CHOICE HOTELS INTERNATIONAL INC /DE
Form 10-K
March 01, 2010

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

(Mark One)

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

For the year ended December 31, 2009

OR

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

For the transition period from to

Commission file number 001-13393

CHOICE HOTELS INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	**52-1209792**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
10750 Columbia Pike, Silver Spring, Maryland	**20901**
(Address of Principal Executive Offices)	**(Zip Code)**

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, Par Value $0.01 per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer x	Accelerated filer ¨	Smaller reporting company ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)

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

The aggregate market value of common stock of Choice Hotels International, Inc. held by non-affiliates was $779,784,443 as of June 30, 2009 based upon a closing price of $26.61 per share.

The number of shares outstanding of Choice Hotels International, Inc. s common stock at February 16, 2010 was 59,707,392.

DOCUMENTS INCORPORATED BY REFERENCE.

Certain portions of our definitive proxy statement, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the Annual Meeting of Shareholders to be held on April 29, 2010, are incorporated by reference under Part III.

Table of Contents

CHOICE HOTELS INTERNATIONAL, INC.

Form 10-K

Table of Contents

Table of Contents

PART I

Throughout this report, we refer to Choice Hotels International, Inc., together with its subsidiaries as we , us or the Company .

Forward-Looking Statements

Certain matters discussed in this report constitute forward-looking statements within the meaning of the federal securities law. Generally, our use of words such as expect, estimate, believe, anticipate, will, forecast, plan, project, assume or similar words of futurity identif that are forward-looking and that we intend to be included within the Safe Harbor protections provided by Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934. Such 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 for the Company s revenue, earnings, cash flows and other financial and operational measures, Company debt levels, payment of stock dividends, and future operations. We caution you not to place undue reliance on any forward-looking statements, which are made as of the date of this report. 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; 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; our ability to keep pace with improvements in technology utilized for reservations systems and other operating systems; fluctuations in the supply and demand for hotel rooms; and our ability to manage effectively our indebtedness. These and other risk factors are discussed in detail in Item 1A Risk Factors of this report. 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.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Our SEC filings are available to the public over the internet at the SEC s web site at http://www.sec.gov. Our SEC filings are also available free of charge on our website at http://www.choicehotels.com as soon as reasonably practicable following the time that they are filed with or furnished to the SEC. You may also read and copy any document we file with the SEC at its public reference room located at 100 F Street, NE Washington DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on its public reference room.

Item 1. Business.

Overview

Choice Hotels International, Inc. and subsidiaries is one of the largest hotel franchisors in the world with 6,021 hotels open and 843 hotels under construction, awaiting conversion or approved for development as of December 31, 2009, representing 487,410 rooms open and 66,585 rooms under construction, awaiting conversion or approved for development in 49 states, the District of Columbia and over 40 countries and territories outside the United States. Choice franchises lodging properties under the following proprietary brand names: Comfort Inn®, Comfort Suites®, Quality®, Clarion®, Sleep Inn®, Econo Lodge®, Rodeway Inn®, MainStay Suites®, Suburban Extended Stay Hotel®, Cambria Suites® and Ascend Collection® (collectively, the Choice brands). We operate in a single reportable segment encompassing our franchising business.

Table of Contents

The Company conducts its international franchise operations through a combination of direct franchising and master franchising relationships. Master franchising relationships allow the use of our brands by third parties in foreign countries. The Company has made equity investments in certain non-domestic lodging franchise companies that conduct franchise operations for the Company s brands under master franchising relationships. As a result of our use of master franchising relationships and international market conditions, total revenues from international franchising operations comprised only 7% and 8% of our total revenues in 2009 and 2008, respectively while representing approximately 19% of our franchise system hotels open at both December 31, 2009 and 2008.

Our direct lodging property real estate exposure is limited to three company-owned MainStay Suites hotels and exposure through our development activities that involve financing and guaranty support with third party hotel developers.

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 initial fee revenue, ongoing royalty fees and procurement services revenues. In addition, our operating results can also be improved through our company-wide efforts related to improving property level performance. In addition to these revenues, we also collect marketing and reservation fees to support centralized marketing and reservation activities for the franchise system. As a lodging franchisor, Choice 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; 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 at franchised hotels. The key industry standard for measuring hotel-operating performance is revenue per available room (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.

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 provide returns to our shareholders. Historically, we have returned value to our shareholders in two primary ways: share repurchases and dividends. In 1998, we instituted a share repurchase program which has generated substantial value for our shareholders. Through December 31, 2009, we repurchased 42.9 million shares (including 33.0 million prior to the two-for-one stock split affected in October 2005) of common stock at a total cost of $1.0 billion since the program s inception. Considering the effect of the two-for-one stock split, the Company has repurchased 75.9 million shares at an average price of $13.28 per share. At December 31, 2009, we had approximately 3.8 million shares remaining under the current stock repurchase authorization. Upon completion of the current authorization, our board of directors will evaluate the propriety of additional share repurchases. In 2009, we paid cash dividends totaling approximately $44.3 million and we presently expect to continue to pay dividends in the future, subject to future business performance, economic conditions and changes in income tax regulations. Based on our present dividend rate and outstanding share count, aggregate annual dividends for 2010 would be approximately $43.8 million.

Our board of directors has authorized us to enter into programs which permit us to offer investment, financing and guaranty support to qualified franchisees as well as acquire and resell real estate to incent franchise development in top markets for certain brands. Based on market and other conditions, we expect to deploy this capital opportunistically over the next several years. Notwithstanding these programs, the Company expects to continue to return value to its shareholders through a combination of share repurchases and dividends, subject to market and other conditions.

The Lodging Industry[1]

Companies participating in the lodging industry primarily do so through a combination of one or more of the three primary lodging industry activities: ownership, franchising and management. A company s relative reliance on each of these activities determines which drivers most influence its profitability.

Ownership requires a substantial capital commitment and involves the most risk but offers high returns due to the owner s ability to influence margins by driving RevPAR, managing operating expenses and financial leverage. The ownership model has a high fixed-cost structure that results in a high degree of operating leverage relative to RevPAR performance. As a result, profits escalate rapidly in a lodging up-cycle but erode quickly in a downturn as costs rarely decline as fast as revenue. Profits from an ownership model increase at a greater rate from RevPAR growth attributable to average daily rate (ADR) growth, than from occupancy gains since there are more incremental costs associated with higher guest volumes compared to higher pricing.

Franchisors license their brands to a hotel owner, giving the hotel the right to use the brand name, logo, operating practices, and reservations systems in exchange for a fee and an agreement to operate the hotel in accordance with the franchisor s brand standards. Under a typical franchise agreement, the hotel pays the franchisor an initial fee, a percentage-of-revenue royalty fee and a marketing/reservation reimbursement. A franchisor s revenues are dependent on the number of rooms in its system and the top-line performance of those hotels. Earnings drivers include RevPAR increases, unit growth and effective royalty rate improvement. Franchisors enjoy significant operating leverage in their business model since it costs little to add a new hotel franchise to an existing system. Franchisors normally benefit from higher industry supply growth, because the unit growth usually outpaces lower RevPAR resulting from excess supply. As a result, franchisors benefit from both RevPAR growth and supply increases which aids in reducing the impact of lodging industry economic cycles.

Management companies operate hotels for owners that do not have the expertise and/or the desire to self-manage. These companies collect management fees predominately based on revenues earned and/or profits generated. Similar to franchising activities, the key drivers of revenue based management fees are RevPAR and unit growth and similar to ownership activities, profit based fees are driven by improved hotel margins and RevPAR growth.

The lodging industry has historically experienced economic cycles reflected in positive and negative operating performance for various periods of time.

Positive cycles are characterized as periods of sustained occupancy growth. These cycles usually continue until the economy sustains a prolonged downturn, excess supply conditions exist or some external factor occurs such as war, terrorism or natural resource shortages. Industry recovery usually begins with an increase in occupancy followed by hoteliers increasing room rates. As demand begins to exceed room supply, occupancies and rates continue to improve. These factors result in increased hotel development.

The hotel industry posted positive and consistent RevPAR growth from the mid-1990 s until 2000 as the industry was able to increase its ADR at a pace faster than the increase in the Consumer Price Index (CPI), a common measure of inflation published by the US Department of Labor. However, due to the economic

(1) Certain industry statistics included in this section, such as the number of hotel rooms, number of affiliated and non-affiliated rooms, US Lodging Industry Trends From 1997 2009, etc. were obtained from Smith Travel Research (STR).

Table of Contents

recession, which began to affect the lodging industry during 2001, coupled with the terrorist attacks of September 11, 2001, industry profits and RevPAR declined between 2001 and 2003. Nonetheless, the industry remained profitable through this period.

Hotel room supply growth is cyclical as hotel construction responds to interest rates, construction and material supply conditions, capital availability and industry fundamentals. Historically, the industry added hotel rooms to its inventory through new construction due largely to a favorable lending environment that encouraged hotel development. This resulted in an over supply of rooms which, coupled with the decrease in industry performance between 2001 and 2003, led to reduced hotel development.

In 2004, the resumption of economic growth increased lodging demand and occupancy rates. This coupled with the relatively slow growth in hotel supply, allowed hotels to again raise room rates from 2004 through 2007 at a faster pace than the increase in CPI. Occupancy rates continued to increase until 2007 when they began to decline as the number of rooms entering the system increased by the largest number since 2001.

During 2005, year-over-year new hotel construction increased for the first time since 1999 with 65,900 rooms added to the industry and continued to increase through 2008. Furthermore, during 2008 the volume of new room additions exceeded the pre-2001 economic recession levels. The pressures from the increased hotel room supply as well as the deteriorating economic conditions experienced in 2008, resulted in annual occupancy rate declines of 280 basis points and ADR increasing at a slower pace than the annual increase in the CPI. As a result, industry RevPAR declined approximately 1.7%. The negative economic conditions continued in 2009 and the industry experienced declines in occupancy rates and average daily rates at a faster pace than any other time over the last 12 years. New rooms added did not decline significantly from 2008 to 2009 as most projects were under construction or had obtained financing prior to the deterioration in the availability and cost of capital that began in the fourth quarter of 2008. Current industry forecasts indicate that the pace of new domestic room additions will decline in 2010 and beyond until the lending environment and the US economy improves.

The following chart demonstrates these trends:

US Lodging Industry Trends 1997 - 2009

Year	Occupancy Rates	Average Daily Room Rates (ADR)	Change in ADR Versus Prior Year	Change in CPI Versus Prior Year	Revenue Per Available Room (RevPAR)	Profits (in billions)	New Rooms Added (Gross)
1997	64.5%	$ 75.16	6.1%	1.9%	$ 48.50	$ 17.0	128,000
1998	64.0%	$ 78.62	4.6%	2.3%	$ 50.29	$ 22.0	143,000
1999	63.3%	$ 81.27	3.4%	2.7%	$ 51.44	$ 23.0	143,148
2000	63.5%	$ 85.24	4.9%	3.4%	$ 54.13	$ 24.0	121,476
2001	60.1%	$ 84.85	-0.5%	2.9%	$ 50.99	$ 16.7	101,279
2002	59.2%	$ 83.15	-2.0%	1.6%	$ 49.22	$ 16.1	86,366
2003	59.1%	$ 83.19	0.1%	2.3%	$ 49.20	$ 15.0	65,876
2004	61.3%	$ 86.41	3.9%	2.7%	$ 52.93	$ 17.0	55,245
2005	63.1%	$ 90.84	5.1%	3.4%	$ 57.34	$ 21.0	65,900
2006	63.4%	$ 97.31	7.1%	3.2%	$ 61.69	$ 26.3	73,308
2007	63.1%	$ 104.04	6.9%	2.8%	$ 65.61	$ 26.9	94,541
2008	60.3%	$ 106.96	2.8%	3.8%	$ 64.49	$ 28.4	146,312
2009	55.1%	$ 97.51	-8.8%	-0.4%	$ 53.71	$ 14.0	142,287

(Source: Smith Travel Research and US Department of Labor)

Table of Contents

As a franchisor, we are well positioned in any stage of the lodging cycle. Our fee-for-service business model has historically delivered predictable, profitable, long-term growth in a variety of lodging and economic environments. We have historically benefited from both the RevPAR gains typically experienced in the early stage of recovery, as our revenues are based on our franchisees gross room revenues, and the supply growth normally occurring in the later stages as we increase our portfolio size.

The Company s portfolio of brands offers both new construction and conversion opportunities. The Company s new construction brands typically benefit from periods of supply growth and favorable capital availability and pricing typically found during positive lodging cycles. Our conversion brands also benefit from positive lodging cycles as the construction of new hotels increases the need for existing hotels to seek new brand affiliations as their product moves through the hotel life cycle.

Historically, during lodging cycle downturns, our unit growth is driven primarily from the conversion of independent and other hotel chain affiliates into our system as these hotels endeavor to improve their performance**.**

Hotels are broadly segregated into two categories: full-service and limited service. Full-service hotels generally offer food and beverage (F&B) facilities and/or meeting facilities. Limited-service hotels, usually offer only rooms, although some offer modest F&B facilities such as breakfast buffets. Limited-service hotels may also offer small meeting rooms. Full-service hotels are generally larger, command higher room rates, and generate higher profits, although overall operating margins are normally lower because F&B is a lower-margin business.

The lodging industry can be further divided into chain scale categories or groupings of generally competitive brands as follows:

Chain Scale	Brand Examples	Room Count	% of Total	Avg. Hotel Room Size
Luxury	Four Seasons, Ritz Carlton	107,372	2.2%	304
Upper Upscale	Marriott, Hilton, Sheraton	600,711	12.4%	367
Upscale	Hilton Garden Inn, Courtyard, Cambria Suites	507,481	10.5%	146
Midscale w/ F&B	Quality, Clarion, Holiday Inn, Best Western, Ramada	510,066	10.6%	112
Sub-Total Full Service		**1,725,630**	**35.7%**	**173**
Midscale w/o F&B	Comfort, La Quinta, Baymont Inn, Hampton Inn	824,018	17.1%	87
Economy	Econo Lodge, Days Inn, Super 8, Red Roof Inn	765,527	15.8%	76
Sub-Total Limited Service		**1,589,545**	**32.9%**	**81**
Independents		1,515,573	31.4%	67
Total All Hotels		**4,830,748**	**100%**	**93**

Source: Smith Travel Research (December 2009)

According to STR, Choice branded system-wide market share as of December 31, 2009 in the United States has increased 158 basis points to 8.0% of total industry rooms since 2002. During these same 7 years, the number of domestic hotels rooms franchised by the Company has increased at a cumulative annual growth rate of 4.66% compared to the total industry domestic growth rate of 1.45%.

Independent operators of hotels not owned or managed by major lodging companies have increasingly joined national hotel franchise chains as a means of remaining competitive with hotels owned by or affiliated with national lodging companies. Over the past 19 years, the industry has seen a significant movement of hotels from independent to chain affiliation, with affiliated hotels increasing from 46% of the market in 1990 to 69% of the market in 2009. Due to the fact that a significant portion of the costs of owning and operating a hotel are generally fixed, increases in revenues generated by affiliation with a franchise lodging chain can improve a hotel s financial performance.

