended June 30, 2016				Six Months Ended June 30, 2015			
	Franchising	SkyTouch Technology	Corporate & Other	Consolidated	Franchising	SkyTouch Technology	Corporate & Other	Consolidated
Revenues	\$444,772	\$ 869	\$ 3,228	\$ 448,869	\$406,387	\$ 493	\$ 521	\$ 407,401
Operating income (loss)	\$142,165	\$ (9,075)	\$ (25,275)	\$ 107,815	\$134,030	\$ (9,889)	\$ (19,820)	\$ 104,321
Income (loss) before income taxes	\$140,729	\$ (9,075)	\$ (45,666)	\$ 85,988	\$132,594	\$ (9,889)	\$ (38,792)	\$ 83,913

17. Commitments and Contingencies

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

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Contingencies

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

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

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

The Company believes the likelihood of having to perform under the aforementioned limited payment guarantees was remote at June 30, 2016 and December 31, 2015.

Commitments

The Company has the following commitments outstanding at June 30, 2016:

The Company provides financing in the form of forgivable promissory notes or cash incentives to franchisees for property improvements, hotel development efforts and other purposes. At June 30, 2016, the Company had commitments to extend an additional \$133.6 million for these purposes provided certain conditions are met by its franchisees, of which \$67.8 million is expected to be advanced in the next twelve months.

The Company committed to make additional capital contributions totaling \$28.5 million to existing joint ventures related to the construction of various hotels to be operated under the Company's Cambria hotel & suites brand. These commitments are expected to be funded in the next twelve months.

In November 2015, the Company provided financing to a development company to acquire and redevelop a historic office building into a Cambria hotel & suites. The Company has committed to provide up to an aggregate of \$49.1 million, if necessary, for acquisition of the property and property improvements. As of June 30, 2016, the Company advanced \$13.9 million. The promissory notes mature on November 30, 2019; bear interest at variable and fixed rates and are payable monthly.

In the ordinary course of business, the Company enters into numerous agreements that contain standard indemnities whereby the Company indemnifies another party for breaches of representations and warranties. Such indemnifications are granted under various agreements, including those governing (i) purchases or sales of assets or businesses, (ii) leases of real estate, (iii) licensing of trademarks, (iv) access to credit facilities, (v) issuances of debt or equity securities, and (vi) certain operating agreements. The indemnifications issued are for the benefit of the (i) buyers in sale agreements and sellers in purchase agreements, (ii) landlords in lease contracts, (iii) franchisees in licensing agreements, (iv) financial institutions in credit facility arrangements, (v) underwriters in debt or equity security issuances and (vi) parties under certain operating agreements. In addition, these parties are also generally indemnified against any third party claim resulting from the transaction that is contemplated in the underlying agreement. While some of these indemnities extend only for the duration of the underlying agreement, many survive

the expiration of the term of the agreement or extend into perpetuity (unless subject to a legal statute of limitations). There are no specific limitations on the maximum potential amount of future payments that the Company could be required to make under these indemnities, nor is the Company able to develop an estimate of the maximum potential amount of future payments to be made under these indemnifications as the triggering events are not subject to predictability. With

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respect to certain of the aforementioned indemnities, such as indemnifications of landlords against third party claims for the use of real estate property leased by the Company, the Company maintains insurance coverage that mitigates potential liability.

18. Transactions with Unconsolidated Joint Ventures

In March 2016, the Company entered into a promissory note with an individual who is a member of one of the Company's unconsolidated joint ventures. The Company advanced \$4.0 million for the member to purchase the Company's interest in the unconsolidated joint venture for \$2.4 million and fund the development of the property into a Cambria hotel & suites. A deferred gain of \$0.2 million will be recognized when the promissory note matures on March 1, 2019. The promissory note bears interest at a fixed rate and is payable monthly.

The Company signed a management fee arrangement for marketing services with a joint venture partner. For the three and six months ended June 30, 2016, fees earned and payroll costs reimbursed under this arrangement totaled \$0.2 million.

19. Acquisitions

On August 11, 2015, the Company acquired 100% of the voting equity interest of Maxxton Holding B.V. ("MHB") and its wholly owned subsidiaries, a Software as a Service ("SaaS") solution for vacation rental management companies. MHB provides central reservations systems, property management systems and integrated software applications including point-of-sale and is included in our Corporate and Other in our segment presentation found in Note 16. The total consideration was \$23.6 million, which consisted of cash paid, net of cash acquired, of \$13.3 million, deferred purchase price payable of \$6.8 million, and liabilities assumed totaling \$3.5 million. The deferred purchase price is payable over 5 years. In addition, the Company has a 5 years variable compensation arrangement with MHB's former owner which is contingent on future minimum performance targets. As these amounts are contingent on achievement of certain targets and continued employment, no amounts were recorded for these future payments at the acquisition date. The transaction has been accounted for using the acquisition method of accounting and accordingly, assets acquired and liabilities assumed were recorded at their fair values as of the acquisition date. The results of MHB have been consolidated with the Company since August 11, 2015.

The Company allocated the purchase price based upon a preliminary assessment of the fair value of the assets and liabilities assumed as of August 11, 2015. The Company is continuing to evaluate the MHB acquisition. Further adjustments to the fair value determination may be necessary as a result of the Company's assessment of additional information related to the fair value of assets acquired and liabilities assumed. Therefore, as a result, the allocation is not final.

Real Estate Acquisitions

In the first quarter of 2016, the Company completed three acquisitions of real estate as part of its program to incent franchise development in strategic markets for certain brands. The aggregate purchase price for these acquisitions was \$25.8 million consisting of \$25.6 million cash with an additional \$0.2 million of current liabilities assumed. In addition the Company incurred \$0.5 million in acquisition related costs, which were expensed in the period. These acquisitions included:

On January 8, 2016 the Company acquired a parcel of land in Milwaukee, WI. The land is currently being utilized as a parking lot and will be developed into a Cambria hotel & suites by the Company or through a future joint venture. On January 11, 2016, the Company acquired a parcel of land and an office building in Indianapolis, IN. The land and building are currently being utilized as a parking lot and actively managed office building. The properties are being marketed for sale with closing expected to occur within one year of acquisition. As of June 30, 2016, the properties met the criteria to be classified as held for sale and have been recorded within other current assets on the consolidated balance sheet.

On February 1, 2016, the Company acquired an actively managed office building and surrounding parking area in Houston, TX. The Company's plan for the building is to convert the property into a Cambria hotel & suites either

through development or as a part of a joint venture agreement.

The Company has completed its assessment of the fair value of the assets acquired and as a result the allocation is final. The results of operations, assets and liabilities have been reflected within the Company's franchising segment. The fair value of the assets and liabilities and associated useful lives are as follows:

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	Estimated Fair Value (in thousands)	Useful Lives
Land	\$ 14,548	Not depreciated ⁽¹⁾
Land Improvements	100	5 years
Building	10,499	30 years ⁽¹⁾
Leasehold Value	(24) Not depreciated ⁽²⁾
Lease in Place	327	Not depreciated ⁽²⁾
Leasing Commission	51	Not depreciated ⁽²⁾
Other Assets	303	
Total Assets Acquired	25,804	
Other Liabilities	(240) ⁽³⁾
Cash paid, net of cash acquired	\$ 25,564	

(1) Amount includes \$3.9 million and \$2.2 million classified on the balance sheet as held for sale within other current assets

(2) Amount classified on the balance sheet as held for sale within other current assets

(3) Includes \$0.1 million recorded as held for sale within other current assets

20. Subsequent Events

On July 21, 2015, the Company entered into a senior unsecured revolving credit agreement, with Deutsche Bank AG New York Branch, as administrative agent. The credit agreement provides for a \$450 million unsecured revolving credit facility (the "Revolver") with a final maturity date of July 21, 2020, subject to optional one-year extensions that can be requested by the Company prior to each of the first, second and third anniversaries of the closing date of the Revolver. On July 5, 2016, the Company exercised its option to extend the maturity date of the Revolver by one year. The new maturity date of the Revolver is July 21, 2021.

