CHOICE HOTELS INTERNATIONAL INC /DE
Form 10-Q/A
November 03, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
Amendment No. 1

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED March 31, 2014
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
COMMISSION FILE NO. 001-13393

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

DELAWARE	52-1209792
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1 CHOICE HOTELS CIRCLE, SUITE 400
ROCKVILLE, MD 20850
(Address of principal executive offices)
(Zip Code)
(301) 592-5000
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o

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

CLASS	SHARES OUTSTANDING AT MARCH 31, 2014
Common Stock, Par Value $0.01 per share	58,419,238

EXPLANATORY NOTE

As described in Choice Hotels International, Inc's (the "Company") Current Report on Form 8-K filed on August 5, 2014 and Form 10-Q for the quarter ended June 30, 2014 filed on August 11, 2014, in connection with the preparation of the consolidated financial statements for the second quarter of 2014, the Company reviewed its accounting policies and practices, including the historical practice of reporting royalty and certain marketing and reservation fees one month in arrears as compared to when the gross room revenues (on which the fees are based) are earned by the Company's franchisees. The Company previously determined that the impact of the revenue recognition timing related to these revenues on its annual financial statements was not material and therefore reported these revenues one month in arrears despite the fact that these fees meet the definition of being earned and realizable in the same period that the underlying gross room revenues are earned by its franchisees. However, the Company reassessed the impact of reporting these revenues one month in arrears on interim periods and determined that this revenue recognition practice, which was not in accordance with generally accepted accounting principles in the United States of America ("GAAP"), was material to interim periods. Due to the seasonality of the Company's business, the impact of this change on previously reported interim revenues, operating income and earnings per share as reported in the Company's consolidated statements of income varies for individual past quarters and is generally positive in the first two quarters of the year and negative in the final two quarters of the year. As a result, the Company has corrected its revenue recognition method to recognize royalty and certain marketing and reservation system fees as revenue in the same period as the gross room revenues are earned by its franchisees.

This Form 10-Q/A amends the Company’s Quarterly Report on Form 10-Q for the three months ended March 31, 2014 and 2013 as originally filed with the Securities and Exchange Commission (the “SEC”) on May 8, 2014 (the "Original Filing"). This Form 10-Q/A amends the Original Filing to correct the Company’s accounting for the Company's historical practice of reporting royalty and certain marketing and reservation fees one month in arrears as described in Note 1 to the consolidated financial statements and other immaterial errors as well as to correct management's evaluation of disclosure controls and procedures as of March 31, 2014. Revisions to the Original Filing have been made to the following items solely as a result of and to reflect the restatements:

- Item 1 - Financial Statements
- Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations
- Item 4 - Controls and Procedures
- Item 6 - Exhibits

The Company has also determined that a control deficiency related to the recording revenues for certain royalty and marketing and reservations system fees one month in arrears, which gave rise to these restatements, constituted a material weakness in its internal controls over financial reporting. As a result, the Company has restated management's December 31, 2013 report on internal control over financial reporting and its conclusion on disclosure controls and procedures to address the material weakness in internal control over financial reporting. As a result of the restatement, management has concluded that our disclosure controls and procedures were not effective as of March 31, 2014. The Company plans to remediate this material weakness during the year ending December 31, 2014 by updating the revenue recognition practice to ensure the accounting for royalty and certain marketing and reservation system fees is in compliance with GAAP. The material weakness noted above cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. The required testing for remediation will occur prior the Company completing its assessment of internal controls for the year ending December 31, 2014. See "Item 4 - Controls and Procedures."

In accordance with applicable SEC rules, this Form 10-Q/A includes certifications from our Chief Executive Officer and Chief Financial Officer dated as of the date of this filing.

Except for the foregoing amended and restated information, no other changes have been made to the Original Form 10-Q. This Amendment continues to describe conditions as of the date of the Original Filing Date, and the disclosures contained herein have not been updated to reflect events, results or developments that have occurred after the Original Filing Date, or to modify or update those disclosures affected by subsequent events.

Accordingly, forward-looking statements included in this Form 10-Q/A represent management's views as of the Original Filing date and should not be assumed to be accurate as of any date thereafter. This Form 10-Q/A should be read in conjunction with the Company's other filings with the SEC, together with any amendments to those filings.