The large franchise lodging chains, including us, generally provide a number of services to hotel operators to improve the financial performance of their properties including central reservation systems, marketing and advertising programs, direct sales programs, certain in-person and online training and education programs, property systems revenue enhancement services and relationships with qualified vendors to streamline purchasing processes and make lower cost products available. We believe that national franchise chains with a large number of hotels enjoy greater brand awareness among potential guests than those with fewer hotels, and that greater brand awareness can increase the desirability of a hotel to its potential guests.

We believe that hotel operators choose lodging franchisors based primarily on the perceived value and quality of each franchisor s brand and its services, and the extent to which affiliation with that franchisor may increase the hotel operator profitability.

Choice s Franchising Business

Choice operates primarily as a hotel franchisor offering 11 brands. This family of well-known and diversified new construction and conversion brands competes at various hotel consumer and developer price points in the economy, midscale with and without food & beverage, extended stay and upscale lodging categories.

Economics of Franchising Business. The fee and cost structure of our business provides opportunities for us to improve operating results by increasing the number of franchised hotel rooms, improving RevPAR performance and increasing the effective royalty rates of our franchise contracts. As a hotel franchisor, we derive our revenue primarily from various franchise fees. Our franchise fees consist primarily of an initial fee and ongoing royalty, marketing and reservation fees that are typically based on a percentage of the franchised hotel s gross room revenues. The initial fee and on-going royalty portion of the franchise fees are intended to cover our operating expenses, such as expenses incurred in business development, quality assurance, administrative support and certain franchise services and to provide us with operating profits. The marketing and reservation fees are used for the expenses associated with marketing, media, advertising, providing a central reservation system, property management systems, e-commerce initiatives and certain franchise services.

Our fee stream depends on the number of rooms in our system, the gross room revenues generated by our franchisees and effective royalty rates under our franchise contracts. We enjoy significant operating leverage since the variable operating costs associated with the franchise system growth of our established brands have historically been less than incremental royalty fees generated from new franchises. Our business is well positioned in the lodging industry since we benefit from both RevPAR growth and unit growth from new hotel construction or conversion of existing hotel assets into our system.

Our family of well-known and diversified brand offerings positions us well within the lodging industry. Our Cambria Suites, Comfort Inn, Comfort Suites, Sleep Inn, Suburban Extended Stay Hotel and MainStay Suites are primarily new build brands which offer hotel developers an array of choices in the upscale, midscale and extended stay chain scale categories during periods of supply growth. Our Ascend Collection, Clarion, Quality, Econo Lodge and Rodeway Inn brands offer conversion opportunities during both industry contraction and growth cycles to independent operators and non-Choice affiliated hotels who desire to affiliate with our brands and take advantage of the services we have to offer.

Strategy. Our mission is a commitment to franchisee profitability by providing our franchisees with hotel franchises that strive to generate the highest return on investment of any hotel franchise. Our business strategy is to create franchise system growth by leveraging Choice s large and well-known hotel brands, franchise sales capabilities, effective marketing and reservation delivery efforts, certain training and education programs, RevPAR enhancing services and technologies, and financial strength created by our significant free cash flow. We believe our brands growth will be driven by our ability to create a compelling return on investment for franchisees. Our strategic objective is to improve our franchisee s profitability by providing services which increase business delivery, reduce hotel operating and development costs, and/or improve guest satisfaction. Specific elements of our strategy include: building strong brands, delivering exceptional services, reaching more consumers and leveraging our size, scale and distribution to reduce costs for hotel owners.

Building Strong Brands. Each of our brands has particular attributes and strengths, including awareness with both consumers and developers. Our strategy is to utilize the strengths of each brand for room growth, RevPAR gains and royalty rate improvement that create revenue growth. We believe brand consistency, brand quality and guest satisfaction are critical in improving brand performance and building strong brands.

We have multiple brands that are positioned to meet the needs of many types of guests. These brands can be developed at various price points and are suitable for both new construction properties and existing hotels. This flexibility ensures that we have brands suitable for creating room growth in various types of markets, with various types of customers, and during both industry contraction and growth cycles. During times of lower industry supply growth and tighter capital markets, we can target conversions of existing non-Choice affiliated hotels seeking the awareness and proven performance provided by our brands. During periods of strong industry supply growth, we expect a greater portion of our room growth to come from our new construction brands. We believe that a large number of markets can still support our hotel brands, and that the growth potential for our brands, as well as new brands we may yet introduce, remains strong.

We believe each of our brands appeals to targeted hotel owners and guests because of unique brand standards, reservation delivery, service levels and pricing.

Delivering Exceptional Services. We provide a combination of services and technology based offerings to help our franchisees improve performance. We have field services staff members located nationwide that help franchisees improve RevPAR performance and guest satisfaction. In addition, we provide our franchisees with certain education and training programs as well as technology products designed to improve property level performance. These services and products promote revenue gains for franchisees and improve guest satisfaction which translate into both higher royalties for the Company and improved returns for owners, leading to further room growth by making our brands even more attractive to prospective franchisees. We develop our services based on customer needs and focus on activities that generate high return on investment for our franchisees.

Reaching More Consumers. We believe hotel owners value the large volume of guests we deliver through a mix of activities including brand marketing, reservation systems, key account sales, and the Company s loyalty program, Choice Privileges®. Our strategy is to maximize the effectiveness of these activities in delivering both leisure and business travelers to Choice-branded hotels.

The Company will continue to increase awareness of its brands through its single and multi-branded national marketing campaigns and its Choice Privileges loyalty program promotions. These campaigns are intended to generate a compelling message to consumers and utilize our significant size to create even greater awareness for our brands with the ultimate goal of driving business through our central reservation system, which delivers the highest average daily rate. Local and regional co-op marketing campaigns will continue to be utilized to leverage the national marketing programs to drive business to our properties at a local level. We expect our efforts at marketing directly to guests will continue to be enhanced through the use of our customer relationship management technology. Our continued focus on overall brand quality coupled with our marketing initiatives is designed to stimulate room demand for our franchised hotels through improved guest awareness and satisfaction.

Our central reservations system is a critical technology used to deliver guests to our franchisees through multiple channels, including our call centers, proprietary websites, and global distribution systems (e.g., SABRE, Amadeus, and internet distribution sites). We believe our well-known brands, combined with our relationships with many internet distribution web sites benefits our franchisees, by facilitating increased rate and reservations delivery, and reducing costs and operational complexity.

Leveraging Size, Scale and Distribution. We continually focus on identifying methods for utilizing the significant number of hotels in our system to reduce costs and increase returns for our franchisees. For example, we create relationships with qualified vendors to: (i) make low-cost products available to our franchisees; (ii) streamline the purchasing process; and (iii) maintain brand standards and consistency. We plan to expand this business and identify new methods for decreasing hotel-operating costs by increasing penetration within our existing franchise system and enhancing our existing vendor relationships and/or creating new vendor relationships. We believe our efforts to leverage the Company s size, scale and distribution benefit the Company by enhancing brand quality and consistency, improving our franchisees returns and satisfaction, and creating procurement services revenues.

Franchise System

Our standard domestic franchise agreements grant franchisees the non-exclusive right to use certain of our trademarks and receive other benefits of our franchise system to facilitate the operation of their franchised hotel at a specified location. Each of our standard domestic franchise agreements is 20 years in duration (excluding contracts for MainStay Suites, Suburban Extended Stay Hotel branded hotels and beginning in 2008 Comfort Inn branded hotels which run for 10 years), with certain rights for each of the franchisor and franchisee to terminate their franchise agreement, such as upon designated anniversaries of the agreement, before the 20^{th} (or 10^{th}, as applicable) year.

Our franchises operate domestically under one of eleven Choice brand names: Comfort Inn, Comfort Suites, Cambria Suites, Quality, Clarion, Ascend Collection, Sleep Inn, Econo Lodge, Rodeway Inn, MainStay Suites and Suburban Extended Stay Hotel. The following table presents key statistics related to our domestic franchise system over the five years ended December 31, 2009.

COMBINED DOMESTIC FRANCHISE SYSTEM

	As of and For the Year Ended December 31,				
	2005	2006	2007	2008	2009
Number of properties, end of period	4,048	4,211	4,445	4,716	4,906
Number of rooms, end of period	329,353	339,441	354,139	373,884	388,594
Royalty fees ($000)	$ 175,588	$ 194,333	$ 212,519	$ 220,411	$ 196,406
Average royalty rate(1),(3)	4.08%	4.09%	4.14%	4.20%	4.26%
Average occupancy percentage(1),(3)	57.6%	58.4%	57.9%	55.3%	49.4%
Average daily room rate (ADR)(1),(3)	$ 66.24	$ 68.71	$ 72.07	$ 74.11	$ 71.06
Revenue per available room (RevPAR)(1),(2),(3)	$ 38.15	$ 40.13	$ 41.75	$ 40.98	$ 35.09

(1) Suburban Extended Stay Hotel was acquired on September 28, 2005. Statistics for average occupancy percentage, ADR and RevPAR for the year ended December 31, 2005 have been excluded since comparable pre-acquisition data is not available.

(2) The Company calculates RevPAR based on information as reported to the Company by its franchisees.

(3) Amounts exclude results from Cambria Suites properties opened during 2007, 2008 and 2009 and Ascend Collection properties opened during 2008 and 2009.

The Company conducts its international franchise operations through a combination of direct franchising and master franchising relationships. Master franchising relationships allow the use of our brands by third parties in foreign countries. The Company has made equity investments in certain non-domestic lodging franchise

Table of Contents

companies that conduct franchise operations for the Company s brands under master franchising relationships. As a result of our use of master franchising relationships and international market conditions, total revenues from international franchising operations comprised 7% and 8% of our total revenues in 2009 and 2008, respectively while representing approximately 19% of our franchise system hotels open at both December 31, 2009 and 2008. Consequently, our description of our franchise system is primarily focused on the domestic operations. Currently, no individual franchisee or international master franchisee accounts for more than 2% of Choice s royalty revenues or total revenues.

Industry Positioning

Our brands offer consumers and developers a wide range of choices from economy hotels to lower upscale, full service properties. Our brands are as follows:

Cambria Suites: Cambria Suites is an upscale new construction select service hotel chain with an upscale image and distinctive styling. Cambria offers well-appointed suites that emulate the best of a modern home. In-room amenities include luxury bedding, stereo with CD player, cordless phone and mini-refrigerator with microwave. Principal competitor brands include Courtyard by Marriott and Hilton Garden Inn. The Cambria Suites brand was launched in January 2005 and the first properties opened during 2007.

Ascend Collection: Ascend Collection is an innovative upscale membership program that is not positioned as a traditional franchise concept. The Ascend Collection includes individual properties that are historic, boutique and/or unique and desire to retain their independent brand identity but have access to Choice s marketing and distribution channels. The Ascend Collection offers the best of both worlds: Independence backed up by a powerful global distribution network. Principal competitors include Sterling Hotels, Summit Hotel & Resorts, Small Luxury Hotels and Historic Hotels of America. The Ascend Collection brand was launched in October 2008 and includes 21 properties that were previously affiliated with our Clarion brand.

Comfort Inn: Comfort Inn and Comfort Inn and Suites hotels operate in the mid-scale without food and beverage category. One of the original brands in the limited service category, Comfort has built a reputation for consistent high-value accommodations for both business and leisure travelers. Comfort offers the complimentary Comfort Sunshine Breakfast and free high-speed internet access. Principal competitor brands include Holiday Inn Express, Fairfield Inn and LaQuinta.

Comfort Suites: Comfort Suites hotels operate in the upper portion of the mid-scale without food and beverage category. Established in 1986 as an extension of the highly regarded Comfort Inn brand, Comfort Suites hotels feature oversized rooms with separate areas for working and sleeping, a complimentary rotational Savory Starts Breakfast and free high-speed Internet access. The brand competes with Holiday Inn Express, Fairfield Inn and Country Inn & Suites.

Sleep Inn: Sleep Inn is a new construction brand that operates in the lower end of the mid-scale without food & beverage category. Sleep Inn delivers one of the most consistent product offerings in the category, providing both business and leisure travelers with free high-speed Internet access, an exercise room and our complimentary Morning Medley breakfast. Sleep Inn s principal competitors include Microtel and La Quinta.

Clarion: Clarion hotels are full-service conversion hotels competing in the mid-scale hotel category. The brand offers full service lodging at an affordable price. Clarion hotels provide a full spectrum of full-service facilities and amenities, which include restaurant, conference, banquet or small meeting facilities, business center, swimming pool or exercise room, room service and bell service. Principal competitor brands include Four Points by Sheraton and Radisson.

Quality: Quality Inn hotels offer efficient and personable service and clean accommodations in the mid-scale category. Amenities and services typically include a complimentary Q Corner Breakfast, free high- speed internet access, a swimming pool and/or an exercise room, free USA Today or Wall Street Journal newspaper and meeting or event space. Principal competitor brands include Best Western and Ramada.

MainStay Suites: MainStay Suites hotels compete in the mid-scale extended stay category. Complete with a residential feel and value-added amenities, the MainStay brand is designed as a more practical lodging option for guests whose stays are longer than a few nights. Typically, longer hotel stays involve relocation, training, or temporary job assignments. All MainStay guests suites feature free high-speed internet access, fully equipped kitchens with a two-burner range, dishes, utensils, dishwasher, sink with disposal, microwave, and full size refrigerator. All suites include a sleeper sofa, comfortable work area with ergonomic chair and large walk-in closets. MainStay competes with Studio Plus, TownePlace Suites, Sierra Suites, and Candlewood Suites.

Suburban Extended Stay Hotel: Suburban Extended Stay Hotel suites are built with today s value-conscious extended stay guest in mind. All suites provide kitchens, internet connections, and access to on-site laundry facilities. Suburban s just what you need philosophy matches attractive weekly pricing with weekly housekeeping to provide extended stay guests with the all-suite accommodations they want without the cost of services they do not need. All hotels offer complimentary high-speed internet access. Principal competitor brands include Extended Stay Hotels and Sun Suites. The Suburban Extended Stay Hotel brand was added to our portfolio in September 2005 as the result of our acquisition of Suburban Franchise Holding Company, Inc.

Econo Lodge: Econo Lodge is a leading brand in the economy chain scale category, which offers clean, attractive lodging for value-oriented travelers. Free wireless internet hot spots, complimentary continental breakfast, and free USA Today, are just some of the amenities that position Econo Lodge as a great value in the economy category. The brand competes primarily with Days Inn and Super 8.

Rodeway Inn: Rodeway Inn is a brand also operating in the economy chain scale category, which offers clean, affordable lodging for savings-oriented travelers. With Always Fresh Rodeway® breakfast and a free USA Today newspaper, Rodeway Inn is well positioned to offer savings for the budget-minded traveler. Principal competitor brands include Travelodge and Motel 6.

Table of Contents

The following table presents key statistics related to the domestic system for our established brands over the five years ended December 31, 2009.