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

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

Overview

We are primarily a hotel franchisor with franchise agreements representing 6,429 hotels open and 673 hotels under construction, awaiting conversion or approved for development as of June 30, 2016, with 509,556 rooms and 55,997 rooms, respectively, in 50 states, the District of Columbia and over 40 countries and territories outside the United States. Our brand names include Comfort Inn®, Comfort Suites®, Quality®, Clarion®, Ascend Hotel Collection®, Sleep Inn®, Econo Lodge®, Rodeway Inn®, MainStay Suites®, Suburban Extended Stay Hotel®, and Cambria hotel & suites® (collectively, the "Choice brands").

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

Our business strategy is to conduct direct franchising in those international markets where both franchising is an accepted business model and we believe our brands can achieve significant scale. We 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.

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As a result of our use of master franchising relationships and international market conditions, total revenues from international franchising operations comprised 6% of our total revenues for the six months ended June 30, 2016, while representing approximately 18% of our franchise system hotels open as of June 30, 2016. Therefore, our description of the franchise system is primarily focused on the domestic operations.

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

With a focus on hotel franchising instead of ownership, we benefit from the economies of scale inherent in the franchising business. The fee and cost structure of our business provides opportunities to improve operating results by increasing the number of franchised hotel rooms and effective royalty rates of our franchise contracts resulting in increased initial fee and relicensing revenue; ongoing royalty fees and procurement services revenues. In addition, our operating results can also be improved through our company-wide efforts related to improving property-level performance. The Company currently estimates, based on its current domestic portfolio of hotels under franchise, a 1% change in revenue per available room ("RevPAR") or rooms under franchise would increase or decrease annual domestic royalty revenues by approximately \$3.0 million and a 1 basis point change in the Company's effective royalty rate would increase or decrease annual domestic royalties by approximately \$0.7 million. In addition to these revenues, we also collect marketing and reservation system fees to support centralized marketing and reservation activities for the franchise system. The Company's hotel franchising business currently has relatively low capital expenditure requirements.

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

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

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

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

Profitable Growth. Our success is dependent on improving the performance of our hotels, increasing our system size by selling additional hotel franchises, effective royalty rate improvement and maintaining a disciplined cost structure. We attempt to improve our franchisees' revenues and overall profitability by providing a variety of products and services designed to increase business delivery to and/or reduce operating and development costs for our franchisees.

These products and services include national marketing campaigns, maintaining a guest loyalty program, a central reservation system, property and yield management systems, quality assurance standards and qualified vendor relationships. We believe that healthy brands, which deliver a compelling return on investment for franchisees, will enable us to sell additional hotel franchises and raise royalty rates over time. We have established multiple brands that meet the needs of many types of guests, and can be developed at various price points and applied to both new and existing hotels. This is intended to ensure that we have brands suitable for creating growth in a variety of market conditions. Improving the performance of the hotels under franchise, growing the system through additional franchise sales and improving franchise agreement pricing while maintaining a disciplined cost structure are the keys to profitable growth.

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

Historically, we have returned value to our shareholders through share repurchases and dividends. In 1998, our board of directors instituted a share repurchase program which has generated substantial value for our shareholders. Since the program's inception through June 30, 2016, we have repurchased 48.6 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 \$1.2 billion. Considering the effect of the two-for-one stock split, the Company has repurchased 81.6 million shares at an average price of \$15.32 per share. The Company purchased 0.5 million shares of common stock under the share repurchase program during the six months ended June 30, 2016 at a total cost of \$23.0 million. At June 30, 2016, we had approximately 1.2 million shares remaining under the current share repurchase authorization. We currently believe that our cash flows from operations will support our ability to complete the current repurchase authorization. Upon completion of the current authorization, our board of directors will evaluate the advisability of additional share repurchases.

The Company commenced paying quarterly dividends in 2004 and in 2012, the Company elected to pay a special cash dividend totaling approximately \$600 million. The Company currently maintains the payment of a quarterly dividend on its common shares outstanding; however, the declaration of future dividends is subject to the discretion of the board of directors. During the fourth quarter of 2015, the Company's board of directors announced a 5% increase to the quarterly cash dividend rate to \$0.205 per common share outstanding. The projected annual dividend in 2016 is \$0.82 per common share outstanding. During the six months ended June 30, 2016, we paid cash dividends totaling approximately \$23.2 million. We expect to continue to pay dividends in the future, subject to declaration by our board of directors as well as future business performance, economic conditions, changes in income tax regulations and other factors including limitations in the Company's credit facility. Based on the present dividend rate and outstanding share count, we expect that aggregate annual regular dividends for 2016 would be approximately \$46.2 million.

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

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

In March 2013, the Company announced the launch of a new division, SkyTouch Technology ("SkyTouch"), which develops and markets cloud-based technology products for the hotel industry. In conjunction with continued launch of this new line of business, the Company expects to incur costs in excess of revenues earned as it further develops SkyTouch's product offerings and expands its customer base.

In August 2015, the Company completed the acquisition of a company that provides software as a service solutions for vacation rental management companies. This business provides central reservations systems, property management systems and integrated software applications including point-of-sale. The transaction has been accounted for using the acquisition method of accounting and accordingly, assets acquired and liabilities assumed were recorded at their fair values as of the acquisition date. The results of this business have been consolidated with the Company since August 2015.

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

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

Results of Operations: Royalty fees, operating income, net income and diluted earnings per share ("EPS") represent key measurements of these value drivers. These measurements are primarily driven by the operations of our hotel franchise system and therefore, our analysis of the Company's operations is primarily focused on the size, performance and potential growth of

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the hotel franchise system as well as our variable overhead costs. Since our hotel franchising activities represent more than 99% of total revenues, our discussion of our results from operations primarily relate to our hotel franchising activities.

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

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

Liquidity and Capital Resources: Historically, the Company has generated significant cash flows from operations.

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

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

Non-GAAP Financial Statement Measurements

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

Hotel Franchising Revenues: The Company utilizes hotel franchising revenues, which exclude revenues from marketing and reservation system activities, the SkyTouch Technology division, a recently acquired operation that provides software as a service solutions to vacation rental management companies, and revenue generated from the ownership of an office building that is leased to a third-party, rather than total revenues when analyzing the performance of the business. Marketing and reservation activities are excluded from hotel franchising revenues since the Company is contractually required by its franchise agreements to use the fees collected for marketing and reservation activities; as such, no income or loss to the Company is generated. Cumulative marketing and reservation system fees not expended are recorded as a liability in the Company's financial statements and are carried over to the next year and expended in accordance with the franchise agreements. Cumulative marketing and reservation expenditures incurred in excess of fees collected for marketing and reservation activities are deferred and recorded as an asset in the Company's financial statements and recovered in future periods. SkyTouch is a division of the Company that develops and markets cloud-based technology products, including inventory management, pricing and connectivity to third party channels, to hoteliers not under franchise agreements with the Company. SkyTouch and our vacation rental technology solutions provider operations are excluded from hotel franchising revenues since those operations do not reflect the Company's core hotel franchising business but represent adjacent, complimentary lines of business. This non-GAAP measure is a commonly used measure of performance in our industry and facilitates comparisons between the Company and its competitors.

Calculation of Hotel Franchising Revenues

	Three Months Ended June 30, (in thousands)		Six Months Ended June 30,	
	2016	2015	2016	2015
Total Revenues	\$241,751	\$232,156	\$448,869	\$407,401
Adjustments:				
Marketing and reservation system revenues	(133,814)	(133,122)	(260,175)	(231,835)
Non-hotel franchising activities	(2,068)	(411)	(4,097)	(1,014)
Hotel Franchising Revenues	\$105,869	\$98,623	\$184,597	\$174,552

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Operations Review

Comparison of Operating Results for the Three-Month Periods Ended June 30, 2016 and 2015

Summarized financial results for the three months ended June 30, 2016 and 2015 are as follows:

(in thousands)	2016	2015
REVENUES:		
Royalty fees	\$86,195	\$81,183
Initial franchise and relicensing fees	5,706	5,816
Procurement services	10,308	8,589
Marketing and reservation system	133,814	133,122
Other	5,728	3,446
Total revenues	241,751	232,156
OPERATING EXPENSES:		
Selling, general and administrative	40,039	33,122
Depreciation and amortization	2,956	2,995
Marketing and reservation system	133,814	133,122
Total operating expenses	176,809	169,239
Operating income	64,942	62,917
OTHER INCOME AND EXPENSES, NET:		
Interest expense	11,224	11,057
Interest income	(827)	(277)
Other gains	(321)	(1,173)
Equity in net (income) loss of affiliates	(744)	431
Total other income and expenses, net	9,332	10,038
Income before income taxes	55,610	52,879
Income taxes	16,788	17,066
Net income	\$38,822	\$35,813

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Results of Operations

The Company recorded income before income taxes of \$55.6 million for the three month period ended June 30, 2016, a \$2.7 million, or 5% increase from the same period of the prior year. The increase in income before income taxes primarily reflects a \$2.0 million increase in operating income, a \$0.6 million increase in interest income and a \$1.2 million increase in equity in income of affiliates, partially offset by a \$0.9 million decrease in other gains and losses. Operating income increased \$2.0 million primarily due to a \$7.2 million or 7% increase in the Company's hotel franchising revenues offset by a \$6.9 million or 21% increase in selling, general, and administrative expenses. The key drivers of these fluctuations are described in more detail below.

Hotel Franchising Revenues

Hotel franchising revenues were \$105.9 million for the three months ended June 30, 2016 compared to \$98.6 million for the three months ended June 30, 2015, an increase of \$7.2 million or 7%. The increase in hotel franchising revenues is primarily due to a \$5.0 million or 6% increase in royalty revenues and a \$1.7 million or 20% increase in procurement services revenues.

Royalty Fees

Domestic royalty fees for the three months ended June 30, 2016 increased \$5.3 million to \$81.1 million, an increase of 7% compared to the three months ended June 30, 2015. The increase in royalties is primarily attributable to a 4.3% increase in RevPAR and an increase in the effective royalty rate. System-wide RevPAR increased due to a 3% increase in average daily rates, accompanied by a 80 basis point increase in occupancy rates. The Company's effective royalty rate of the domestic hotel system increased from 4.28% for the three months ended June 30, 2015 to 4.40% for the three months ended June 30, 2016. The increase in the effective royalty rate is attributable to improved royalty rate pricing on recently executed domestic franchise agreements as well as annual contractual royalty rate increases contained in existing franchise agreements.

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

	For the Three Months Ended			For the Three Months Ended			Change					
	June 30, 2016*			June 30, 2015*			Average					
	Average			Average			Average					
	Daily	Occupancy	RevPAR	Daily	Occupancy	RevPAR	Daily	Occupancy	RevPAR	Daily	Occupancy	RevPAR
	Rate			Rate			Rate			Rate		
Comfort Inn	\$93.87	70.1 %	\$ 65.84	\$90.92	69.5 %	\$ 63.16	3.2 %	60 bps	4.2 %			
Comfort Suites	98.19	73.6 %	72.24	95.59	71.8 %	68.64	2.7 %	180 bps	5.2 %			
Sleep	83.93	69.5 %	58.35	82.23	68.3 %	56.11	2.1 %	120 bps	4.0 %			
Quality	78.61	63.3 %	49.79	75.52	62.0 %	46.83	4.1 %	130 bps	6.3 %			
Clarion	84.14	62.3 %	52.46	80.54	60.8 %	48.95	4.5 %	150 bps	7.2 %			
Econo Lodge	61.84	57.3 %	35.46	59.86	56.6 %	33.87	3.3 %	70 bps	4.7 %			
Rodeway	63.13	57.9 %	36.56	59.92	58.4 %	35.01	5.4 %	(50) bps	4.4 %			
MainStay	78.07	68.4 %	53.40	78.53	70.4 %	55.32	(0.6)%	(200) bps	(3.5)%			
Suburban	51.07	76.9 %	39.27	47.96	78.9 %	37.86	6.5 %	(200) bps	3.7 %			
Ascend Hotel Collection	133.28	60.0 %	79.94	129.04	59.2 %	76.41	3.3 %	80 bps	4.6 %			
Total	\$83.35	65.5 %	\$ 54.61	\$80.89	64.7 %	\$ 52.36	3.0 %	80 bps	4.3 %			

*Operating statistics exclude Cambria hotel & suites since the operating statistics are not representative of a stabilized brand which the Company defines as having at least 25 units open and operating for a twelve month period.

The number of domestic rooms on-line decreased by 8 rooms to 398,190 as of June 30, 2016 from 398,198 as of June 30, 2015. The total number of domestic hotels on-line increased by 0.8% to 5,273 as of June 30, 2016 from 5,230 as of June 30, 2015. Our unit growth has outpaced the growth in our rooms primarily due to the Company's multi-year strategy to rejuvenate the Comfort family of brands by terminating or repositioning under-performing hotels that no longer meet the Comfort brand standards. Hotels terminated from the Comfort brand family may be repositioned to a

more suitable brand within the Company's family of brands or exit our franchise system. As a result of this strategy our unit growth has been driven primarily

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by brands with lower average room counts than the Comfort family of brands. A summary of domestic hotels and rooms on-line at June 30, 2016 and 2015 by brand is as follows:

	June 30, 2016		June 30, 2015		Variance		%	%
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms		
Comfort Inn	1,138	88,085	1,215	93,904	(77)	(5,819)	(6.3)%	(6.2)%
Comfort Suites	564	43,522	575	44,447	(11)	(925)	(1.9)%	(2.1)%
Sleep	380	27,188	377	27,207	3	(19)	0.8%	(0.1)%
Quality	1,395	110,952	1,311	105,761	84	5,191	6.4%	4.9%
Clarion	168	23,033	175	24,587	(7)	(1,554)	(4.0)%	(6.3)%
Econo Lodge	847	52,385	853	52,835	(6)	(450)	(0.7)%	(0.9)%
Rodeway	528	29,771	481	26,544	47	3,227	9.8%	12.2%
MainStay	54	4,020	47	3,629	7	391	14.9%	10.8%
Suburban	58	6,471	62	6,959	(4)	(488)	(6.5)%	(7.0)%
Ascend Hotel Collection	116	9,650	110	9,408	6	242	5.5%	2.6%
Cambria hotel & suites	25	3,113	24	2,917	1	196	4.2%	6.7%
Total Domestic Franchises	5,273	398,190	5,230	398,198	43	(8)	0.8%	—%

Domestic hotels open and operating decreased by 3 during the three months ended June 30, 2016, compared to a net increase of 11 domestic hotels open and operating during the three months ended June 30, 2015. Gross domestic franchise additions decreased slightly from 74 for the three months ended June 30, 2015 to 73 for the same period of 2016. New construction hotels represented 12 of the gross domestic additions during the three months ended June 30, 2016 as compared to 19 new construction hotel openings in the same period of the prior year. The decrease in new construction openings reflects the variability in timings of hotel openings from period to period. New construction hotels typically average 18 to 36 months to open after the franchise agreement is executed. Gross domestic additions for conversion hotels during the three months ended June 30, 2016 increased by 6 units to 61 from 55 for the three months ended June 30, 2015. The timing of conversion hotel openings are impacted by various factors including the complexity of the property improvement plans required to be completed prior to opening but typically open within three to four months after the execution of a franchise agreement.

Net domestic terminations increased from 63 in the three months ended June 30, 2015 to 76 for the three months ended June 30, 2016.

International royalties declined \$0.3 million from \$5.4 million for the three months ended June 30, 2015 to \$5.1 million for the three months ended June 30, 2016 despite a 4.3% increase in the number of rooms available primarily due to the negative impact of foreign currency fluctuations in the various countries that we operate and the timing of new room openings within the quarter. International available rooms increased by 4,603 from 106,763 as of June 30, 2015 to 111,366 as of June 30, 2016, and the total number of international hotels increased by 10 from 1,146 as of June 30, 2015 to 1,156 as of June 30, 2016.