	As of and For the Year Ended December 31,				
	2005	**2006**	**2007**	**2008**	**2009**
COMFORT INN DOMESTIC SYSTEM					
Number of properties, end of period	1,428	1,415	1,434	1,462	1,447
Number of rooms, end of period	111,598	110,877	112,042	114,573	113,633
Royalty fees ($000)	$ 78,722	$ 84,748	$ 91,131	$ 91,913	$ 80,059
Average occupancy percentage	61.7%	63.0%	63.1%	60.1%	54.1%
Average daily room rate (ADR)	$ 68.84	$ 73.08	$ 77.14	$ 79.84	$ 77.10
RevPAR	$ 42.45	$ 46.06	$ 48.70	$ 48.01	$ 41.74
COMFORT SUITES DOMESTIC SYSTEM					
Number of properties, end of period	411	433	481	541	608
Number of rooms, end of period	32,251	33,976	37,358	42,152	47,301
Royalty fees ($000)	$ 27,881	$ 32,084	$ 35,775	$ 38,202	$ 35,134
Average occupancy percentage	66.3%	67.0%	65.5%	61.3%	53.3%
Average daily room rate (ADR)	$ 77.51	$ 82.93	$ 87.23	$ 89.49	$ 84.79
RevPAR	$ 51.36	$ 55.59	$ 57.11	$ 54.82	$ 45.17
QUALITY DOMESTIC SYSTEM					
Number of properties, end of period	660	736	828	908	979
Number of rooms, end of period	66,316	72,054	79,276	85,055	89,336
Royalty fees ($000)	$ 25,855	$ 29,220	$ 34,310	$ 37,658	$ 33,724
Average occupancy percentage	54.6%	55.3%	54.2%	52.0%	46.0%
Average daily room rate (ADR)	$ 64.86	$ 66.89	$ 70.30	$ 71.42	$ 68.00
RevPAR	$ 35.41	$ 37.01	$ 38.09	$ 37.15	$ 31.31
CLARION DOMESTIC SYSTEM(1)					
Number of properties, end of period	153	162	167	150	172
Number of rooms, end of period	23,554	23,945	23,319	21,497	24,636
Royalty fees ($000)	$ 9,385	$ 9,531	$ 10,388	$ 10,733	$ 8,549
Average occupancy percentage	52.5%	51.2%	51.7%	5 0.0%	42.2%
Average daily room rate (ADR)	$ 74.62	$ 78.98	$ 80.86	$ 84.48	$ 77.79
RevPAR	$ 39.15	$ 40.41	$ 41.79	$ 42.21	$ 32.86
SLEEP INN DOMESTIC SYSTEM					
Number of properties, end of period	319	327	346	365	392
Number of rooms, end of period	24,205	24,575	25,728	26,867	28,599
Royalty fees ($000)	$ 13,862	$ 15,384	$ 16,605	$ 16,437	$ 14,614
Average occupancy percentage	61.0%	62.4%	62.5%	58.5%	51.5%
Average daily room rate (ADR)	$ 62.52	$ 66.44	$ 69.67	$ 71.91	$ 69.64
RevPAR	$ 38.16	$ 41.43	$ 43.52	$ 42.10	$ 35.86
MAINSTAY SUITES DOMESTIC SYSTEM					
Number of properties, end of period	27	29	30	35	37
Number of rooms, end of period	2,047	2,183	2,258	2,694	2,866
Royalty fees ($000)	$ 1,375	$ 1,459	$ 1,603	$ 1,760	$ 1,607
Average occupancy percentage	65.7%	69.4%	68.5%	64.2%	57.9%
Average daily room rate (ADR)	$ 64.76	$ 67.26	$ 70.04	$ 73.72	$ 70.55
RevPAR	$ 42.54	$ 46.66	$ 47.98	$ 47.34	$ 40.82
ECONO LODGE DOMESTIC SYSTEM					
Number of properties, end of period	805	816	825	816	792
Number of rooms, end of period	49,763	49,679	50,403	50,812	48,996
Royalty fees ($000)	$ 15,509	$ 16,467	$ 17,266	$ 17,400	$ 15,024
Average occupancy percentage	48.2%	47.7%	48.0%	46.9%	43.5%
Average daily room rate (ADR)	$ 50.95	$ 53.09	$ 54.40	$ 55.58	$ 54.66
RevPAR	$ 24.56	$ 25.31	$ 26.10	$ 26.05	$ 23.78
RODEWAY INN DOMESTIC SYSTEM					
Number of properties, end of period	180	233	276	346	372
Number of rooms, end of period	11,051	14,168	16,523	20,302	21,392
Royalty fees ($000)	$ 2,256	$ 2,467	$ 2,865	$ 3,397	$ 3,819
Average occupancy percentage	46.7%	45.8%	47.6%	47.5%	43.0%
Average daily room rate (ADR)	$ 49.91	$ 51.66	$ 53.24	$ 55.04	$ 52.48
RevPAR	$ 23.31	$ 23.66	$ 25.32	$ 26.16	$ 22.54
SUBURBAN EXTENDED STAY HOTEL DOMESTIC SYSTEM					

Number of properties, end of period	65	60	54	60	61
Number of rooms, end of period	8,568	7,984	6,773	7,256	7,416
Royalty fees ($000)	$ 743[3]	$ 2,973	$ 2,535	$ 2,444	$ 2,275
Average occupancy percentage	[2]	72.4%	67.3%	62.4%	56.3%
Average daily room rate (ADR)	[2]	$ 38.30	$ 40.13	$ 42.93	$ 41.51
RevPAR	[2]	$ 27.73	$ 27.01	$ 26.80	$ 23.35

(1) Statistics for the Clarion brand reflect the repositioning of 20 units in the fourth quarter of 2008 and 1 unit in the first quarter of 2009 from the Clarion brand to the Ascend Collection.

(2) Statistics for average occupancy percentage, ADR and RevPAR for the year ended December 31, 2005 have been excluded since comparable pre-acquisition data is not available.

(3) Royalty fees include results of Suburban Extended Stay Hotel operations from September 28, 2005 through December 31, 2005.

13

Table of Contents

International Franchise Operations

The Company conducts its international franchise operations through a combination of direct franchising and master franchising relationships. Master franchising relationships allow the use of our brands by third parties in foreign countries. The Company has made equity investments in certain non-domestic lodging franchise companies that conduct franchise operations for the Company s brands under master franchising relationships. The use of our brands by third parties in foreign countries are governed by master franchising agreements which generally provide the master franchisee with the right to use our brands in a specific geographic region, usually for a fee.

In some territories outside the United States hotel franchising is less prevalent, and many markets are served primarily by independent operators. We believe that chain affiliation will increase in certain international markets as local economies grow and hotel owners seek the economies of centralized reservations systems and marketing programs. We believe that international franchise operations will provide a significant long-term growth opportunity for the Company and as a result have initiated a multi-year investment in information technology and marketing which is expected to enhance the value proposition for prospective international franchisees.

As of December 31, 2009, we had 1,115 franchise hotels open and operating in over 30 countries and territories outside of the United States. The following chart summarizes our franchise system outside of the United States.

COMBINED INTERNATIONAL FRANCHISE SYSTEM[(1)]

	As of and For the Year Ended December 31,				
	2005	**2006**	**2007**	**2008**	**2009**
Number of properties, end of period	1,162	1,165	1,125	1,111	1,115
Number of rooms, end of period	97,703	97,944	97,888	98,642	98,816
Royalty fees ($000)	$ 10,971	$ 16,183	$ 22,234	$ 25,599	$ 20,984

(1) Reporting of operating statistics (e.g. average occupancy percentage and average daily room rate) of international franchisees is not required by all master franchise contracts, thus these statistics and RevPAR are not presented for international franchisees.

Scandinavia. We conduct our operations in Denmark, Norway, Sweden, Latvia, Estonia and Finland through our relationship with Choice Hotels Scandinavia (CHS). As of December 31, 2009, CHS had 161 open properties. The Company s master franchise agreement with CHS expires in 2023.

Japan. The Company conducts its operations in Japan through a master franchise relationship with Choice Hotels Japan (CHJ). The Company s master franchise agreement with CHJ expires in 2014 with an option to renew the agreement one time for an additional term of ten years. As of December 31, 2009, CHJ had 52 open properties.

Continental Europe. During the fourth quarter of 2006, the Company acquired from The Real Hotel Company PLC (RHC) the franchising operations conducted by RHC in continental Europe and simultaneously the master franchise agreement between Choice and RHC covering continental Europe was terminated. The Company now conducts direct franchising operations through two wholly-owned subsidiaries, Choice Hotels Franchise GmbH and Choice Hotels France SAS in Germany, Italy, the Czech Republic, Switzerland, France, Belgium, Portugal, Poland and Spain. At December 31, 2009, the Company s subsidiaries had 182 properties open and operating in continental Europe.

Ireland. In August 2007, the Company entered into a ten year master franchising agreement with Ireland-based Cordelle Enterprises, doing business as Choice Hotels Ireland, for the right to license and develop our Clarion, Quality and Comfort brands in Ireland. Prior to acquiring the master franchising rights directly from the Company, Choice Hotels Ireland operated the Company s brands under an area representative agreement with RHC, which previously held the master franchise rights in Ireland. As of December 31, 2009, Choice Hotels Ireland had 10 properties open and operating.

United Kingdom. In 2007, the Company entered into a definitive agreement with RHC to transfer United Kingdom franchising operations, which were previously operated under a master franchise agreement with RHC, to the Company on January 31, 2008. On that date, the master franchise agreement was terminated and the existing franchise agreements were assigned to a wholly-owned subsidiary, Choice Hotels Licensing B.V. (Choice BV). At December 31, 2009, the Company s subsidiary had 44 properties open and operating in the United Kingdom.

Canada. We conduct our operations in Canada through Choice Hotels Canada Inc. (CHC) a joint venture owned 50% by us and 50% by InnVest Real Estate Investment Trust. CHC is one of the largest lodging organizations in Canada with 281 of our franchised properties open and operating as of December 31, 2009.

Australasia. The Company conducts direct franchising operations in Australia, Singapore, New Zealand and Papua New Guinea through a wholly-owned subsidiary, Choice Hotels Australasia Pty. Ltd. (CHA). As of December 31, 2009, CHA had 267 franchised properties open and operating in Australasia.

Mexico. During 2004, we established a wholly-owned subsidiary Choice Hotels Mexico S. de R.L. de C.V. (CHM) to develop direct franchising operations in Mexico on behalf of Choice BV, which acts as the franchisor in Mexico. CHM is focused on establishing Clarion, Quality and Comfort brands through conversions of high quality hotels in Mexico. At December 31, 2009, the Company s subsidiary had 18 properties open and operating.

Brazil. We conduct our operations in Brazil, Argentina, Uruguay and Chile through a master franchise relationship with Atlantica Holdings International, Ltd. (Atlantica). As of December 31, 2009, Atlantica had 54 open properties. The Company s master franchise agreement with Atlantica was executed in 2001 and has a term of twenty years with certain rights by both parties to terminate the contract on the 10^{th} or 15^{th} anniversary.

Central America. We conduct our operations in the Dominican Republic, El Salvador, Honduras, Costa Rica, Guatemala, Nicaragua and Panama through our relationship with Real Hotels and Resorts, Inc. (Real). As of December 31, 2009, Real had 13 open properties. The Company s master franchise agreement with Real was executed in 1994 and has a term of twenty years with certain rights by both parties to terminate the contract on the 15^{th} anniversary.

Other International Relationships. We have various master franchise and area representative arrangements in place with local hotel management and franchising companies doing business in China and India. In addition, the Company, through Choice BV, has direct franchise relationships with properties in Malaysia and Lebanon.

Table of Contents

The following table summarizes Choice s non-domestic franchise system as of December 31, 2009:

	Comfort	Comfort Suites	Quality	Clarion	Sleep	Ascend Collection	Econo Lodge	Rodeway	Total
Australia	135		71	15			7		228
Czech Republic				4					4
France	75		27	5					107
Germany	17		18	3					38
Italy	5		9	3					17
Lebanon			1						1
Malaysia			1						1
Mexico	7		10		1				18
New Zealand	14		14	5					33
Papua New Guinea	1		4						5
Portugal	5		2	1					8
Singapore			1						1
Spain			1	1					2
Switzerland	4		2						6
United Kingdom	21		22	1					44
Direct Franchise Agreements	**284**		**183**	**38**	**1**		**7**		**513**
Brazil	15	7	25	1	6				54
Canada*	145	2	71	10	2	1	47	3	281
China	1	1	1						3
Costa Rica			1	1	1				3
Denmark	6		5	6					17
Dominican Republic			1	1					2
El Salvador	4		1						5
Estonia				1					1
Finland	1			1					2
Guatemala				1					1
Honduras				2					2
India*	10		17	1					28
Ireland			3	7					10
Japan	50		2						52
Latvia				1					1
Norway	12		40	24					76
Sweden	10		25	29					64
Master Franchise Agreements	**254**	**10**	**192**	**86**	**9**	**1**	**47**	**3**	**602**
Total Number of Properties	**538**	**10**	**375**	**124**	**10**	**1**	**54**	**3**	**1,115**

* The Company has made equity investments in these master franchisors.

16

Table of Contents

The following table presents key worldwide system size statistics as of and for the year ended December 31, 2009:

	Open and Operational		Approved for Development				
	Hotels	**Rooms**	**Hotels**	**Rooms**	**Additions**	**Repositionings**	**Terminations**
Comfort	1,985	152,452	166	11,836	111	(26)	(98)
Comfort Suites	618	48,713	183	13,925	81	(2)	(13)
Quality	1,354	127,747	102	8,592	126	26	(79)
Ascend Collection	29	2,385	6	529	8	1	(1)
Clarion	296	41,031	37	4,601	48		(27)
Sleep Inn	402	29,689	128	8,542	33		(12)
MainStay Suites	37	2,866	45	4,231	2		
Econo Lodge	846	51,525	59	3,553	69		(84)
Rodeway Inn	375	21,513	38	2,073	53	1	(30)
Suburban	61	7,416	38	3,445	4		(3)
Cambria Suites	18	2,073	41	5,258	6		
Totals	6,021	487,410	843	66,585	541		(347)

Franchise Sales

Brand growth is important to our business model. We have identified key market areas for hotel development based on supply/demand relationships and our strategic objectives. Development opportunities are typically offered to: (i) existing franchisees; (ii) developers of hotels; (iii) owners of independent hotels and motels; (iv) owners of hotels leaving other franchisors brands; (v) contractors who construct any of the foregoing; and, (vi) franchisees of non-hotel related products such as restaurants.

Our franchise sales organization is structured to support the Company s efforts to leverage its core strengths in order to take advantage of opportunities for further growth. The franchise sales organization employs both sales managers as well as franchise sales directors. This organization emphasizes the benefits of affiliating with the Choice system, our commitment to improving hotel profitability, our central reservation delivery services, our training and support systems (including our proprietary property management systems) and our Company s track record of growth and profitability to potential franchisees. Sales managers have geographic oversight over all of the brands in their territory to ensure each prospective hotel is placed in the appropriate brand, facilitate teamwork and information sharing amongst the sales directors and provide better service to our potential franchisees. Our franchise sales directors are assigned to specific brands to leverage their brand expertise to enhance product consistency and deal flow. The structure of this organization supports the Company s efforts to leverage its core strengths in order to take advantage of opportunities for further growth. Integrating our brands and strategies allow our brand teams to focus on understanding, anticipating and meeting the unique needs of our customers.