Initial Franchise and Relicensing Fees

Domestic initial franchise fee revenue, included in the initial franchise and relicensing fees caption on the Company's statements of income, generated from executed franchise agreements decreased \$0.5 million to \$3.0 million for the three months ended June 30, 2016 from \$3.5 million for the three months ended June 30, 2015. Domestic initial fee revenue decreased approximately 14% despite a 6% increase in executed franchise agreements primarily due to increased incentives provided in the current quarter when compared to the three months ended June 30, 2015, and a decrease in the amount of deferred revenue recognized in the second quarter of 2016 related to franchise agreements executed in prior periods. Executed franchise agreements increased from 139 franchise agreements, representing 11,601 rooms, executed in the second quarter of 2015 to 147 franchise agreements, representing 13,005 rooms executed in the second quarter of 2016. Revenues associated with agreements including incentives are deferred and recognized when the incentive criteria are met or the agreement is terminated, whichever comes first.

During the second quarter of 2016, 42 of the executed agreements were for new construction hotel franchises representing 3,757 rooms compared to 30 contracts representing 2,695 rooms for the three months ended June 30, 2015. Conversion hotel executed franchise agreements totaled 105 representing 9,248 rooms for the three months ended June 30, 2016 compared to 109 agreements representing 8,906 rooms for the same period a year ago. The decline in the execution of new franchise

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agreements for conversion and increase in executed agreements for new construction projects primarily reflects the timing of the process of converting new franchise applications into executed agreements. Overall, the Company expects to execute new domestic franchise agreements for the year ended December 31, 2016 at the same or greater levels than the prior year.

A summary of executed domestic franchise agreements by brand for the three months ended June 30, 2016 and 2015 is as follows:

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015			% Change		
	New Construction	Conversion	Total	New Construction	Conversion	Total	New Construction	Conversion	Total
Comfort Inn	6	10	16	9	13	22	(33)%	(23)%	(27)%
Comfort Suites	6	1	7	8	—	8	(25)%	NM	(13)%
Sleep	12	—	12	4	—	4	200%	NM	200%
Quality	—	50	50	1	46	47	(100)%	9%	6%
Clarion	2	6	8	—	3	3	NM	100%	167%
Econo Lodge	1	15	16	—	19	19	NM	(21)%	(16)%
Rodeway	—	17	17	—	21	21	NM	(19)%	(19)%
MainStay	5	—	5	2	—	2	150%	NM	150%
Suburban	—	1	1	1	1	2	(100)%	—%	(50)%
Ascend Hotel Collection	1	5	6	—	6	6	NM	(17)%	—%
Cambria hotel & suites	9	—	9	5	—	5	80%	NM	80%
Total Domestic System	42	105	147	30	109	139	40%	(4)%	6%

Relicensing fees include fees charged to the new owners of a franchised property whenever an ownership change occurs and the property remains in the franchise system as well as fees required to renew expiring franchise contracts. Domestic relicensing contracts increased 26% from 80 for the three months ended June 30, 2015 to 101 for the three months ended June 30, 2016. Renewals of expired contracts increased 20% from 5 for the three months ended June 30, 2015 to 6 during the current period. Domestic relicensing and renewal revenues increased 19% from \$2.1 million in the second quarter of 2015 to \$2.5 million in the second quarter of 2016 as a result of the 26% increase in relicensing and renewal contracts partially offset by a decline in average fees per deal.

As of June 30, 2016, the Company had 591 franchised hotels with 46,887 rooms under construction, awaiting conversion or approved for development in its domestic system as compared to 518 hotels and 40,297 rooms at June 30, 2015. The number of new construction franchised hotels in the Company's domestic pipeline increased 26% to 403 at June 30, 2016 from 321 at June 30, 2015. The growth in the number of new construction hotels in the domestic pipeline reflects the 9% and 79% increase in new construction franchise agreements executed in 2015 and 2014, respectively, as well as the 8% increase in agreements executed year to date in 2016. 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 decreased by 9 hotels or 5% from 197 hotels at June 30, 2015 to 188 hotels at June 30, 2016. The decline in the number of conversion franchise hotels in the domestic pipeline primarily reflects the 14% decline in conversion franchise agreements sold in the six months ended June 30, 2016. The Company had an additional 82 franchised hotels with 9,110 rooms under construction, awaiting conversion or approved for development in its international system as of June 30, 2016 compared to 95 hotels and 9,320 rooms at June 30, 2015. 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.

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A summary of the domestic franchised hotels pipeline, which includes hotels under construction, awaiting conversion and approved for development, at June 30, 2016 and 2015 by brand is as follows:

	June 30, 2016		June 30, 2015			Variance		New Construction		Total			
	Conversion	New Construction	Total	Conversion	New Construction	Total	Unit%	Units	%	Unit%	%		
Comfort Inn	34	80	114	38	64	102	(4) (11) %	16	25	%	12	12	%
Comfort Suites	4	95	99	3	76	79	1 33 %	19	25	%	20	25	%
Sleep	—	83	83	1	65	66	(1) (100) %	18	28	%	17	26	%
Quality	47	5	52	54	5	59	(7) (13) %	—	—	%	(7)	(12)	%
Clarion	9	5	14	11	2	13	(2) (18) %	3	150	%	1	8	%
Econo Lodge	26	3	29	24	4	28	2 8 %	(1)	(25)	%	1	4	%
Rodeway	29	2	31	34	3	37	(5) (15) %	(1)	(33)	%	(6)	(16)	%
MainStay	—	57	57	1	47	48	(1) (100) %	10	21	%	9	19	%
Suburban	5	6	11	6	12	18	(1) (17) %	(6)	(50)	%	(7)	(39)	%
Ascend Hotel Collection	29	19	48	25	18	43	4 16 %	1	6	%	5	12	%
Cambria hotel & suites	5	48	53	—	25	25	5 NM	23	92	%	28	112	%
	188	403	591	197	321	518	(9) (5) %	82	26	%	73	14	%

Procurement Services: Revenues increased \$1.7 million or 20% from \$8.6 million for the three months ended June 30, 2015 to \$10.3 million for the three months ended June 30, 2016. The increase in revenues primarily reflects the implementation of new brand programs as well as an increase in the volume of business transacted with existing and new qualified vendors and strategic alliance partners.

Other Income: Revenue increased \$2.3 million from the three months ended June 30, 2015 to \$5.7 million for the three months ended June 30, 2016. The increase in other income is primarily due to revenue related to the Company's recent acquisition of a technology solutions provider to vacation rental management companies and an increase in liquidated damages awards related to the early termination of franchise agreements.

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 \$40.0 million for the three months ended June 30, 2016, an increase of \$6.9 million from the three months ended June 30, 2015.

SG&A expenses for the three months ended June 30, 2016 and 2015 include approximately \$7.0 million and \$4.6 million, respectively, related to the Company's SkyTouch and vacation rental divisions, and expenses related to operations of an office building leased to a third party. Excluding SG&A expenses for non-hotel franchising divisions, SG&A for the three months ended June 30, 2016 increased \$4.5 million or 16% to \$33.0 million in the current year primarily due to increased costs related to increases in franchise support activities and the impact of employee termination benefits totaling \$2.2 million incurred during the current quarter.

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

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Total marketing and reservation system revenues increased 1% from \$133.1 million for the three months ended June 30, 2015 to \$133.8 million for the three months ended June 30, 2016. The increase in revenues was primarily due to recognition of improved system fees resulting from RevPAR increases, increasing revenues from the Choice Privileges loyalty program resulting from the growth in program membership, and increases in the average daily rate. Marketing and reservation system revenues for the three months ended June 30, 2015 were impacted by the recognition of \$7.0 million of previously deferred revenues. No previously deferred revenues were recognized in the second quarter of 2016.

At June 30, 2016, cumulative marketing and reservation system expenses exceeded fees billed by \$25.6 million, compared to cumulative marketing and reservation system fees billed exceeding expenses by \$30.7 million as of December 31, 2015. The deficit and excess are reflected as an other long-term asset and liability, respectively in the accompanying consolidated balance sheets.

Other Gains: Other gains decreased \$0.9 million from \$1.2 million for the three months ended June 30, 2015 to \$0.3 million in the same period of the current year, primarily due to a \$1.3 million gain from the sale of an interest in an unconsolidated joint venture recognized in 2015, partially offset by an increase in gains due to the fluctuations in the fair value of investments held in the Company's non-qualified employee benefit plans of \$0.4 million.