During 2009, Choice received 738 applications for new franchise agreements (not including relicensings of existing agreements) compared to 1,115 in 2008. These applications resulted in the execution of 369 new domestic franchise agreements in 2009, compared to 698 in 2008. An application received does not always result in an executed franchise agreement during the year received or at all due to various factors, such as financing and agreement on contractual terms. Due to the economic and credit market conditions, the applications received and new domestic franchise agreements executed during 2009 declined significantly from the year ended December 31, 2008. Based on the continued uncertainty around the economy, we currently do not expect the number of applications received and therefore the number of new franchise agreements executed to accelerate until the lodging industry experiences positive operating conditions and the availability of hotel financing improves. During prior lodging industry downturns, the Company experienced an increase in the number of new

Table of Contents

domestic franchise agreements from conversion hotels. While the Company believes that a greater percentage of its new contracts in the near-term will result from conversion hotel agreements, the length and breadth of the current economic crisis and the disruption of the credit markets could result in fewer conversion and new construction hotel contracts in the future. Our objective is to continue to grow our portfolio by continuing to sell our existing brands, creating extensions of our existing brands and introducing new brands, either organically or via acquisition, within the various lodging chain categories.

Because retention of existing franchisees is important to our growth strategy, we have a formal impact policy. This policy offers existing franchisees protection from the opening of a same-brand property within a specified distance, depending upon the market in which the property is located.

Investment, Financing and Guaranty Franchisee Support

During 2008, our Board of Directors authorized us to enter into programs which permit us to offer investment, financing and guaranty support to qualified franchisees as well as acquire and resell real estate to incent franchise development in top markets for certain brands. We expect to opportunistically deploy this capital over the next several years. Our annual investment in these programs will be dependent on market and other conditions, as the economic conditions and credit markets improve and hotel development accelerates, the Company expects to deploy this capital in an effort to accelerate the development of certain brands.

Franchise Agreements

Our standard domestic franchise agreements grant franchisees the non-exclusive right to use certain of our trademarks and receive other benefits of our franchise system to facilitate the operation of their franchised hotel at a specified location. Each of our standard domestic franchise agreements is 20 years in duration (excluding contracts for Suburban Extended Stay Hotel and MainStay Suites branded hotels and beginning in 2008 Comfort branded hotels which run for ten years), with certain rights for each of the franchisor and franchisee to terminate their franchise agreement, such as upon designated anniversaries of the agreement, before the 20th (or 10th, as applicable) year.

The Company may also enter into master development agreements with developers that grant limited exclusive development rights in geographical areas and preferential franchise agreement terms for one-time, non-refundable fees. These agreements typically grant developers exclusivity in various markets and favorable franchise agreement terms provided that they adhere to an agreed upon development schedule.

Either party to our standard domestic franchise agreement can terminate the agreement prior to the conclusion of the agreement s term under certain circumstances, such as upon designated anniversaries of the agreement. Early termination options give us flexibility in eliminating or re-branding properties, if they become weak performers for reasons other than contractual failure by the franchisee. We also have the right to terminate a franchise agreement if a franchisee fails to bring the property into compliance with contractual or quality standards within specified periods of time. The franchise agreements also typically contain liquidated damage provisions resulting from a franchisee s termination of the franchise agreement outside the designated anniversaries. Master franchise agreements typically contain provisions permitting us to terminate the agreement for failure to meet a specified development schedule.

When the responsibility for development is transferred to an international master franchisee, that party has the responsibility to develop and grow our brands in the master franchise area. Additionally, the master franchisee generally must manage the delivery of certain necessary services (such as training, quality assurance, reservations and marketing) to support the franchised hotels in the master franchise area. The master franchisee collects the fees paid by the local franchisee and remits an agreed upon share to us. Master franchise agreements generally have a term of at least ten years. We have only entered into master franchise agreements with respect to franchised hotels outside the United States.

Table of Contents

Franchise agreements are individually negotiated and vary among the different Choice brands and franchises, but generally are competitive with the industry average within their market group. Franchise fees usually have three primary components: an initial, one-time affiliation fee; a royalty fee; and a marketing and reservation fee. In prior years, the Company s standard franchise agreements contained a separate marketing and reservation fee for the Cambria Suites, Comfort, Quality, Clarion and Sleep Inn brands. The Company has combined these two fees into one System Fee which is used exclusively to fund both the Company s marketing and reservation activities that support all of the Choice brands.

Our standard franchise fees are as follows:

QUOTED FEES BY BRAND AS OF DECEMBER 31, 2009

Brand	Initial Fee Per Room/Minimum	Royalty Fees	Combined Marketing and Reservation System Fee
Cambria Suites	$ 500/$60,000	5.00%	4.00%
Comfort Inn	$ 500/$50,000	5.65%	3.85%
Comfort Suites	$ 500/$50,000	5.65%	3.85%
Quality Inn	$ 300/$35,000	4.65%	3.85%
Quality Suites	$ 300/$50,000	4.65%	3.85%
Ascend Collection	$ 375/$30,000	4.00%	2.50%
Clarion	$ 300/$40,000	4.25%	3.25%
Sleep Inn	$ 300/$40,000	4.65%	3.85%
MainStay Suites	$ 300/$30,000	5.00%	2.50%
Econo Lodge	$ 250/$25,000	4.50%	3.50%
Rodeway Inn	(1)	(2)	(3)
Suburban Extended Stay Hotel	$ 225/$30,000	5.00%	2.50%

(1) Initial fee of $10,000 for properties with up to 80 rooms. Additional $125 per room fee for each room over 80 rooms.
(2) Royalty rate is $31.00 per room per month. Annual minimum is $20,000.
(3) Combined marketing and reservation system fees are $19.00 per room per month. Annual minimum is $15,000.

As previously noted, the Company s franchise agreements are individually negotiated and therefore actual fees may differ from those noted above. From time to time, the Company may discount the standard royalty fees in the initial years of the agreement as a customer acquisition tactic. Typically, these discounts expire as the contract matures until the contractual royalty fees reach the standard franchise fee in effect at the time the agreement was executed.

Franchise Operations

Our operations are designed to improve RevPAR and lower operating and development costs for our franchisees, as these are the measures of performance that most directly impact franchisee profitability. We believe that by helping our franchisees become more profitable we will enhance our ability to both retain our existing franchisees and attract new franchisees. The key aspects of our franchise operations are:

Central Reservation System (CRS). On average, approximately one-third of the gross room revenue booked at domestic franchised properties is reserved through our central reservation system, which consists of our toll-free telephone reservation system, our proprietary internet site, interfaces with global distribution systems, and other internet reservations sites. Our toll-free telephone reservation system utilizes a combination of company operated call centers as well as third party call center service providers. Reservation agents trained on the reservation system can match each caller with a Choice-branded hotel meeting the caller s needs. Our CRS provides a data link to our franchised properties as well as to airline reservation systems such as Amadeus, Galileo, SABRE and Worldspan that facilitate the reservation process for travel agents. We also offer our rooms for sale on our own proprietary internet site (www.choicehotels.com) as well as those of other travel companies.

We have also initiated a call forwarding program through which our franchisees can leverage our central reservation system capabilities by forwarding reservation calls received directly by the property to one of our reservation centers. Typically, this reduces the hotel s front desk staffing needs, improves customer service and results in a higher average daily rate than reservations booked directly through the property.

We continue to implement our integrated reservation strategy to improve reservations delivery, reduce franchisee costs and improve franchisee satisfaction by enhancing our website, choicehotels.com, and selectively distributing our inventory with third parties that can drive additional business to the Company and its brands. We have established agreements with key third party travel intermediaries to gain additional distribution points. These agreements typically offer our brands preferred placement on these third party sites at reduced transaction fees. We also continue to educate our individual franchisees about the unfavorable impact to their business of contracting with sites with which we do not have preferred agreements. We currently have agreements with many but not all major online third party sites.

Property Management Systems. Our proprietary property and yield management systems, Profit Manager by Choice Hotels and ChoiceADVANTAGE, are designed to help franchisees maximize profitability and compete more effectively by managing their room inventory, rates and reservations. These systems synchronize each hotel s inventory with our system, giving our reservation sales agents last room sell capabilities at every hotel. These systems include a revenue management feature that calculates and suggests optimum rates based on each hotel s past performance and projected occupancy. These tools are critical to business delivery and yield improvement as they facilitate a franchisees ability to effectively manage hotel operations, determine appropriate rates, drive occupancy and participate in our marketing programs. The Profit Manager system is used primarily by our existing domestic non-economy brand franchises and ChoiceADVANTAGE is utilized primarily by our economy brand franchises and all new midscale branded properties. The Company is currently in the process of migrating all franchised hotels from the Profit Manager system to ChoiceADVANTAGE, a web-based hotel property management system. As a pure web-based solution, the ChoiceADVANTAGE system reduces each hotel s investment in on-site computer equipment resulting in a lower total cost of ownership for property management systems. This process is expected to be completed over the next several years.

Brand Name Marketing and Advertising. Our marketing and advertising programs are designed to heighten consumer awareness and preference for our brands as offering the greatest value and convenience in the lodging categories in which we compete. Marketing and advertising efforts include national television, internet and radio advertising, on-line advertising, print advertising in consumer and trade media and promotional events, including joint marketing promotions with qualified vendors and corporate partners.

Numerous marketing and sales programs are conducted which target specific groups, including business travelers, senior citizens, automobile club members, families, government and military employees, educational organizations and meeting planners. Other marketing efforts include domestic and international trade show programs, publication of group and tour rate directories, direct-mail programs, electronic direct marketing e-mail programs, centralized commissions for travel agents, fly-drive programs in conjunction with major airlines, and an annual publication of a travel and vacation directory.

We operate a loyalty program called Choice Privileges, for all of the Choice brands to attract and retain travelers by rewarding frequent stays with points towards free hotel stays and other rewards. Choice Privileges participants earn points redeemable for free stays in Choice brand properties. The Company also offered guests the ability to earn airline miles for qualifying stays redeemable for flights with various airline partners as well as redeem points for gift certificates at participating retailers such as Wal-Mart. These programs allow us to conduct lower cost, more targeted marketing campaigns to our consumers, deliver incremental business to our franchised hotels and is an important selling point for our franchise sales personnel. Choice Privileges members contribute over a quarter of the Company s domestic gross room revenues and the program had more than 9.5 million members worldwide as of December 31, 2009. Growing the membership of the Choice Privileges program will continue to be a focus of the Company in future years.

Marketing and advertising programs are directed by our marketing department, which utilizes the services of independent advertising agencies. We also employ home-based sales personnel geographically located across the United States using personal sales calls, telemarketing and other techniques to target specific customer groups, such as potential corporate clients in areas where our franchised hotels are located, the motor coach market, and meeting planners.

Our field based brand performance consultants work with franchisees to maximize RevPAR. These coordinators advise franchisees on topics such as marketing their hotels, improving quality and maximizing the benefits offered by the Choice reservations system. In addition, we recently began a beta test for a new rate and selling management tool to help our franchisees better manage rates and inventory which should help them improve RevPAR by optimizing ADR and occupancy.

Quality Assurance Programs. Consistent quality standards are critical to the success of a hotel franchise. We have established quality standards for all of our franchised brands that cover housekeeping, maintenance, brand identification and minimum service offerings. We inspect properties for compliance with our quality standards when application is made for admission to the franchise system. The compliance of existing franchisees with quality standards is monitored through scheduled and unannounced quality assurance reviews conducted periodically at each property by a third-party. Properties that fail to maintain a minimum score are reinspected on a more frequent basis until deficiencies are cured, or until such properties are terminated. To encourage compliance with quality standards, various brand-specific incentives and awards are used to reward franchisees that maintain consistent quality standards. We identify franchisees whose properties operate below minimum quality standards and assist them in complying with brand specifications. Franchisees who fail to improve on identified quality matters may be subject to consequences ranging from written warnings, the payment of re-inspection fees and ultimately to the termination of the franchise agreement. Actual consequences, if any, are determined in the Company s discretion on a case-by-case basis and may take into account a variety of factors apart from a franchisee s level of compliance with our quality standards and brand specifications.

Training. We maintain a training department that conducts mandatory training programs for all franchisees and their employees. Regularly scheduled regional and national training meetings are also conducted for both property-level staff and managers. Training programs teach franchisees how to best use the Choice reservation system and marketing programs and fundamental hotel operations.

Training is conducted by a variety of methods, including group instruction seminars and on-line programs. We have also developed an interactive computer-based training system that will train hotel employees at their own pace.

Opening Services. We maintain an opening services department with field based employees who ensure that incoming hotels meet or exceed brand standards and to ensure that each incoming hotel opens successfully. We also maintain a design and construction department to assist franchisees in refurbishing, renovating, or constructing their properties prior to or after joining the system. Department personnel assist franchisees in meeting our brand specifications by providing technical expertise and cost-savings suggestions.

Competition

Competition among franchise lodging chains is intense in attracting potential franchisees, retaining existing franchisees and generating reservations for franchisees. Franchise contracts are typically long-term in nature, but most allow the hotel owner to opt-out of the agreement at mutually agreed upon anniversary dates.

We believe that hotel operators choose lodging franchisors based primarily on the value and quality of each franchisor s brand(s) and services and the extent to which affiliation with that franchisor may increase the franchisee s reservations and profits. We also believe that hotel operators select a franchisor in part based on the franchisor s reputation among other franchisees and the success of its existing franchisees.

Since our franchise system revenues are based on franchisees gross room revenues, our prospects for growth are largely dependent upon the ability of our franchisees to compete in the lodging market, our ability to convert competitor franchises and independent hotels to our brands and the ability of existing and potential franchisees to obtain financing to construct new hotels.

The ability of a hotel to compete may be affected by a number of factors, including the location and quality of the property, the number and quality of competing lodging facilities nearby, its affiliation with a recognized name brand and general regional and local economic conditions. We believe the effect of local economic conditions on our results is substantially reduced by our range of products and room rates and the geographic diversity of our franchised properties, which are located in 49 states, the District of Columbia and over 30 countries and territories outside the United States.

We believe that our focus on core business strategies, combined with our financial strength and size, geographic diversity, scale and distribution will enable us to remain competitive.

Service Marks and Other Intellectual Property

The service marks Choice Hotels International, Comfort Inn, Comfort Suites, Quality, Clarion, Sleep Inn, Econo Lodge, Rodeway Inn, MainStay Suites, Cambria Suites, Suburban Extended Stay Hotel, Ascend Collection, Choice Privileges and related marks and logos are material to our business. We, directly and through our franchisees, actively use these marks. All of the material marks are registered with the United States Patent and Trademark Office. In addition, we have registered certain of our marks with the appropriate governmental agencies in over 100 countries where we are doing business or anticipate doing business in the foreseeable future. We seek to protect our brands and marks throughout the world, although the strength of legal protection available varies from country to country. Depending on the jurisdiction, trademarks and other registered marks are valid as long as they are in use and/or their registrations are properly maintained and they have not been found to have become generic.

Seasonality

The hotel industry is seasonal in nature. For most hotels, demand is lower in December through March 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 and operating income reflect the industry s seasonality and historically have been lower in the first quarter than in the second, third or fourth quarters.

Regulation

The Federal Trade Commission (the FTC), various states and certain other foreign jurisdictions (including Australia, France, Germany, Canada, and Mexico) regulate the sale of franchises. The FTC requires franchisors to make extensive disclosure to prospective franchisees but does not require registration. A number of states in which our franchises operate require registration or disclosure in connection with franchise offers and sales. In addition, several states have franchise relationship laws or business opportunity laws that limit the ability of the franchisor to terminate franchise agreements or to withhold consent to the renewal or transfer of these agreements. While our franchising operations have not been materially adversely affected by such regulations, we cannot predict the effect of future regulation or legislation.

Table of Contents

Our franchisees are responsible for compliance with all laws and government regulations applicable to the hotels they own or operate. The lodging industry is subject to numerous federal, state and local government regulations, including those relating to the preparation and sale of food and beverage (such as health and liquor license laws), building and zoning requirements and laws governing employee relations, including minimum wage requirements, overtime, working conditions and work permit requirements.

Impact of Inflation and Other External Factors

Franchise fees can be impacted by external factors including, in particular, the supply of hotel rooms within the lodging industry relative to the demand for rooms by travelers and inflation.

We expect to benefit in the form of increased franchise fees from future growth in consumer demand for hotel rooms as well as in the supply of hotel rooms, which do not result in excess lodging industry capacity. However, a prolonged decline in demand for hotel rooms would negatively impact our business.

Although we believe that increases in the rate of inflation will generally result in comparable increases in hotel room rates, severe inflation could contribute to a slowing of the national economy. Such a slowdown could result in reduced travel by both business and leisure travelers, potentially resulting in less demand for hotel rooms, which could result in a reduction in room rates and fewer room reservations, negatively impacting our revenues. A weak economy could also reduce demand for new hotels, negatively impacting the franchise fees received by us.

Among other unpredictable external factors, which may negatively impact us, are wars, acts of terrorism, airline strikes, gasoline shortages, severe weather and the risks described below under the Item 1A. Risk Factors.

Employees

We employed domestically approximately 1,560 people as of February 16, 2010. None of our employees are represented by unions or covered by collective bargaining agreements. We consider our relations with our employees to be good.

Item 1A. Risk Factors.

Choice Hotels International, Inc. and its subsidiaries are subject to various risks, which could have a negative effect on the Company and its financial condition. These risks could cause actual operating results to differ from those expressed in certain forward looking statements contained in this Form 10-K as well as in other Company communications. Before you invest in our securities you should carefully consider these risk factors together with all other information included in our publicly filed documents.

We are subject to the operating risks common in the lodging and franchising industries.

A significant portion of our revenue is derived from fees based on room revenues at hotels franchised under our brands. As such, our business is subject, directly or through our franchisees, to the following risks common in the lodging and franchising industry, among others:

- changes in the number of hotels operating under franchised brands;
- changes in the relative mix of franchised hotels in the various lodging industry price categories;
- changes in occupancy and room rates achieved by hotels;
- desirability of hotel geographic location;

travelers fears of exposure to contagious disease such as the H1N1 flu virus (swine flu);

Table of Contents

changes in general and local economic and market conditions, which can adversely affect the level of business and leisure travel, and therefore the demand for lodging and related services;

changes in governmental regulations such as the the Employee Free Choice Act , that could increase the likelihood of a union obtaining recognition and possibly result in increased operating costs for our franchisees;

level of consumer unemployment;

increases in costs due to inflation may not be able to be totally offset by increases in room rates;

conversely, if the economy experiences deflation, which is defined as a persistent decline in the general price level of goods and services, franchisees may be required to lower their room rates which would result in lower revenues to the Company. In addition, there is no guarantee that the Company could reduce its costs at the same pace as revenue declines leading to a reduction in operating profits;

over-building in one or more sectors of the hotel industry and/or in one or more geographic regions, could lead to excess supply compared to demand, and to decreases in hotel occupancy and/or room rates;

the availability and cost of capital to allow hotel owners and developers to fund investments;

changes in travel patterns;

changes in governmental regulations that influence or determine wages, prices or construction costs;

travel restrictions (whether security-related or otherwise) imposed by governmental authorities that have the effect of discouraging or limiting travel to and from certain jurisdictions;

the costs and administrative burdens associated with compliance with applicable laws and regulations, including, among others, franchising, lending, privacy, marketing and sales, licensing, labor, climate change, employment and regulations applicable under the Office of Foreign Asset Control and the Foreign Corrupt Practices Act;

other unpredictable external factors, such as acts of God, war, terrorist attacks, epidemics, airline strikes, transportation and fuel price increases and severe weather may reduce business and leisure travel or reduce the number of hotels open and operating within our system;

increases in the cost of human capital, energy, healthcare, insurance and other operating expenses resulting in lower operating margins;

the financial condition of franchisees and travel related companies;

franchisors ability to develop and maintain positive relations with current and potential franchisees; and

changes in exchange rates or sustained recessionary periods in the U.S. (affecting domestic travel) and internationally could also unfavorably impact future results.

The current general economic recession and the slowdown in the lodging industry may continue to impact our financial results and growth.

The present economic recession and the uncertainty over its depth and duration will continue to have a negative impact on the lodging industry. Accordingly, we are experiencing reduced demand for the hotel rooms of our franchisees and therefore our financial results have been impacted and we expect that our future financial results and growth will be further harmed while the recession continues. In addition, the length and breadth of the economic slowdown could impact the financial health of our franchisees resulting in increased business failures and as a result may lead to the loss of hotel rooms from our franchise system resulting in lower fees generated.

Continuing economic and credit market conditions may result in a reduction in the number of new franchise agreements.

Based on the continued uncertainty around the current economic and credit market conditions, we expect the number of franchise applications received and therefore the number of new franchise agreements executed to remain below levels achieved in the most recent pre-economic recessionary periods. We believe this trend is likely to continue while the lodging industry experiences negative operating conditions and the availability of hotel financing continues to be limited. During prior lodging industry downturns, we have experienced an increase in the number of new domestic franchise agreements from conversion hotels. While we believe that a greater percentage of new contracts will result from conversion hotel agreements, the length and breadth of the current economic crisis and the disruption of the credit markets could result in a prolonged downturn in the number of both conversion and new construction hotel contracts executed. This trend could have a material adverse affect on our financial results.

Acquisition and development of new brands and markets.

We will consider acquisitions of new brands that complement our current portfolio of brands as well as expansion of our brands in international markets. In many cases, we will be competing for these opportunities with third parties who may have substantially greater financial resources or different or lower acceptable financial metrics than we do. There can be no assurance that we will be able to identify acquisition candidates, acceptable new markets or complete transactions on commercially reasonable terms or at all. If transactions are consummated or new markets entered, there can be no assurance that any anticipated benefits will actually be realized. Similarly, there can be no assurance that we will be able to obtain additional financing for acquisitions or investments, or that the ability to obtain such financing will not be restricted by the terms of our debt agreements.

We have developed and launched two new hotel brands, Cambria Suites and Ascend Collection, and may develop and launch additional brands in the future. In addition, we plan to expand the distribution of existing brands in certain international markets. There can be no assurance regarding the level of acceptance of these brands in the development and consumer marketplaces, that the cost incurred to develop the brands or expand the international markets, including advances for marketing and reservations activities, will be recovered or that the anticipated benefits from these new brands or markets will be realized.

We are subject to risks relating to acts of God, terrorist activity, epidemics and war.

Our financial and operating performance may be adversely affected by acts of God, such as natural disasters and/or epidemics, terrorist activities and acts of war affecting locations where we have a high concentration of franchisees and areas of the world from which our franchisees draw a large number of guests. Some types of losses, such as from terrorism and acts of war may be either uninsurable or too expensive to justify insuring against. Should an uninsured loss or a loss in excess of insured limits occur, our results of operations and financial condition may be adversely affected.

We may not grow our franchise system or we may lose business by failing to compete effectively.

Our operational and growth prospects depend on the strength and desirability of our brands. We believe that hotel operators choose lodging franchisors based primarily on the value and quality of each franchisor s brand and services, the extent to which affiliation with that franchisor may increase the hotel operator s reservations and profits, and the franchise fees charged. Demographic, economic or other changes in markets may adversely affect the desirability of our brands and, correspondingly, the number of hotels franchised under the Choice brands.

We compete with other lodging companies for franchisees. As a result, the terms of new franchise agreements may not be as favorable as our current franchise agreements. This competition may reduce or change

Table of Contents

fee structures, or make greater use of financial incentives such as loans and guarantees to acquire franchisees. This may potentially cause us to respond by charging lower fees or increasing our use of financial incentives, which may impact our margins. New competition may emerge using different business models with a lesser reliance on franchise fees. In addition, an excess supply of hotel rooms or unfavorable borrowing conditions may discourage potential franchisees from constructing new hotels, thereby limiting a source of growth of the franchise fees received by us.

In addition, each of our hotel brands competes with major hotel chains in national and international markets and with independent companies in regional markets. Our ability to remain competitive and to attract and retain business and leisure travelers depends on our success in distinguishing our products and services from those offered by our competitors. If we are unable to compete successfully in these areas, this could adversely affect our market share and our results of operations.

We may have disputes with the owners of the hotels or their representative franchisee associations that we franchise.

Our responsibilities under the franchise agreements may be subject to interpretation and may give rise to disagreements in some instances. Such disagreements may be more likely as hotel returns are depressed as a result of the current economic recession. We seek to resolve any disagreements in order to develop and maintain positive relations with current and potential hotel owners, however, failure to resolve such disagreements could result in litigation.

We may not achieve our objectives for growth in the number of franchised hotels.

The number of properties and rooms franchised under our brands significantly affects our results. There can be no assurance that we will be successful in achieving our objectives with respect to growing the number of franchised hotels in our system or that we will be able to attract qualified franchisees. The growth in the number of franchised hotels is subject to numerous risks, many of which are beyond the control of our franchisees or us. Among other risks, the following factors affect our ability to achieve growth in the number of franchised hotels:

- the ability of our franchisees to open and operate additional hotels profitably. Factors affecting the opening of new hotels, or the conversion of existing hotels to a Choice brand, include, among others:
  - the availability of hotel management, staff and other personnel;
  - the cost and availability of suitable hotel locations;
  - the availability and cost of capital to allow hotel owners and developers to fund investments;
  - cost effective and timely construction of hotels (which construction can be delayed due to, among other reasons, labor and materials availability, labor disputes, local zoning and licensing matters, and weather conditions); and
  - securing required governmental permits.
- our ability to continue to enhance our reservation, operational and service delivery systems to support additional franchisees in a timely, cost-effective manner;
- our formal impact policy, which offers franchisees protection from the opening of a same-brand property within a specified distance, may adversely impact our growth potential;

the effectiveness and efficiency of our development organization;

our failure to introduce new brands that gain market acceptance, may adversely impact our unit growth potential;

our dependence on our independent franchisees skills and access to financial resources necessary to open the desired number of hotels;

our ability to attract and retain qualified domestic and international franchisees; and

we are currently planning to expand our international operations in many of the markets where we currently operate and in selected new markets. This may require considerable management time as well as start-up expenses for market development before any significant revenues and earnings are generated. Operations in new foreign markets may achieve low margins or may be unprofitable, and expansion in existing markets may by affected by local economic and market conditions. Therefore, as we expand internationally, we may not experience the operating margins we expect, our results of operations may be negatively impacted and our common stock price may decline.

Contract terms for new hotel franchises may be less favorable.

The terms of the franchise agreements for new or conversion hotels are influenced by contract terms offered by our competitors at the time these agreements are entered into. Accordingly, we cannot assure you that contracts for new hotel franchises entered into or renewed in the future will be on terms that are as favorable to us as those under our existing agreements.

Under certain circumstances our franchisees may terminate our franchise contracts.

We franchise hotels to third parties pursuant to franchise agreements. These agreements may be terminated, renegotiated or expire but typically have an initial term of either 10 or 20 years. These agreements also contain provisions permitting the franchisee to terminate their agreement after five, ten or fifteen years under certain circumstances and depending on the particular hotel brand that is licensed to the franchisee. While our franchise agreements provide for liquidated damages to be paid to us by franchisees whose agreements have been terminated as the result of a violation of the provisions of the agreement, these damage amounts are typically less than the fees we would have received if the terminated franchisee fulfilled its contractual obligations. In addition, there can be no assurance that we will be able to replace expired or terminated franchise agreements, or that the provisions of renegotiated or new agreements will be as favorable as the provisions that existed before such expiration, replacement or renegotiation.

Deterioration in the general financial condition of our franchisees may adversely affect our results.

Our operating results are impacted by the ability of our franchisees to generate revenues at properties they franchise from us. An extended period of occupancy or room rate declines, such as the current economic environment, may adversely affect the operating results and financial condition of our franchisees. These negative operating conditions could result in the financial failure of our owners and result in a termination of the franchisee for non-payment of franchise fees or require the transfer of ownership of the franchise. In those instances where ownership is transferred, there can be no assurances that the new owners will choose to affiliate with our brands.

The hotel industry is highly competitive. Competition is based primarily on the level of service, quality of accommodations, convenience of locations and room rates. Our franchisees compete for guests with other hotel properties in their geographic markets. Some of their competitors may have substantially greater marketing and financial resources than our franchisees, and they may construct new facilities or improve their existing facilities, reduce their prices or expand and improve their marketing programs in ways that adversely affect our franchisees operating results and financial condition.

These factors, among others, could adversely affect the operating results and financial condition of our franchisees and result in declines in the number of franchised properties and/or franchise fees and other revenues derived from our franchising business. In addition, at times, the Company provides financial support to our franchisees via notes and guarantees. Factors that may adversely affect the operating results and financial condition of these franchisees may result in the Company incurring losses related to this financial support.

Table of Contents

We may not be able to recover advances for marketing and reservation activities.

The Company is obligated to use the marketing and reservation 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, regardless of whether or not such amount is currently available to the Company for reimbursement. As a result, expenditures by the Company in support of marketing and reservation services in excess of available marketing and reservation fees are recorded as a receivable in the Company s financial statements.

Under the terms of these agreements, the Company has the legally 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 s current franchisees are legally obligated to pay any assessment the Company imposes on them to obtain reimbursement of any marketing and reservation advances regardless of whether the franchisees continue to generate gross room revenue. However, our ability to recover these receivables 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 of certain brands and/or lower than expected international 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 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.

Our franchisees may fail to make investments necessary to maintain or improve their properties, preference for our brands and our reputation could suffer or our franchise agreements with those parties could terminate.

Our portfolio primarily consists of franchised properties governed under the terms of franchise agreements. Substantially all of these agreements require property owners to comply with standards that are essential to maintaining our brand integrity and reputation. We depend on our franchisees to comply with these requirements by maintaining and improving properties through investments, including investments in furniture, fixtures, amenities and personnel.

Franchisees may be unable to access capital or unwilling to spend available capital when necessary, even if required by the terms of our franchise agreements. If our franchisees fail to make investments necessary to maintain or improve the properties we franchise, our brand preference and reputation could suffer. In addition, if franchisees breach the terms of our agreements with them, we may elect to exercise our termination rights, which would eliminate our revenues from these properties and cause us to incur expenses related to terminating these relationships. These risks become more pronounced during economic downturns.

Increasing use of internet reservation channels may decrease loyalty to our brands or otherwise adversely affect us.