Equity in Net (Income) Loss of Affiliates: The Company recorded income of \$0.7 million from its unconsolidated joint ventures for the three months ended June 30, 2016, compared to a \$0.4 million loss for the three months ended June 30, 2015. The \$1.1 million increase in income is primarily attributable to the results of operations during the ramp up period of operations for several recently opened or acquired hotel projects owned by unconsolidated joint ventures. These investments relate to the Company's program to offer equity support to qualified franchisees to develop and operate Cambria hotels & suites in strategic markets.

Income Taxes: The effective income tax rates for continuing operations were 30.2% and 32.3% for the three months ended June 30, 2016 and 2015, respectively. The effective income tax rates for continuing operations for the three months ended June 30, 2016 and 2015 were lower than the U.S. federal income tax rate of 35% due the impact of foreign operations, partially offset by state income taxes.

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Operations Review

Comparison of Operating Results for the Six-Month Periods Ended June 30, 2016 and 2015

Summarized financial results for the six months ended June 30, 2016 and 2015 are as follows:

(in thousands)	2016	2015
REVENUES:		
Royalty fees	\$ 151,054	\$ 143,614
Initial franchise and relicensing fees	10,862	11,533
Procurement services	16,104	13,396
Marketing and reservation system	260,175	231,835
Other	10,674	7,023
Total revenues	448,869	407,401
OPERATING EXPENSES:		
Selling, general and administrative	75,158	65,560
Depreciation and amortization	5,721	5,685
Marketing and reservation system	260,175	231,835
Total operating expenses	341,054	303,080
Operating income	107,815	104,321
OTHER INCOME AND EXPENSES, NET:		
Interest expense	22,316	21,236
Interest income	(1,666)	(623)
Other (gains)	(259)	(1,641)
Equity in net loss of affiliates	1,436	1,436
Total other income and expenses, net	21,827	20,408
Income before income taxes	85,988	83,913
Income taxes	26,003	26,506
Net income	\$59,985	\$57,407

Results of Operations

The Company recorded income before income taxes of \$86.0 million for the six month period ended June 30, 2016, a \$2.1 million, or 2% increase from the same period of the prior year. The increase in income before income taxes primarily reflects a \$3.5 million increase in operating income partially offset by a \$1.1 million increase in interest expense, a \$1.4 million decrease in other gains, partially offset by an increase in interest income of \$1.0 million. Operating income increased \$3.5 million as the Company's hotel franchising revenues increased by \$10.0 million or 6% partially offset by an increase in SG&A expenses of \$9.6 million or 15%. The key drivers of these fluctuations are described in more detail below.

Hotel Franchising Revenues

Hotel franchising revenues were \$184.6 million for the six months ended June 30, 2016 compared to \$174.6 million for the six months ended June 30, 2015, an increase of 6%. The increase in hotel franchising revenues is primarily due to a \$7.4 million or 5% increase in royalty revenues and a \$2.7 million or 20% increase in procurement services revenues, partially offset by a \$0.7 million or 6% decrease in initial franchising and relicensing revenues.

Royalty Fees

Domestic royalty fees for the six months ended June 30, 2016 increased \$8.0 million to \$141.6 million, an increase of 6% compared to the six months ended June 30, 2015. The increase in royalties is attributable to a 2.7% increase in RevPAR and an increase in the effective royalty rate. System-wide RevPAR increased due to a 2.8% increase in average daily rates partially offset by a 10 basis point decrease in occupancy rates. The effective royalty rate increased to 4.39% for the six months ended June 30, 2016, compared to 4.29% for the prior year period. The increase in the

effective royalty rate is attributable to

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improved royalty rate pricing on recently executed domestic franchise agreements as well as annual contractual royalty rate increases contained in existing franchise agreements.

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

	For the Six Months Ended June 30, 2016*			For the Six Months Ended June 30, 2015*			Change			
	Average Daily Rate	Occupancy %	RevPAR \$	Average Daily Rate	Occupancy %	RevPAR \$	Average Daily Rate	Occupancy %	RevPAR \$	
Comfort Inn	\$90.11	64.0	% \$ 57.67	\$87.35	63.5	% \$ 55.48	3.2	% 50	bps 3.9	%
Comfort Suites	95.51	68.9	% 65.80	93.06	68.2	% 63.43	2.6	% 70	bps 3.7	%
Sleep	81.13	64.2	% 52.08	79.60	64.0	% 50.93	1.9	% 20	bps 2.3	%
Quality	75.79	57.9	% 43.88	73.16	57.5	% 42.05	3.6	% 40	bps 4.4	%
Clarion	80.52	56.3	% 45.35	78.25	56.3	% 44.07	2.9	% —	bps 2.9	%
Econo Lodge	59.24	52.4	% 31.03	57.47	52.4	% 30.13	3.1	% —	bps 3.0	%
Rodeway	60.72	54.6	% 33.15	57.22	55.8	% 31.90	6.1	% (120)	bps 3.9	%
MainStay	75.80	63.4	% 48.02	76.24	68.5	% 52.23	(0.6)%	(510)	bps (8.1)	%
Suburban	49.67	74.9	% 37.21	47.25	76.5	% 36.15	5.1	% (160)	bps 2.9	%
Ascend Hotel Collection	125.21	56.9	% 71.28	122.78	59.8	% 73.45	2.0	% (290)	bps (3.0)	%
Total	\$80.26	60.3	% \$ 48.43	\$78.08	60.4	% \$ 47.15	2.8	% (10)	bps 2.7	%

*Operating statistics exclude Cambria hotel & suites since the operating statistics are not representative of a stabilized brand which the Company defines as having at least 25 units open and operating for a twelve month period.

Domestic hotels open and operating decreased by 3 hotels during the six months ended June 30, 2016 compared to a net increase of 9 domestic hotels open and operating during the six months ended June 30, 2015. Gross domestic franchise additions increased from 130 for the six months ended June 30, 2015 to 131 for the same period of 2016.

New construction hotels represented 24 of the gross domestic additions during the six months ended June 30, 2016 as compared to 33 new construction hotel openings in the same period of the prior year. The decrease in new construction openings reflects the variability in timings of hotel openings from period to period. New construction hotels typically average 18 to 36 months to open after the franchise agreement is executed. Gross domestic additions for conversion hotels during the six months ended June 30, 2016 increased by 10 units to 107 from 97 for the six months ended June 30, 2015. The timing of conversion hotel openings are impacted by various factors including the complexity of the property improvement plans required to be completed prior to opening but typically open within three to four months after the execution of the franchise agreement.

Net domestic franchise terminations increased from 121 in the six months ended June 30, 2015 to 134 for the six months ended June 30, 2016.

International royalties declined by \$0.6 million or 6% from the six months ended June 30, 2015 to \$9.4 million for the same period of 2016. International rooms open and operating increased 4% to 111,366 as of June 30, 2016 from 106,763 as of June 30, 2015. Despite the increase in international rooms available, royalties declined as a result of unfavorable foreign currency fluctuations and RevPar performance in the countries in which we operate. The total number of international hotels increased 0.9% from 1,146 as of June 30, 2015 to 1,156 as of June 30, 2016.

Initial Franchise and Relicensing Fees

Domestic initial fee revenue, included in the initial franchise and relicensing fees caption on the Company's statements of income, generated from executed franchise agreements decreased \$1.1 million to \$5.4 million for the six months ended June 30, 2016 from \$6.5 million for the six months ended June 30, 2015. Domestic initial fee revenue decreased approximately 17% primarily due to a 9% decrease in the number of new domestic executed franchise agreements, a decrease in the amount of deferred revenue recognized in the first six months of 2016 related to franchise agreements executed in prior periods, and an increase in franchise incentives in the first six months of 2016 compared to the same period in 2015. Executed franchise agreements decreased from 238 franchise agreements, representing 18,131 rooms,

executed in the six months ended June 30, 2015, to 217 franchise agreements, representing 18,376 rooms executed in the six months ended June 30, 2016. Revenues

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associated with agreements including incentives are deferred and recognized when the incentive criteria are met or the agreement is terminated, whichever comes first.