A significant percentage of hotel rooms are booked through internet travel intermediaries. If such bookings increase, these intermediaries may be able to obtain higher commissions, reduced room rates or other significant contract concessions from our franchisees or us. Moreover, some of these internet travel intermediaries are attempting to commoditize hotel rooms, by increasing the importance of price and general indicators of quality at the expense of brand identification. These intermediaries hope that consumers will eventually develop brand loyalties to their reservations systems rather than to our lodging brands. If this happens, our business and profitability may be significantly harmed. We have established agreements with many key third party websites to limit transaction fees for hotels but we currently do not have agreements with several large internet travel intermediaries. In addition, there can be no assurance that we will be able to renegotiate these agreements, upon their expiration, with terms as favorable as the provisions that existed before such expiration, replacement or renegotiation.

We are dependent upon our employees   ability to manage our growth.

Our future success and our ability to manage future growth depend in large part upon the efforts and skills of our senior management and our ability to attract and retain key officers and other highly qualified personnel. Competition for such personnel is intense. There can be no assurance that we will continue to be successful in attracting and retaining qualified personnel. Accordingly, there can be no assurance that our senior management will be able to successfully execute and implement our growth and operating strategies.

We and our franchisees are reliant upon technology.

The lodging industry depends upon the use of sophisticated technology and systems including technology utilized for reservation systems, property management, procurement, operation of our customer loyalty programs and administrative systems. The operation of many of these systems is dependent upon third party data communication networks and software upgrades, maintenance and support. These technologies can be expected to require refinements and there is the risk that advanced new technologies will be introduced. There can be no assurance that as various systems and technologies become outdated or new technology is required we will be able to replace or introduce them as quickly as our competitors or within budgeted costs for such technology.

There can be no assurance that we will achieve the benefits that may have been anticipated from any new technology or system. Further, there can be no assurance that disruptions of the operation of these systems will not occur as a result of failures related to our internal or third party systems and support.

Our international operations are subject to special political and monetary risks.

We have franchised properties open and operating in over 30 countries and territories outside of the United States. We also have investments in foreign hotel franchisors. International operations generally are subject to political and other risks that are not present in U.S. operations. In certain countries, these risks include the risk of war or civil unrest, expropriation and nationalization. In addition, the laws of some international jurisdictions do not adequately protect our intellectual property and restrict the repatriation of non-U.S. earnings. Various international jurisdictions also have laws limiting the right and ability of non-U.S. entities to pay dividends and remit earnings to affiliated companies unless specified conditions have been met. In addition, revenues from international jurisdictions typically are earned in local currencies, which subjects us to risks associated with currency fluctuations. Currency devaluations and unfavorable changes in international monetary and tax policies could have a material adverse effect on our profitability and financing plans, as could other changes in the international regulatory climate and international economic conditions.

We are subject to certain risks related to our indebtedness.

As a result of our debt obligations, we are subject to the following risks, among others:

- the risk that cash flows from operations or available lines of credit will be insufficient to meet required payments of principal and interest when due;

- the risk that (to the extent we maintain floating rate indebtedness) interest rates increase;

- our leverage may adversely affect our ability to obtain additional financing for acquisitions, working capital, capital expenditures or other purposes, if required;

- the availability and cost of capital may limit our ability to refinance our existing revolving debt obligations; and

Table of Contents

our existing debt agreements contain covenants that limit our ability to, among other things, borrow additional money, sell assets or engage in mergers. If we do not comply with these covenants, or do not repay our debt on time, we would be in default under our debt agreements. Unless any such default is waived by our lenders, the debt could become immediately payable and this would have a material adverse impact on us.

While we currently maintain an investment grade credit rating by both of the major rating agencies, there can be no assurance we will be able to maintain this rating. In the event of a downgrade in our credit rating, we would likely incur higher borrowing costs.

Anti-takeover provisions may prevent a change in control.

Our restated certificate of incorporation, the staggered terms of our board of directors and the Delaware General Corporation Law each contain provisions that could have the effect of making it more difficult for a party to acquire, and may discourage a party from attempting to acquire control of our Company without approval of our board of directors. These provisions could discourage tender offers or other bids for our common stock at a premium over market price.

The concentration of share ownership may influence the outcome of certain matters.

The concentration of share ownership by our directors and affiliates allows them to substantially influence the outcome of matters requiring shareholder approval. As a result, acting together, they may be able to control or substantially influence the outcome of matters requiring approval by our shareholders, including the elections of directors and approval of significant corporate transactions, such as equity compensation plans.

Government regulation could impact our business.

The Federal Trade Commission (the FTC), various states and certain foreign jurisdictions where we market franchises regulate the sale of franchises. The FTC requires franchisors to make extensive disclosure to prospective franchisees but does not require registration. A number of states in which our franchisees operate require registration or disclosure in connection with franchise offers and sales. In addition, several states in which our franchisees operate have franchise relationship laws or business opportunity laws that limit the ability of the franchisor to terminate franchise agreements or to withhold consent to the renewal or transfer of these agreements. While our business has not been materially affected by such regulation, there can be no assurance that this will continue or that future regulation or legislation will not have such an effect.

Failure to comply with the Sarbanes-Oxley Act could impact our business.

There can be no assurance that the periodic evaluation of our internal controls required by the Sarbanes-Oxley Act will not result in the identification of significant deficiencies or material weaknesses in our internal controls or that our auditors will be able to attest to the effectiveness of our internal control over financial reporting. Failure to comply may have consequences on our business including, but not limited to, increased risks of financial statement misstatements, SEC sanctions and negative capital market reactions.

We are subject to certain risks related to litigation filed by or against us.

We cannot predict with certainty the cost of defense, the cost of prosecution or the ultimate outcome of litigation filed by or against us, including, remedies or damage awards. This litigation may include, but is not limited to, actions or negligence by franchisees outside of our control. We are not liable for the actions of our franchisees; however, there is no guarantee that we would be insulated from liability in all cases.

Disruption or malfunction in our information systems could adversely affect our business.

Our information technology systems are vulnerable to damage or interruption from:

- earthquakes, fires, floods and other natural disasters;
- power losses, computer systems failures, internet and telecommunications or data network failures, operator negligence, improper operation by or supervision of employees, physical and electronic losses of data and similar events; and
- computer viruses, penetration by individuals seeking to disrupt operations or misappropriate information and other breaches of security.

We rely on our systems to perform functions critical to our ability to operate, including our central reservation systems. Accordingly, an extended interruption in the systems function could significantly curtail, directly and indirectly, our ability to conduct our business and generate revenue.

The weakening of our trademarks and other intellectual property could impact our business.

We believe that our trademarks and other intellectual property are fundamental to our brands and our franchising business. We generate, maintain, license and enforce a substantial portfolio of trademarks and other intellectual property rights. We use our intellectual property rights to protect development activities, to protect our good name, to promote our brand name recognition, to enhance our competitiveness and to otherwise support our business goals and objectives. We rely on trademark laws to protect our proprietary rights. Monitoring the unauthorized use of our intellectual property is difficult. Litigation has been and may continue to be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Litigation of this type could result in substantial costs and diversion of resources, may result in counterclaims or other claims against us and could significantly harm our results of operations. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as do the laws of the United States. From time to time, we apply to have certain trademarks registered. There is no guarantee that such trademark registrations will be granted. We cannot assure you that all of the steps we have taken to protect our trademarks in the United States and foreign countries will be adequate to prevent imitation of our trademarks by others. The unauthorized reproduction of our trademarks could diminish the value of our brand and its market acceptance, competitive advantages or goodwill, which could adversely affect our business.

Failure to maintain the integrity of internal or customer data could result in faulty business decisions, damage of reputation and/or subject us to costs, fines or lawsuits.

Our business requires the collection and retention of large volumes of internal and customer data, including credit card numbers and other personally identifiable information of our customers as they are entered into, processed by, summarized by, and reported by our various information systems. We also maintain personally identifiable information about our employees. The integrity and protection of that customer, employee, and company data is critical to us. Our customers have a high expectation that we will adequately protect their personal information, and the regulatory environment surrounding information security and privacy is increasingly demanding, both in the U.S. and in the international jurisdictions in which we operate. If the Company fails to maintain compliance with Payment Card Industry (PCI) data security standards, the Company s ability to process or transmit credit card data could be adversely impacted and expose the Company to fines, litigation or other expenses.

Instability in the credit markets may impact the ability of our franchisees to expand or construct new locations.

One aspect of our growth strategy is the ability of our franchisees to expand or open new franchises and to operate those franchises on a profitable basis. Delays or failures in opening new locations could materially and adversely affect our planned growth. Recently, the credit markets have experienced instability, resulting in declining real estate values, credit and liquidity concerns and increased loan default rates. Many lenders have subsequently reduced their willingness to make new loans and have tightened their credit requirements. Many of our franchisees depend on the availability of financing to expand and or renovate existing locations or construct and open new hotels. If our franchisees experience difficulty in obtaining adequate financing for these purposes, our growth strategy and franchise revenues may be adversely affected.

Development activities that involve our co-investment or financing and guaranty support for third parties may result in exposure to losses.

As a result of our program to make financial support available to developers in the form of loans, credit support, such as guarantees, and equity investment, we are subject to investment and credit risks that we would not otherwise be exposed to as a franchisor. In particular, when we make loans to franchisees, agree to provide loan guarantees for the benefit of franchisees, or make equity investments in franchisees, we are subject to all generally applicable credit and investment risks, such as (1) construction delays, cost overruns, or acts of God such as earthquakes, hurricanes, floods or fires that may increase overall project costs or result in project cancellations; (2) the possibility that developers could become bankrupt or otherwise lack the financial resources to meet their obligations, or could have or develop business interests, policies or objectives that are inconsistent with ours; and (3) that the conditions within capital markets may limit the ability of franchisees to raise additional debt or equity that may be required for completion of projects. In addition to general credit and capital market risks, we face specific risks stemming from our ability to assess the existing and future financial strength of the franchisee and its principals, the development/construction abilities of the franchisee, the expected performance of the hotel in light of the forecasted general, regional and market-specific economic climate, and the ability to negotiate for, value, and if necessary collect security for our loans or obligations. Although we actively seek to minimize such risks before providing financial support, if we do not accurately assess these risks, our assumptions used to make these estimates prove inaccurate, or situations in the credit market or hospitality industry change in a manner we did not anticipate, our loans and investments may become impaired and/or we may be required to make payment under guarantees we have issued. In such instances, there is no assurance that we will be able to recover any or all of such impaired or paid amounts, in which case we will experience losses which could be material.

Development activities that involve our investment in real estate to stimulate the development of new brands may result in exposure to losses

The Company has recently begun a program to identify real estate for potential developers to acquire and be utilized for Cambria Suites development. The Company s intent is to identify potential development sites so that developers may acquire the site and commence construction of a Cambria Suites. However, in certain circumstances, the Company may be required to acquire the real estate prior to identifying a potential developer for the project. As a result, we may be subject to the investment risk that we would not otherwise be exposed to as a franchisor. In particular, we face specific risks stemming from our (1) our ability to assess the fair market value of the real estate; (2) the location s suitability for development as a Cambria Suites; (3) the availability of zoning or other local approvals needed for development; and (4) availability and pricing of capital. Although we actively seek to minimize these risks prior to acquiring real estate, there is no assurance that we will be able to recover the cost of our investment in which case we will experience losses which could be material.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our principal executive offices are located at 10750 Columbia Pike, Silver Spring, MD 20901. The offices are leased from a third party. We own one office and lease another office in Phoenix, AZ which house our reservation and property systems information technology operations. Furthermore, the Company recently

Table of Contents

announced plans to consolidate these two operations into one leased office in Phoenix, AZ. The Company owns both of our reservation centers in Minot, ND and Grand Junction, CO. We also lease office space in Bethesda, MD, Chevy Chase, MD, Australia, United Kingdom, Canada, Germany, France and Mexico. Management believes that the Company s existing properties are sufficient to meet its present needs and does not anticipate any difficulty in securing additional or alternative space, as needed, on terms acceptable to the Company.

We own three MainStay Suites hotels located in Brentwood, TN, Pittsburgh, PA and Greenville, SC.

Item 3. Legal Proceedings.

None.

EXECUTIVE OFFICERS OF CHOICE HOTELS INTERNATIONAL, INC.

The name, age, title, present principal occupation, business address and other material occupations, positions, offices and employment of each of the executive officers of the Company as of December 31, 2009 are set forth below. The business address of each executive officer is 10750 Columbia Pike, Silver Spring, Maryland 20901.

Name	Age	Position
Stewart W. Bainum, Jr.	63	Chairman of the Board of Directors
Stephen P. Joyce.	50	President and Chief Executive Officer
David L. White	41	Senior Vice President, Chief Financial Officer & Treasurer
Bruce N. Haase	49	Executive Vice President, Global Brands, Marketing and Operations
Patrick J. Cimerola	41	Senior Vice President, Human Resources and Administration
Patrick S. Pacious	44	Senior Vice President, Corporate Strategy and Information Technology
David A. Pepper	42	Senior Vice President, Global Development
Scott E. Oaksmith	38	Controller

Background of Executive Officers:

Stewart Bainum, Jr. Director from 1977 to 1996 and since 1997. Chairman of the Board of Choice Hotels from March 1987 to November 1996 and since October 1997; Chairman of the Board of Realty Investment Company, Inc. since December 2005; Chairman of the Board of Sunburst Hospitality Corporation since November 1996. He was a director of Manor Care, Inc. from September 1998 to September 2002, serving as Chairman from September 1998 until September 2001. From March 1987 to September 1998, he was Chairman and Chief Executive Officer of Manor Care, Inc. He served as President of Manor Care of America, Inc. and Chief Executive Officer of ManorCare Health Services, Inc. from March 1987 to September 1998, and as Vice Chairman of Manor Care of America, Inc. from June 1982 to March 1987.

Stephen P. Joyce. President & Chief Executive Officer since June 2008 and President & Chief Operating Officer from May 2008 until June 2008. Prior to joining the Company, he was employed by Marriott as Executive Vice President, Global Development/Owner and Franchise Services from 2005 until 2008 and Executive Vice President, Owner and Franchise Services/North American Full Service Development from 2003 until 2005.

David L. White. Senior Vice President, Chief Financial Officer & Treasurer since December 2007. He was Chief Financial Officer & Treasurer from September 2006 to December 2007; Vice President, Finance & Controller of Choice from December 2002 to September 2006; and was Vice President, Financial/SEC Reporting from September 2002 to December 2002. He was Senior Manager, Ernst & Young, LLP from May 2002 to September 2002. He was employed by Arthur Andersen LLP as Senior Manager from May 1999 to May 2002, and manager from October 1998 to May 1999. He served as Assistant Controller for the energy marketing division of Statoil Energy, Inc. from May 1997 to September 1998.

Table of Contents

Bruce N. Haase. Executive Vice President, Global Brands, Marketing and Operations since October 2009. He was Executive Vice President, Global Operations from March 2008 to October 2009. Mr. Haase was Senior Vice President, Brand Operations & International from July 2007 to March 2008. He was Senior Vice President and Division President, Select Market Brands from January 2007 to July 2007 and was Senior Vice President, International of the Company from October 2000 to January 2007. He was Vice President Finance and Treasurer from April 2000 until October 2000. He was Vice President, Finance and Treasurer of The Ryland Group, Inc., in Columbia, Maryland, from August 1999 until March 2000 and Vice President and Treasurer from October 1995 until August 1999.

Patrick J. Cimerola. Senior Vice President, Human Resources and Administration since September 2009. He was Vice President of Human Resources from January 2003 to September 2009. He was Sr. Director of Human Resources from January 2002 to January 2003.

Patrick S. Pacious. Senior Vice President Corporate Strategy and Information Technology since August 2009. He was Senior Vice President, Corporate Development and Strategy from December 2007 to August 2009. He was Vice President, Corporate Development and Innovation from May 2006 to December 2007 and was Senior Director of Corporate Strategy from July 2005 to May 2006. Prior to joining the Company, he was employed by Bearingpoint Inc. as a Senior Manager from 2002 until 2005 and Arthur Andersen Business Consulting LLP as a Senior Manager from 1996 until 2002.

David A. Pepper. Senior Vice President, Global Development since October 2009. He was Senior Vice President, Franchise Development & Emerging Brands from July 2007 to October 2009. He was Senior Vice President and Division President Cambria Suites and Extended Stay Market Brands from January 2007 to July 2007 and was Senior Vice President, Franchise Growth and Performance of Choice from December 2005 until January 2007. He was Senior Vice President, Development of Choice from January 2005 until December 2005. He was Vice President, Franchise Sales from June 2002 until January 2005. He was Vice President, Franchise Sales with USFS in Atlanta, Georgia from 1996 through June 2002.

Scott E. Oaksmith. Controller of the Company since September 2006. He was Senior Director & Assistant Controller of Choice from February 2004 to September 2006. He was Director, Marketing and Reservations, Finance from October 2002 until February 2004. Prior to joining the Company, he was employed by American Express Tax & Business Services, Inc. from January 1994 to October 2002, last serving as Senior Manager from October 2000 to October 2002.

Table of Contents

PART II

Item 4. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The shares of the Company s common stock are listed and traded on the New York Stock Exchange. The following table sets forth information on the high and low prices of the Company s common stock and cash dividends declared per share for each quarterly period for the two most recently completed years.

QUARTERLY MARKET PRICE RANGE OF COMMON STOCK AND CASH DIVIDENDS DECLARED

	Market Price Per Share		Cash Dividends
Quarters Ended	High	Low	Declared Per Share
2008			
March 31,	$ 37.24	$ 29.42	$ 0.17
June 30,	36.40	25.98	0.17
September 30,	34.89	22.76	0.185
December 31,	30.27	18.25	0.185
2009			
March 31,	$ 33.00	$ 22.93	$ 0.185
June 30,	30.11	24.48	0.185
September 30,	32.11	24.16	0.185
December 31,	33.60	29.14	0.185

The Company currently maintains the payment of a quarterly dividend on its common shares outstanding, however, the declaration of future dividends are subject to the discretion of the board of directors. We expect that cash dividends will continue to be paid at a comparable rate in the future, subject to future business performance, economic conditions and changes in the current income tax regulations.

As of February 16, 2010, there were 1,643 holders of record of the Company s common stock.

ISSUER PURCHASES OF EQUITY SECURITIES

The following table sets forth purchases of Choice Hotels International, Inc. common stock made by the Company during the year ended December 31, 2009.

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, 2009	300,656	$ 27.57	299,513	5,664,324
February 28, 2009	419,000	26.24	372,062	5,292,262
March 31, 2009	887	25.62		5,292,262
April 30, 2009				5,292,262
May 31, 2009	284,582	27.01	277,900	5,014,362
June 30, 2009	359,822	26.00	359,600	4,654,762
July 31, 2009	425,206	26.26	417,000	4,237,762
August 31, 2009	127,300	28.26	127,300	4,110,462
September 30, 2009	204,293	29.02	203,728	3,906,734
October 31, 2009	191	30.74		3,906,734
November 30, 2009	28,300	29.92	28,300	3,878,434
December 31, 2009	38,651	31.90	37,800	3,840,634

Total	2,188,888	$ 27.01	2,123,203	3,840,634

(1) The Company s share repurchase program was initially approved by the board of directors on June 25, 1998. The program has no fixed dollar amount or expiration date.

(2) During the year ended December 31, 2009, the Company redeemed 65,685 shares of common stock from employees to satisfy minimum tax-withholding requirements related to the vesting of restricted stock and performance vested restricted stock unit grants. These redemptions were not part of the board repurchase authorization.

Table of Contents

STOCKHOLDER RETURN PERFORMANCE

The graph below matches the cumulative 5-year total return of holders of Choice Hotels International, Inc. s common stock with the cumulative total returns of the NYSE Composite index and the S&P Hotels, Resorts & Cruise Lines index. The graph assumes that the value of the investment in the company s common stock and in each of the indexes (including reinvestment of dividends) was $100 on December 31, 2004 and tracks it through December 31, 2009.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Choice Hotels International, Inc., The NYSE Composite Index

And The S&P Hotels, Resorts & Cruise Lines Index

* $100 invested on 12/31/04 in stock or index-including reinvestment of dividends.
Fiscal year ending December 31.

	12/04	6/05	12/05	6/06	12/06	6/07	12/07	6/08	12/08	6/09	12/09
Choice Hotels International, Inc.	100.00	114.14	146.19	213.39	149.11	141.05	119.47	96.32	111.40	100.01	120.38
NYSE Composite	100.00	100.79	109.36	116.62	131.74	143.99	143.42	129.24	87.12	90.84	111.76
S&P Hotels, Resorts & Cruise Lines	100.00	100.02	101.53	101.95	116.36	116.33	101.92	80.75	52.87	61.14	82.40

Table of Contents

Item 5. Selected Financial Data.

Company results (in millions, except per share data)

	As of and for the year ended December 31,				
	2005	2006	2007	2008	2009
Total Revenues	$ 472.1	$ 539.9	$ 615.5	$ 641.7	$ 564.2
Net Income	87.6	112.8	111.3	100.2	98.3
Basic Earnings per Share(1)	1.35	1.71	1.72	1.61	1.64
Diluted Earnings per Share(1)	1.31	1.67	1.69	1.59	1.63
Total Assets	265.3	303.3	328.4	328.2	340.0
Long-Term Debt	274.1	172.5	272.4	284.4	277.7
Cash Dividends Declared Per Common Share	0.485	0.56	0.64	0.71	0.74

(1) Per share amounts have been retroactively adjusted for the adoption of Financial Accounting Standards Board (FASB) Staff Position Emerging Issues Task Force No. 03-6-1, Determining Whether Instruments Granted in Share Based Payment Transactions Are Participating Securities , which is now included in FASB Accounting Standards Codification 260, Earnings Per Share . See Item 7 Financial Statements and Supplementary Data for more information regarding the adoption of this standard.

Matters that affect the comparability of our annual results are as follows:

Net income in 2005 included additional income tax expense of approximately $1.2 million related to the Company s repatriation of foreign earnings pursuant to the American Jobs Creation Act and a reduction of income tax expense related to the resolution of certain tax contingencies of approximately $4.9 million. Those items represent an increase in diluted EPS of $0.05, net.

Net income in 2006 included a $0.3 million loss on extinguishment of debt related to the refinancing of the Company s senior credit facility and a reduction of income tax expense related to the resolution of certain tax contingencies of approximately $12.8 million. In addition, the Company s adoption of accounting standards that required compensation costs related to share based payment transactions be recognized in financial statements based on the fair value of the equity instruments issued reduced net income by approximately $0.3 million. Those items represent an increase in diluted EPS of $0.18, net.

Net income in 2007 included termination benefit expense totaling $4.3 million resulting from the termination of certain employees. This represented a decline in diluted EPS of $0.04.

Net income in 2008 included expenses related to the acceleration of the Company s management succession plan totaling $6.6 million, termination benefits for non-executive employees totaling $3.5 million and the establishment of reserves for impaired notes receivable totaling $7.6 million. These items represented a decline in diluted EPS of $0.18.

Net income in 2009 included one-time termination benefits expense totaling $4.6 million, $1.2 million of additional expenses due to the curtailment of the Company s Supplemental Executive Retirement Plan resulting from the freezing of benefits payable under the plan and a $1.5 million loss related to a sublease of office space and related impairment charges to the space s leasehold improvements. These items represented a decline in diluted EPS of $0.08.

Item 6. Management s Discussion and Analysis of Financial Condition and Results of Operation.

The following Management s Discussion and Analysis (MD&A) is intended to help the reader understand Choice Hotels International, Inc. and its subsidiaries. MD&A is provided as a supplement to and should be read in conjunction with our consolidated financial statements and the accompanying notes.

Table of Contents

Basis of Presentation

As discussed in Note 1 of Item 7 Financial Statements and Supplementary Data, the Company adopted Financial Accounting Standards Board (FASB) Staff Position Emerging Issues Task Force No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities , which is now included in FASB Accounting Standards Codification (ASC) 260 Earnings Per Share . This guidance clarified that all share-based payment awards that contain rights to non-forfeitable dividends participate in undistributed earnings with common shareholders. Therefore, awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied rather than the treasury stock method. In addition, this guidance requires that all prior period earnings per share data presented be adjusted retrospectively to conform to the current year presentation.

The Company s outstanding unvested restricted stock awards contain rights to non-forfeitable dividends and as a result, the Company applied this guidance in the first quarter of 2009. The two-class method of calculating earnings per share is more dilutive to both basic and diluted shares outstanding than the previously utilized treasury stock method. In accordance with the guidance, the Company has retrospectively adjusted its basic and diluted shares outstanding for the years ended December 31, 2008 and 2007. As a result, basic and diluted earnings per share for the year ended December 31, 2008 were reduced from $1.62 to $1.61 and $1.60 to $1.59 per share, respectively. Basic and diluted earnings per share for the year ended December 31, 2007 were reduced from $1.73 to $1.72 and $1.70 to 1.69, respectively. See Note 21 Earnings Per Share of the accompanying Item 7 Financial Statements and Supplementary Data for additional information.

Overview

We are a hotel franchisor with franchise agreements representing 6,021 hotels open and 843 hotels under construction, awaiting conversion or approved for development as of December 31, 2009, with 487,410 rooms and 66,585 rooms, respectively, in 49 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 Collection, Sleep Inn, Econo Lodge, Rodeway Inn, MainStay Suites, Suburban Extended Stay Hotel and Cambria Suites (collectively, the Choice brands).

The Company conducts its international franchise operations through a combination of direct franchising and master franchising relationships. Master franchising relationships allow the use of our brands by third parties in foreign countries. The Company has made equity investments in certain non-domestic lodging franchise companies that conduct franchise operations for the Choice brands under master franchising relationships. As a result of our use of master franchising relationships and international market conditions, total revenues from international franchising operations comprised only 7% and 8% of our total revenues in 2009 and 2008, respectively while representing approximately 19% of our franchise system hotels open at both December 31, 2009 and 2008.

On January 31, 2008, the Company terminated the master franchise agreement with The Real Hotel Company PLC (RHC) related to RHC s franchised hotels under the Choice brands in the United Kingdom. In conjunction with the termination of the master franchise agreement, the Company acquired RHC s franchise contracts under the master franchise agreement and commenced direct franchising operations in the United Kingdom on this date. This transaction enabled Choice to continue its strategy of more closely directing the growth of our franchise operations throughout continental Europe and the United Kingdom.

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 procurement services vendor arrangements, hotel operations and other sources. The hotel industry is seasonal in nature. For most hotels, demand is lower in December through March 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 and operating income reflect the industry s seasonality and historically have been lower in the first quarter than in the second, third or fourth 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 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. At December 31, 2009, the Company estimates that based on its current domestic portfolio of hotels under franchise that a 1% change in revenue per available room (RevPAR) or rooms under franchise would increase or decrease royalty revenues by approximately $2.0 million and a 1 basis point change in the Company s effective royalty rate would increase or decrease domestic royalties by approximately $0.5 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. As a lodging franchisor, Choice 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; 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 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 contractually 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 system, 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, which ultimately increases franchise fees earned by the Company.

Our Company articulates its mission as a commitment to our customers profitability by providing our customers with hotel franchises that 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. Our Company focuses on two key value drivers:

Profitable Growth. Our success is dependent on improving the performance of our hotels, increasing our system size by selling additional hotel franchises and effective royalty rate improvement. 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, a central reservation system, property and yield management systems, quality assurance standards and procurement services vendor relationships. We believe that healthy brands, which deliver a compelling return on investment for franchisees, will enable us to sell additional hotel franchises and raise royalty rates. We have established multiple brands that meet the needs of many types of guests, and can be developed at various price points and applied to both new and existing hotels. This ensures that we have brands suitable for creating growth in a variety of market conditions. Improving the performance of the hotels under franchise, growing the system through additional franchise sales and improving franchise agreement pricing while maintaining a disciplined cost structure are the keys to profitable growth.

Maximizing Financial Returns and Creating Value for Shareholders. Our capital allocation decisions, including capital structure and uses of capital, are intended to maximize our return on invested capital and create value for our shareholders. We believe our strong and predictable cash flows create a strong financial position that provides us a competitive advantage. Currently, our business does not require significant capital to operate and grow. Therefore, we can maintain a capital structure that generates high financial returns and use our excess cash flow to increase returns to our shareholders. Historically, we have returned value to our shareholders in two primary ways: share repurchases and dividends. In 1998, we instituted a share repurchase program which has generated substantial value for our shareholders. Through December 31, 2009, we have repurchased 42.9 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 $1.0 billion since the program s inception. Considering the effect of the two-for-one stock split, the Company has repurchased 75.9 million shares at an average price of $13.28 per share. We currently believe that our cash flows from operations will support our ability to complete the repurchase of approximately 3.8 million shares remaining as of December 31, 2009 under the current stock repurchase authorization of the board of directors. Upon completion of the current authorization, our board of directors will evaluate the propriety of additional share repurchases. In 2009, we paid cash dividends totaling approximately $44.3 million and we presently expect to continue to pay dividends in the future, subject to business performance, economic conditions and changes in income tax regulations. Based on our present dividend rate and outstanding share count, aggregate annual dividends for 2010 would be approximately $43.8 million.

Our board of directors has authorized us to enter into programs which permit us to offer investment, financing and guaranty support to qualified franchisees as well as acquire and resell real estate to incent franchise development in top markets for certain brands. Based on market and other conditions, we expect to deploy this capital opportunistically over the next several years. Notwithstanding these programs, the Company expects to continue to return value to its shareholders through a combination of share repurchases and dividends, subject to market and other conditions.

We believe these value drivers, 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 Operation: Royalty fees, operating income, net income and diluted earnings per share (EPS) represent key measurements of these value drivers. In 2009, royalty fees revenue totaled approximately $218.0 million, a 12% decline from 2008. Operating income totaled $148.1 million for the year ended December 31, 2009, a 15% decline from 2008. Net income for the year ended December 31, 2009 declined $1.9 million from $100.2 million in 2008 to $98.3 million and diluted EPS were $1.63, compared to $1.59 for the year ended December 31, 2008. Operating and net income include expenses resulting from employee termination benefits totaling $4.6 million ($2.9 million, net of tax), a $1.5 million loss related to a sublease of office space and related impairment charges to the space s leasehold improvements ($0.9 million, net of tax) and a $1.2 million curtailment charge related to freezing the benefits under the Company s Supplemental Executive Retirement Plan (SERP) ($0.8 million, net of tax). These items represented a decline in diluted EPS of $0.08. These measurements will continue to be a key management focus in 2010 and beyond.