During the six months ended June 30, 2016, 57 of the executed agreements were for new construction hotel franchises representing 5,038 rooms, compared to 53 contracts representing 4,182 rooms for the six months ended June 30, 2015. Conversion hotel executed franchise agreements totaled 160 representing 13,338 rooms for the six months ended June 30, 2016 compared to 185 agreements representing 13,949 rooms for the same period a year ago. The decline in the execution of new franchise agreements for conversion projects primarily reflects the timing of the process of converting new franchise applications into executed agreements. The Company expects to execute new domestic franchise agreements for the year ended December 31, 2016 at the same or greater levels than the prior year.

A summary of executed domestic franchise agreements by brand for the six months ended June 30, 2016 and 2015 is as follows:

	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015			% Change		
	New Construction	Conversion	Total	New Construction	Conversion	Total	New Construction	Conversion	Total
Comfort Inn	12	14	26	13	20	33	(8)%	(30)%	(21)%
Comfort Suites	8	1	9	13	2	15	(38)%	(50)%	(40)%
Sleep	14	—	14	9	—	9	56%	NM	56%
Quality	—	73	73	3	75	78	(100)%	(3)%	(6)%
Clarion	3	9	12	—	6	6	NM	50%	100%
Econo Lodge	1	29	30	—	28	28	NM	4%	7%
Rodeway	—	27	27	—	35	35	NM	(23)%	(23)%
MainStay	6	—	6	6	—	6	—%	NM	—%
Suburban	—	1	1	1	3	4	(100)%	(67)%	(75)%
Ascend Hotel Collection	2	6	8	1	16	17	100%	(63)%	(53)%
Cambria hotel & suites	11	—	11	7	—	7	57%	NM	57%
Total Domestic System	57	160	217	53	185	238	8%	(14)%	(9)%

Relicensing fees include fees charged to the new owners of a franchised property whenever an ownership change occurs and the property remains in the franchise system as well as fees required to renew expiring franchise contracts. Domestic relicensing contracts increased 14% from 174 for the six months ended June 30, 2015 to 199 for the six months ended June 30, 2016. Renewals of expired contracts increased 36% from 11 for the six months ended June 30, 2015 to 15 in the current period. As a result of the increase in relicensing and renewal contracts, domestic relicensing and renewal revenues increased \$0.6 million or 13% from \$4.6 million for the six months ended June 30, 2015 to \$5.2 million for the six months ended June 30, 2016.

Procurement Services: Revenues increased \$2.7 million or 20% from \$13.4 million for the six months ended June 30, 2015 to \$16.1 million for the six months ended June 30, 2016. The increase in revenues primarily reflects the implementation of new programs as well as an increased volume of business transacted with qualified vendors and strategic alliance partners.

Other Income: Revenue increased \$3.7 million from the six months ended June 30, 2015 to \$10.7 million for the six months ended June 30, 2016. The increase in other income is primarily due to \$0.4 million increase in support and consulting fees earned by the Company's SkyTouch division and \$2.7 million in revenues related to the Company's technology solutions provider to vacation rental management companies acquired in August 2015.

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 \$75.2 million for the six months ended June 30, 2016, an increase of \$9.6 million or 15% from the six months ended June 30, 2015.

SG&A expenses for the six months ended June 30, 2016 and 2015 include approximately \$13.7 million and \$10.1 million, respectively, related to the Company's SkyTouch and vacation rental divisions, and expenses related to

operations of an office building leased to a third party. Excluding the SG&A expenses for non-hotel franchising divisions, SG&A for the six months

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ended June 30, 2016 increased \$6.0 million or 11% to \$61.4 million in the current year primarily due to a \$2.3 million increase in employee termination benefits and increased costs related to franchise support activities.

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

Total marketing and reservation system revenues increased 12% from \$231.8 million for the six months ended June 30, 2015 to \$260.2 million for the six months ended June 30, 2016. The increase in revenues was primarily due to the recognition of previously deferred revenue related to a change in the Company's expiration policy for the Choice Privileges membership program. In addition, revenues increased due to improved system fees resulting from RevPAR increases and increasing revenues from the Choice Privileges loyalty program, resulting from the growth in program membership and increase in average daily rate. Marketing and reservation system revenues reflect the recognition of \$30.7 million of previously deferred revenues in 2016 compared to a \$8.6 million deferral of revenues to future periods recorded in 2015.

At June 30, 2016, cumulative marketing and reservation system expenses exceeded fees billed by \$25.6 million, compared to cumulative marketing and reservation system fees billed exceeding expenses by \$30.7 million, as of December 31, 2015. The deficit and excess are reflected as an other long-term asset and liability, respectively, in the accompanying consolidated balance sheets.

Other Gains: Other gains decreased from a gain of \$1.6 million for the six months ended June 30, 2015 to a gain of \$0.3 million for same period of the current year, primarily due to a \$1.3 million gain from the sale of an interest in an unconsolidated joint venture recognized in 2015.

Income Taxes: The Company's effective income tax rates for income from continuing operations were 30.2% and 31.6% for the six months ended June 30, 2016 and 2015, respectively. The effective income tax rates for the six months ended June 30, 2016 and 2015 were lower than the U.S. federal income tax rate of 35% due to the recurring impact of foreign operations, partially offset by state income taxes. The effective income tax rates for the six months ended June 30, 2016 was also impacted by the adoption of ASU 2016-09, which requires that excess tax benefits and deficiencies be recorded as tax expense or benefit in the income statement. The adoption resulted in a \$1.4 million tax benefit. The effective income tax rate for the six months ended June 30, 2015 was further reduced due to the settlement of uncertain tax positions.

Liquidity and Capital Resources

Operating Activities

During the six months ended June 30, 2016 and 2015, net cash provided by operating activities totaled \$27.9 million and \$42.5 million, respectively. Operating cash flows declined \$14.7 million primarily due to a \$46.4 million decrease in cash flows from marketing and reservation activities and the timing of working capital items. The declines were partially offset by a \$38.1 million increase in deferred revenue and a \$6.0 million decline in net disbursements to franchisees for property improvements and other purposes utilizing forgivable promissory notes.

Net cash used by marketing and reservation activities totaled \$42.7 million during the six months ended June 30, 2016 compared to net cash provided of \$3.7 million during the six months ended June 30, 2015. The decline in cash provided by marketing and reservation activities primarily reflects a one-time deferral of revenue related to a change in the Company's expiration policy for the Company's loyalty program. Additionally, the Company expanded its

information technology workforce in 2015 to support improvements to the Company's various property management and central reservation technologies that are designed to deliver guests to our franchised hotels.

In conjunction with brand and development programs, the Company provides financing to franchisees for property improvements and other purposes in the form of forgivable notes receivable. If the franchisee remains in the system in good standing over the term of the promissory note, the Company forgives the outstanding principal balance and related interest. Since these forgivable notes are predominantly forgiven ratably over the term of the promissory note rather than repaid, the

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Company classifies the related issuance and collections of these notes as operating activities. During the six months ended June 30, 2016 and 2015, the Company's net advances for these purposes totaled \$13.2 million and \$19.2 million, respectively. The timing and amount of these cash flows is dependent on various factors including the implementation of various development and brand incentive programs, the level of franchise sales and the timing of hotel openings. At June 30, 2016, the Company had commitments to extend an additional \$133.6 million for these purposes provided certain conditions are met by its franchisees, of which \$67.8 million is expected to be advanced in the next twelve months.

Investing Activities

Cash utilized for investing activities totaled \$53.9 million and \$9.3 million for the six months ended June 30, 2016 and 2015, respectively. The increase in cash utilized for investing activities for the six months ended June 30, 2016 primarily reflects the following items:

During the six months ended June 30, 2016 and 2015, capital expenditures totaled \$10.9 million and \$14.6 million, respectively. The decrease in capital expenditures from 2015 primarily reflects decreased spending on upgrades of our central reservation and yield management systems as well as purchases of technology hardware.

During the six months ended June 30, 2016, the Company completed three acquisitions of real estate as part of a program to incent franchise development in strategic markets for certain brands. The aggregate purchase price for these acquisitions was \$25.8 million consisting of \$25.6 million cash (of which \$0.3 million was paid as a deposit in the fourth quarter of 2015) with an additional \$0.2 million of current liabilities assumed. In addition, the Company incurred \$0.5 million in acquisition related costs, which have been expensed in the period.

During the six months ended June 30, 2016 and 2015, the Company invested \$19.7 million and \$2.4 million, respectively, in joint ventures accounted for under the equity method of accounting. In addition, the Company received distributions from these joint ventures totaling \$3.6 million and \$0.3 million for the six months ended June 30, 2016 and 2015, respectively. The Company's investment in these joint ventures primarily relate to ventures that either support the Company's efforts to increase business delivery to its franchisees or promote growth of our emerging brands.

The Company provides financing to franchisees for hotel development efforts and other purposes in the form of notes receivables. These loans bear interest and are expected to be repaid in accordance with the terms of the loan arrangements. During the six months ended June 30, 2016, the Company advanced and received repayments totaling \$13.0 million and \$10.2 million for these purposes, respectively. For the six months ended June 30, 2015, the Company advanced \$1.5 million and received \$3.6 million in disbursements related to hotel development efforts. At June 30, 2016, the Company had commitments to extend an additional \$35.2 million for these purposes within the next twelve months provided certain conditions are met by its franchisees.

During the six months ended June 30, 2016 and 2015, the Company realized proceeds from the sale of parcels of land and an interest in an unconsolidated joint venture related to the development of the Cambria hotel & suites brand totaling \$1.7 million and \$6.3 million, respectively.

From time to time, our board of directors authorizes specific transactions and general programs which permit us to provide financing, investment and guarantees and similar credit support to qualified franchisees, as well as to acquire and resell real estate to incent franchise development. Since 2006, we have engaged in these financial support activities to encourage acceleration of the growth of our Cambria hotel & suites brand, primarily in strategic markets and locations. Over the next three to five years, depending on market and other conditions, we expect to continue to deploy capital in support of this brand and expect our investment to range between \$250 million to \$350 million over that time period. The annual pace of future financial support activities will depend upon market and other conditions including among others, our franchise sales results, the environment for new construction hotel development and the hotel lending environment. Our support of the Cambria brand's growth is expected to be primarily in the form of joint venture investments, forgivable key money loans, senior mortgage loans, development loans, mezzanine lending, and through the operation of a land-banking program. With respect to our lending and joint venture investments, we

generally expect to recycle these loans and investments within a five year period. At June 30, 2016, the Company had approximately \$176 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

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Senior Unsecured Notes due 2022

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

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

Senior Unsecured Notes due 2020

On August 25, 2010, the Company issued unsecured senior notes with a principal amount of \$250 million (the "2010 Senior Notes") at a discount of \$0.6 million, bearing a coupon of 5.70% with an effective rate of 6.19%. The 2010 Senior Notes will mature on August 28, 2020, with interest on the 2010 Senior Notes to be paid semi-annually on February 28th and August 28th. The Company used the net proceeds from the offering, after deducting underwriting discounts and other offering expenses, to repay outstanding borrowings and other general corporate purposes. The Company's 2010 Senior Notes are guaranteed jointly, severally, fully and unconditionally, subject to certain customary limitations, by certain of the Company's domestic subsidiaries.

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

Revolving Credit Facility

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

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

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

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

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

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

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

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

The Credit Agreement includes customary events of default, the occurrence of which, following any applicable cure period, would permit the lenders to, among other things, declare the principal, accrued interest and other obligations of the Company under the Credit Agreement to be immediately due and payable.

At June 30, 2016, the Company maintained a total leverage ratio of 3.24x and a consolidated fixed charge ratio of 6.76x and was in compliance with all financial covenants under the credit agreement.

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

Fixed Rate Collateralized Mortgage

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

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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 June 30, 2016, the Company had been advanced approximately \$3.7 million pursuant to these agreements and expects to receive the remaining \$0.7 million over the next several years, subject to annual appropriations by the governmental entities. These advances bear interest at a rate of 3% per annum.

Repayment of the advances is contingent upon the Company achieving certain performance conditions. Performance conditions are measured annually on December 31st and primarily relate to maintaining certain levels of employment within the various jurisdictions. If the Company fails to meet an annual performance condition, the Company may be required to repay a portion or all of the advances including accrued interest by April 30th following the measurement date. Any outstanding advances at the expiration of the Company's ten year corporate headquarters lease in 2023 will be forgiven in full. The advances will be included in long-term debt in the Company's consolidated balance sheets until the Company determines that the future performance conditions will be met over the entire term of the agreement and the Company will not be required to repay the advances. The Company accrues interest on the portion of the advances that it expects to repay. The Company was in compliance with all current performance conditions as of June 30, 2016.

Dividends

The Company currently maintains the payment of a quarterly dividend on its common shares outstanding; however, the declaration of future dividends is subject to the discretion of our board of directors. In December 2015, the Company's board of directors increased the quarterly dividend rate to \$0.205 per common share, beginning with the first dividend payable in 2016, representing a 5% increase from previous quarterly declarations.

During the six months ended June 30, 2016, the Company paid cash dividends totaling \$23.2 million. We expect to continue to pay dividends in the future, subject to the declaration of our board of directors as well as to future business performance, economic conditions, changes in income tax regulations and other factors including limitations in the Company's credit facility. Based on the present dividend rate and outstanding share count, we expect that aggregate annual regular dividends for 2016 would be approximately \$46.2 million.

Share Repurchases

The Company purchased 0.5 million shares of common stock under the share repurchase program at a total cost of \$23.0 million during the six months ended June 30, 2016. Since the program's inception through June 30, 2016, we have repurchased 48.6 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 \$1.2 billion. Considering the effect of the two-for-one stock split, the Company has repurchased 81.6 million shares at an average price of \$15.32 per share. As of June 30, 2016, the Company had approximately 1.2 million shares remaining under the current share repurchase authorization.

During the six months ended June 30, 2016, the Company redeemed 116,779 shares of common stock at a total cost of approximately \$5.3 million from employees to satisfy the option exercise price and statutory minimum tax-withholding requirements related to the exercising of stock options and vesting of performance vested restricted stock units and restricted stock grants. These redemptions were outside the share repurchase program.

Other items

Approximately \$188.7 million of the Company's cash and cash equivalents at June 30, 2016 pertains to undistributed earnings of the Company's consolidated foreign subsidiaries. Since the Company's intent is for such earnings to be reinvested by the foreign subsidiaries, the Company has not provided additional U.S. income taxes on these amounts. While the Company has no intention to utilize these cash and cash equivalents in its domestic operations, any change to this policy would result in the Company incurring additional U.S. income taxes on any amounts utilized domestically.

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

Off Balance Sheet Arrangements

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

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

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

The Company believes the likelihood of having to perform under the aforementioned limited payment guarantees was remote at June 30, 2016 and December 31, 2015.

Critical Accounting Policies

Our accounting policies comply with principles generally accepted in the United States. We have described below those policies that we believe are critical and require the use of complex judgment or significant estimates in their application. Additional discussion of these policies is included in Note 1 to our consolidated financial statements as of and for the year ended December 31, 2015 included in our Annual Report on Form 10-K.

Revenue Recognition

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

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

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

Marketing and Reservation Revenues and Expenses

The Company's franchise agreements require the payment of certain marketing and reservation system fees, which are used exclusively by the Company for expenses associated with providing franchise services such as national

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

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

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

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

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

Valuation of Intangibles and Long-Lived Assets

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

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

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and move directly to the two-step impairment test for goodwill and the fair value determination for indefinite-lived intangibles. The Company determines the fair value of its reporting units and indefinite-lived intangibles using income and market methods.

Valuation of Investments in Ventures

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

Loan Loss Reserves

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

Mezzanine and Other Notes Receivables

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

The Company considers a loan to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. All amounts due according to the contractual terms means that both the contractual interest payments and the contractual principal payments of a loan will be collected as scheduled in the loan agreement. The Company measures loan impairment based on the present value of expected future cash flows discounted at the loan's original effective interest rate or the estimated fair value of the collateral. For impaired loans, the Company establishes a specific impairment reserve for the difference between the recorded investment in the loan and the present value of the expected future cash flows or the estimated fair value of the collateral. The Company applies its loan impairment policy individually to all mezzanine and other notes receivable in the portfolio and does not aggregate loans for the purpose of applying such policy. For impaired loans, the Company recognizes interest income on a cash basis. If it is likely that a loan will not be collected based on financial or other business indicators it is the Company's policy to charge off these loans to SG&A expenses in the accompanying consolidated statements of income in the quarter when it is deemed uncollectible. Recoveries of impaired loans are recorded as a reduction of SG&A expenses in the quarter received. The Company assesses the collectability of its senior notes receivable by comparing the market value of the underlying assets to the carrying value of the outstanding notes. In addition, the Company evaluates the property's operating performance, the borrower's compliance with the terms of the loan and franchise agreements, and all related personal guarantees that have been provided by the borrower. For subordinated or unsecured receivables, the Company assesses the property's operating performance, the subordinated equity available to the Company, the borrower's compliance with the terms of the loan and franchise agreements, and the related personal guarantees that have been provided by the borrower.