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

Liquidity and Capital Resources: Historically, the Company has generated significant cash flows from operations. In 2009 and 2008, net cash provided by operating activities was $112.2 million and $104.4 million, respectively. Since our business does not currently require significant reinvestment of capital, we utilize cash in ways that management believes provide the greatest returns to our shareholders which include share repurchases and dividends. 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. However, events over the past year, including recent failures and near failures of a number of large financial service companies have made the capital markets increasingly volatile. As a result of the dislocation in the credit markets, the availability of reasonably priced credit may be limited and therefore reduce the Company s ability to return value to shareholders through dividends and its share repurchase program.

Table of Contents

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

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

Operations Review

Comparison of 2009 Operating Results and 2008 Operating Results

The Company recorded net income of $98.3 million for the year ended December 31, 2009, a $1.9 million or 2% decline from $100.2 million for the year ended December 31, 2008. The decline in net income for the year ended December 31, 2009 is primarily attributable to a $26.5 million or 15% decline in operating income partially offset by lower effective borrowing rates and the appreciation in the fair value of investments held in the Company s non-qualified employee benefit plans compared to declines in these investments during the prior year period as well as a decline in the effective income tax rate.

Summarized financial results for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
	(In thousands, except per share amounts)	
REVENUES:		
Royalty fees	**$ 217,984**	$ 247,435
Initial franchise and relicensing fees	**12,916**	27,931
Procurement services	**17,598**	17,148
Marketing and reservation	**305,379**	336,477
Hotel operations	**4,140**	4,936
Other	**6,161**	7,753
Total revenues	**564,178**	641,680
OPERATING EXPENSES:		
Selling, general and administrative	**99,237**	118,989
Depreciation and amortization	**8,336**	8,184
Marketing and reservation	**305,379**	336,477
Hotel operations	**3,153**	3,434
Total operating expenses	**416,105**	467,084
Operating income	**148,073**	174,596
OTHER INCOME AND EXPENSES:		
Interest expense	**4,414**	10,932
Interest and other investment (income) loss	**(5,862)**	7,760
Equity in net income of affiliates	**(1,113)**	(1,414)
Other income and expenses, net	**(2,561)**	17,278
Income before income taxes	**150,634**	157,318
Income taxes	**52,384**	57,107
Net income	**$ 98,250**	$ 100,211
Weighted average shares outstanding-diluted	**60,224**	62,994

Diluted earnings per share	**$**	**1.63**	$	1.59

The Company utilizes certain measures such as adjusted net income, adjusted diluted EPS, adjusted selling, general and administrative (SG&A), adjusted operating income and franchising revenues 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

Table of Contents

alternative to any measure of performance as promulgated under GAAP, such as net income, diluted EPS, SG&A, operating income and total revenues. 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 reason s for reporting these non-GAAP measures.

Franchising Revenues: The Company utilizes franchising revenues which exclude marketing and reservation revenues and hotel operations rather than total revenues when analyzing the performance of the business. Marketing and reservation activities are excluded from revenues since the Company is contractually required by its franchise agreements to use these fees collected for marketing and reservation activities; as such, no income or loss to the Company is generated. Cumulative reservation and marketing fees not expended are recorded as a payable on the Company s financial statements and are carried over to the next fiscal year and expended in accordance with the franchise agreements. Cumulative marketing and reservation expenditures in excess of fees collected for marketing and reservation activities are recorded as a receivable on the Company s financial statements. Hotel operations are excluded since they do not reflect the most accurate measure of the Company s core franchising 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 Franchising Revenues

	Year Ended December 31, (dollar amounts in thousands)	
	2009	**2008**
Total Revenues	**$ 564,178**	$ 641,680
Adjustments:		
Marketing and reservation revenues	**(305,379)**	(336,477)
Hotel operations	**(4,140)**	(4,936)
Franchising Revenues	**$ 254,659**	$ 300,267

Adjusted Net Income, Adjusted Diluted EPS, Adjusted SG&A and Adjusted Operating Income: We also use adjusted net income, adjusted diluted EPS, adjusted SG&A and adjusted operating income which exclude employee termination benefits, a curtailment loss related to freezing the benefits under the Company s SERP and a loss related to a sublease of office space and the impairment charges incurred related to the space s leasehold improvements for 2009 and charges related to the Company s acceleration of a previously announced management succession plan, increased loan reserves related to impaired notes receivable and employee termination benefits for the year ended December 31, 2008. The Company utilizes these non-GAAP measures to enable investors to perform meaningful comparisons of past, present and future operating results and as a means to emphasize the results of on-going operations.

Calculation of Adjusted Operating Income

	Year Ended December 31, (dollar amounts in thousands)	
	2009	**2008**
Operating Income	**$ 148,073**	$ 174,596
Adjustments:		
Acceleration of management succession plan benefits		6,605
Employee termination benefits	**4,604**	3,537
Curtailment loss related to the freezing of benefits under the Company s SERP	**1,209**	
Loss on sublease of office space	**1,503**	
Loan reserves related to impaired notes receivable		7,555
Adjusted Operating Income	**$ 155,389**	$ 192,293

Table of Contents

Calculation of Adjusted SG&A

	Year Ended December 31, (dollar amounts in thousands) 2009	2008
SG&A	**$ 99,237**	$ 118,989
Adjustments:		
Acceleration of management succession plan benefits		(6,605)
Employee termination benefits	**(4,604)**	(3,537)
Curtailment loss related to the freezing of benefits under the Company s SERP	**(1,209)**	
Loss on sublease of office space	**(1,503)**	
Loan reserves related to impaired notes receivable		(7,555)
Adjusted SG&A	**$ 91,921**	$ 101,292

Calculation of Adjusted Net Income and Adjusted Diluted EPS

	Year Ended December 31, (In thousands, except per share amounts) 2009	2008
Net Income	**$ 98,250**	$ 100,211
Adjustments:		
Acceleration of management succession plan benefits		4,135
Employee termination benefits	**2,882**	2,214
Curtailment loss related to the freezing of benefits under the Company s SERP	**757**	
Loss on sublease of office space	**941**	
Loan reserves related to impaired notes receivable		4,729
Adjusted Net Income	**$ 102,830**	$ 111,289
Weighted average shares outstanding-diluted	**60,224**	62,994
Diluted EPS	**$ 1.63**	$ 1.59
Adjustments:		
Acceleration of management succession plan benefits		0.07
Employee termination benefits	**0.05**	0.03
Curtailment loss related to the freezing of benefits under the Company s SERP	**0.01**	
Loss on sublease of office space	**0.02**	
Loan reserves related to impaired notes receivable		0.08
Adjusted Diluted EPS	**$ 1.71**	$ 1.77

The Company recorded adjusted net income of $102.8 million for the year ended December 31, 2009, an $8.5 million or 8% decline from $111.3 million for the year ended December 31, 2008. The decline in adjusted net income for the year ended December 31, 2009 is primarily attributable to a $36.9 million or 19% decline in adjusted operating income partially offset by lower effective borrowing rates and the appreciation in the fair value of investments held in the Company s non-qualified employee benefit plans compared to declines in these investments during the prior year period. Adjusted operating income declined $36.9 million as the Company s franchising revenues for the year ended December 31, 2009 declined $45.6 million or 15% from the prior year. This decline was primarily due to a 14.4% decline in RevPAR and fewer initial and relicensing fee contracts executed compared to the prior year. The decline in franchising revenues was partially offset by a $9.4 million decline in adjusted SG&A costs from $101.3 million in 2008 to $91.9 million for the year ended December 31, 2009.

Table of Contents

Franchising Revenues: Franchising revenues were $254.7 million for the year ended December 31, 2009 compared to $300.3 million for the year ended December 31, 2008. The decline in franchising revenues is primarily due to a 12% decline in royalty revenues, a 54% decrease in initial franchise and relicensing fees and a 21% decline in other income.

Domestic royalty fees for the year ended December 31, 2009 decreased $24.8 million to $197.0 million from $221.8 million in 2008, a decrease of 11.2%. The decrease in royalties is attributable to a combination of factors including a 14.4% decline in RevPAR partially offset by a 3.9% increase in the number of domestic franchised hotel rooms and an increase in the effective royalty rate of the domestic hotel system from 4.20% to 4.26%. System-wide RevPAR declined due to a 590 basis point decline in occupancy and a 4.1% decline in average daily rates.

A summary of the Company s domestic franchised hotels operating information for the years ending December 31 is as follows:

	2009*			2008*			Change		
	Average Daily Rate	Occupancy	RevPAR	Average Daily Rate	Occupancy	RevPAR	Average Daily Rate	Occupancy	RevPAR
Comfort Inn	**$ 77.10**	**54.1%**	**$ 41.74**	$ 79.84	60.1%	$ 48.01	(3.4)%	(600) bps	(13.1)%
Comfort Suites	**84.79**	**53.3%**	**45.17**	89.49	61.3%	54.82	(5.3)%	(800) bps	(17.6)%
Sleep	**69.64**	**51.5%**	**35.86**	71.91	58.5%	42.10	(3.2)%	(700) bps	(14.8)%
Midscale without Food & Beverage	**77.89**	**53.5%**	**41.69**	80.90	60.2%	48.66	(3.7)%	(670) bps	(14.3)%
Quality	**68.00**	**46.0%**	**31.31**	71.42	52.0%	37.15	(4.8)%	(600) bps	(15.7)%
Clarion	**77.79**	**42.2%**	**32.86**	84.48	50.0%	42.21	(7.9)%	(780) bps	(22.2)%
Midscale with Food & Beverage	**69.92**	**45.2%**	**31.63**	74.18	51.6%	38.26	(5.7)%	(640) bps	(17.3)%
Econo Lodge	**54.66**	**43.5%**	**23.78**	55.58	46.9%	26.05	(1.7)%	(340) bps	(8.7)%
Rodeway	**52.48**	**43.0%**	**22.54**	55.04	47.5%	26.16	(4.7)%	(450) bps	(13.8)%
Economy	**54.02**	**43.3%**	**23.41**	55.44	47.0%	26.08	(2.6)%	(370) bps	(10.2)%
MainStay	**70.55**	**57.9%**	**40.82**	73.72	64.2%	47.34	(4.3)%	(630) bps	(13.8)%
Suburban	**41.51**	**56.3%**	**23.35**	42.93	62.4%	26.80	(3.3)%	(610) bps	(12.9)%
Extended Stay	**49.81**	**56.7%**	**28.24**	51.14	62.9%	32.17	(2.6)%	(620) bps	(12.2)%
Total	**$ 71.06**	**49.4%**	**$ 35.09**	$ 74.11	55.3%	$ 40.98	(4.1)%	(590) bps	(14.4)%

* Operating statistics represent hotel operations from December through November and exclude Ascend Collection and Cambria Suites.
The number of domestic rooms on-line increased to 388,594 as of December 31, 2009 from 373,884 as of December 31, 2008, an increase of 3.9%. The total number of domestic hotels on-line grew 4.0% to 4,906 as of December 31, 2009 from 4,716 as of December 31, 2008.

Table of Contents

A summary of the domestic hotels and available rooms at December 31, 2009 and 2008 by brand is as follows:

	December 31, 2009		December 31, 2008		Variance			
	Hotels	Rooms	Hotels	Rooms	Hotels	%	Rooms	%
Comfort Inn	**1,447**	**113,633**	1,462	114,573	(15)	(1.0)%	(940)	(0.8)%
Comfort Suites	**608**	**47,301**	541	42,152	67	12.4%	5,149	12.2%
Sleep	**392**	**28,599**	365	26,867	27	7.4%	1,732	6.4%
Midscale without Food & Beverage	**2,447**	**189,533**	2,368	183,592	79	3.3%	5,941	3.2%
Quality	**979**	**89,336**	908	85,055	71	7.8%	4,281	5.0%
Clarion	**172**	**24,636**	150	21,497	22	14.7%	3,139	14.6%
Midscale with Food & Beverage	**1,151**	**113,972**	1,058	106,552	93	8.8%	7,420	7.0%
Econo Lodge	**792**	**48,996**	816	50,812	(24)	(2.9)%	(1,816)	(3.6)%
Rodeway	**372**	**21,392**	346	20,302	26	7.5%	1,090	5.4%
Economy	**1,164**	**70,388**	1,162	71,114	2	0.2%	(726)	(1.0)%
MainStay	**37**	**2,866**	35	2,694	2	5.7%	172	6.4%
Suburban	**61**	**7,416**	60	7,256	1	1.7%	160	2.2%
Extended Stay	**98**	**10,282**	95	9,950	3	3.2%	332	3.3%
Ascend Collection	**28**	**2,346**	21	1,353	7	33.3%	993	73.4%
Cambria Suites	**18**	**2,073**	12	1,323	6	50.0%	750	56.7%
Total Domestic Franchises	**4,906**	**388,594**	4,716	373,884	190	4.0%	14,710	3.9%

International available rooms increased to 98,816 as of December 31, 2009 from 98,642 as of December 31, 2008. The total number of international hotels on-line increased from 1,111 as of December 31, 2008 to 1,115 as of December 31, 2009.

As of December 31, 2009, the Company had 727 franchised hotels with 57,140 rooms under construction, awaiting conversion or approved for development in its domestic system as compared to 987 hotels and 78,915 rooms at December 31, 2008. The number of new construction franchised hotels in the Company s domestic pipeline declined 26% to 533 at December 31, 2009 from 723 at December 31, 2008. The number of conversion franchised hotels in the Company s domestic pipeline declined by 70 or 27% from December 31, 2008 to 194 hotels at December 31, 2009. The domestic system hotels under construction, awaiting conversion or approved for development declined 26% from the prior year primarily due to the opening of 442 franchised units during the year ended December 31, 2009 coupled with a 47% decline in the execution of new franchise agreements during the current year. The Company had an additional 116 franchised hotels with 9,445 rooms under construction, awaiting conversion or approved for development in its international system as of December 31, 2009 compared to 121 hotels and 10,190 rooms at December 31, 2008. While the Company s hotel pipeline provides a strong platform for growth, a hotel in the pipeline does not always result in an open and operating hotel due to various factors.

Table of Contents

A summary of the domestic franchised hotels under construction, awaiting conversion or approved for development at December 31, 2009 and 2008 by brand is as follows:

	December 31, 2009			December 31, 2008			Variance					
							Conversion		New Construction		Total	
	Conversion	New Construction	Total	Conversion	New Construction	Total	Units	%	Units	%	Units	%
Comfort Inn	**43**	**91**	**134**	51	125	176	(8)	(16)%	(34)	(27)%	(42)	(24)%
Comfort Suites		**181**	**181**	3	279	282	(3)	(100)%	(98)	(35)%	(101)	(36)%
Sleep	**1**	**122**	**123**	2	157	159	(1)	(50)%	(35)	(22)%	(36)	(23)%
Midscale without Food & Beverage	**44**	**394**	**438**	56	561	617	(12)	(21)%	(167)	(30)%	(179)	(29)%
Quality	**48**	**15**	**63**	69	14	83	(21)	(30)%	1	7%	(20)	(24