The Company considers loans to be past due and in default when payments are not made when due. Although the Company considers loans to be in default if payments are not received on the due date, the Company does not suspend

the accrual of interest until those payments are more than 30 days past due. The Company applies payments received for loans on non-accrual status first to interest and then principal. The Company does not resume interest accrual until all delinquent payments are received.

Forgivable Notes Receivable

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

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

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

Stock Compensation

The Company's policy is to recognize compensation cost related to share-based payment transactions in the financial statements based on the fair value of the equity or liability instruments issued. Compensation expense related to the fair value of share-based awards is recognized over the requisite service period based on an estimate of those awards that will ultimately vest. The Company estimates the share-based compensation expense for awards that will ultimately vest upon inception of the grant and adjusts the estimate of share-based compensation for those awards with performance and/or service requirements that will not be satisfied so that compensation cost is recognized only for awards that ultimately vest.

Income Taxes

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

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

New Accounting Standards

See Footnote No. 1, "Recently Adopted Accounting Guidance" and "Future Adoption of Recently Announced Accounting Guidance," of the Notes to our Financial Statements for information related to our adoption of new

accounting standards in 2016 and for information on our anticipated adoption of recently issued accounting standards.

FORWARD-LOOKING STATEMENTS

Certain matters discussed in this quarterly report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Generally, our use of words such as "expect," "estimate," "believe," "anticipate," "should", "will," "forecast," "plan," "project," "assume" or similar words of futurity identify such forward-looking statements.

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These forward-looking statements are based on management's current beliefs, assumptions and expectations regarding future events, which in turn are based on information currently available to management. Such statements may relate to projections of the Company's revenue, earnings and other financial and operational measures, Company debt levels, ability to repay outstanding indebtedness, payment of dividends, and future operations, among other matters. We caution you not to place undue reliance on any such forward-looking statements. Forward-looking statements do not guarantee future performance and involve known and unknown risks, uncertainties and other factors.

Several factors could cause actual results, performance or achievements of the Company to differ materially from those expressed in or contemplated by the forward-looking statements. Such risks include, but are not limited to, changes to general, domestic and foreign economic conditions; changes in law and regulation applicable to the lodging and franchising industries foreign currency fluctuations; operating risks common in the lodging and franchising industries; changes to the desirability of our brands as viewed by hotel operators and customers; changes to the terms or termination of our contracts with franchisees and our relationships with our franchisees; our ability to keep pace with improvements in technology utilized for marketing and reservations systems and other operating systems; the commercial acceptance of our SkyTouch division's products and services; our ability to grow our franchise system; exposures to risks relating to development activities; fluctuations in the supply and demand for hotels rooms; our ability to realize anticipated benefits of acquired businesses; the level of acceptance of alternative growth strategies we may implement; cyber security and data breach risks; operating risks associated with international operations; the outcome of litigation; and our ability to effectively manage our indebtedness. These and other risk factors are discussed in detail in the Risk Factors section of the Company's Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission on February 29, 2016. 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 \$18.1 million and \$17.8 million at June 30, 2016 and December 31, 2015, 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 June 30, 2016, the Company had \$247.0 million of variable interest rate debt instruments outstanding at an effective rate of 1.95%. A hypothetical change of 10% in the Company's effective interest rate from June 30, 2016 levels would increase or decrease annual interest expense by \$0.5 million. The Company expects to refinance its fixed and variable long-term debt obligations prior to their scheduled maturities.

The Company does not presently have any derivative financial instruments.

ITEM 4. CONTROLS AND PROCEDURES

Management's Evaluation of Disclosure Controls and Procedures

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

Our management, with the participation of our CEO and CFO have evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"), as of the end of the period covered by this quarterly report as required by Rules 13a-15(b) or 15d-15(b) under the Exchange Act. Our management, including our CEO and CFO, does not

expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met.

An evaluation was performed under the supervision and with the participation of the Company's CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the

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Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of June 30, 2016.

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 June 30, 2016, that materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A to our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed on February 29, 2016. 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, 2015, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

The following table sets forth purchases and redemptions of Choice Hotels International, Inc. common stock made by the Company during the six months ended June 30, 2016:

Month Ending	Total Number of Shares Purchased or Redeemed	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ^{(1),(2)}	Maximum Number of Shares that may yet be Purchased Under the Plans or Programs, End of Period
January 31, 2016	96,031	\$ 47.71	72,515	1,589,696
February 29, 2016	84,638	45.63	—	1,589,696
March 31, 2016	8,069	51.33	—	1,589,696
April 30, 2016	556	51.74	—	1,589,696
May 31, 2016	—	—	—	1,589,696
June 30, 2016	419,883	46.18	419,883	1,169,813
Total	609,177	\$ 46.42	492,398	1,169,813

The Company's share repurchase program was initially approved by the board of directors on June 25, 1998. The program has no fixed dollar amount or expiration date. Since the program's inception through June 30, 2016, the (1) Company has repurchased 48.6 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 \$1.2 billion. Considering the effect of the two-for-one stock split, the Company has repurchased 81.6 million shares at an average price of \$15.32 a share.

During the six months ended June 30, 2016, the Company redeemed 116,779 shares of common stock from (2) employees to satisfy the option price and minimum tax-withholding requirements related to the exercising of options and vesting of restricted stock and performance vested restricted stock unit grants. These redemptions were not part of the board repurchase authorization.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

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None.

ITEM 5. OTHER INFORMATION

None.

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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)	Senior Unsecured Credit Agreement dated July 21, 2015 among Choice Hotels International, Inc., Deutsche Bank AG New York Branch, as administrative agent, Wells Fargo Bank, National Association, as syndication agent and swingline lender, and a syndication of lenders
4.02*	Extension Confirmation Letter dated as of July 5, 2016, in connection with Senior Unsecured Credit Agreement
10.1(g)	Transition Services Agreement between Choice Hotels International, Inc. and David L. White, dated June 3, 2016
10.2(g)	Second Amendment to Non-Competition, Non-Solicitation and Severance Benefit Agreement between Choice Hotels International, Inc. and David L. White, dated June 3, 2016
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a)
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a)
32*	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Label Linkbase Document
101.PRE*	XBRL Taxonomy Presentation Linkbase Document

*Filed herewith

- (a) Incorporated by reference to the identical document filed as an exhibit to Choice Hotels International, Inc.'s Registration Statement on Form S-4, filed August 31, 1998 (Reg. No. 333-62543).
- (b) Incorporated by reference to the identical document filed as an exhibit to Choice Hotels International, Inc.'s Current Report on Form 8-K filed May 1, 2013.
- (c) Incorporated by reference to the identical document filed as an exhibit to Choice Hotels International, Inc.'s Current Report on Form 8-K filed February 16, 2010.
- (d) Incorporated by reference to the identical document filed as an exhibit to Choice Hotels International, Inc.'s Current Report on Form 8-K filed April 29, 2015.
- (e) Incorporated by reference to the identical document filed as an exhibit to Choice Hotels International, Inc.'s Current Report on Form 8-K dated January 12, 2016, 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 dated July 21, 2015.
- (g) Incorporated by reference to the identical document filed as an exhibit to Choice Hotels International, Inc.'s Current Report on Form 8-K dated June 7, 2016.

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SIGNATURE

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

CHOICE HOTELS INTERNATIONAL, INC.

August 4, 2016 By: /S/ SCOTT E. OAKSMITH

Scott E. Oaksmith

Senior Vice President, Finance & Chief Accounting Officer