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CHOICE HOTELS INTERNATIONAL, INC. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended March 31, 2014 (Restated)	2013 (Restated)
REVENUES:		
Royalty fees	$58,540	$56,108
Initial franchise and relicensing fees	3,740	3,777
Procurement services	4,778	3,950
Marketing and reservation	89,606	82,323
Other	3,072	2,013
Total revenues	159,736	148,171
OPERATING EXPENSES:		
Selling, general and administrative	26,680	26,668
Depreciation and amortization	2,278	2,041
Marketing and reservation	89,606	82,323
Total operating expenses	118,564	111,032
Operating income	41,172	37,139
OTHER INCOME AND EXPENSES, NET:		
Interest expense	10,171	10,770
Interest income	(503)	(644)
Other (gains) and losses	(59)	(710)
Equity in net loss of affiliates	35	141
Total other income and expenses, net	9,644	9,557
Income from continuing operations before income taxes	31,528	27,582
Income taxes	10,059	7,806
Income from continuing operations, net of income taxes	21,469	19,776
Income (loss) from discontinued operations, net of income taxes	1,641	(33)
Net income	$23,110	$19,743
Basic earnings per share		
Continuing operations	$0.37	$0.34
Discontinued operations	0.03	—
	$0.40	$0.34
Diluted earnings per share		
Continuing operations	$0.36	$0.34
Discontinued operations	0.03	—
	$0.39	$0.34

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

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

	Three Months Ended March 31,	
	2014 (Restated)	2013 (Restated)
Net income	$23,110	$19,743
Other comprehensive income (loss), net of tax:		
Amortization of loss on cash flow hedge	215	215
Foreign currency translation adjustment	521	(245)
Other comprehensive income (loss), net of tax	736	(30)
Comprehensive income	$23,846	$19,713

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

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

	March 31, 2014 (Restated)	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$174,878	$167,795
Receivables (net of allowance for doubtful accounts of $13,853 and $12,187, respectively)	100,147	82,385
Deferred income taxes	28,422	26,684
Investments, employee benefit plans, at fair value	174	400
Other current assets	36,201	29,710
Total current assets	339,822	306,974
Property and equipment, at cost, net	58,268	67,852
Goodwill	65,813	65,813
Franchise rights and other identifiable intangibles, net	9,204	9,953
Advances, marketing and reservation activities	160	5,844
Notes receivable, net of allowances	34,223	31,872
Investments, employee benefit plans, at fair value	16,852	15,950
Other assets	55,253	52,164
Total assets	$579,595	$556,422
LIABILITIES AND SHAREHOLDERS’ DEFICIT		
Current liabilities		
Accounts payable	$44,818	$41,663
Accrued expenses	37,219	56,625
Deferred revenue	69,155	61,188
Current portion of long-term debt	11,026	10,088
Deferred compensation and retirement plan obligations	573	2,492
Income taxes payable	5,466	2,282
Total current liabilities	168,257	174,338
Long-term debt	795,497	783,471
Deferred compensation and retirement plan obligations	22,387	22,527
Deferred income taxes	9,196	5,149
Other liabilities	23,392	23,808
Total liabilities	1,018,729	1,009,293
Commitments and Contingencies		
Common stock, $0.01 par value, 160,000,000 shares authorized; 95,065,638 shares issued at March 31, 2014 and December 31, 2013 and 58,419,238 and 58,638,863 shares outstanding at March 31, 2014 and December 31, 2013, respectively	584	586
Additional paid-in-capital	118,020	117,768
Accumulated other comprehensive loss	(5,481)	(6,217)
Treasury stock (36,646,400 and 36,426,775 shares at March 31, 2014 and December 31, 2013, respectively), at cost	(917,226)	(918,031)
Retained earnings	364,969	353,023
Total shareholders’ deficit	(439,134)	(452,871)
Total liabilities and shareholders’ deficit	$579,595	$556,422

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

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

	Three Months Ended March 31,	
	2014 (Restated)	2013 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$23,110	$19,743
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,278	2,175
Gain on sale of assets	(2,572)	—
Provision for bad debts, net	1,399	1,046
Non-cash stock compensation and other charges	2,875	2,536
Non-cash interest and other (income) loss	416	76
Deferred income taxes	2,344	2,847
Dividends received from equity method investments	181	146
Equity in net loss of affiliates	35	141
Changes in assets and liabilities:		
Receivables	(19,931)	(15,015)
Advances to/from marketing and reservation activities, net	10,903	1,023
Forgivable notes receivable, net	(3,623)	(1,729)
Accounts payable	2,080	10,471
Accrued expenses	(19,861)	(31,145)
Income taxes payable/receivable	3,160	4,367
Deferred revenue	7,932	5,160
Other assets	(3,103)	(3,869)
Other liabilities	(2,359)	2,622
Net cash provided by operating activities	5,264	595
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in property and equipment	(3,015)	(14,095)
Equity method investments	(3,379)	(1,000)
Issuance of mezzanine and other notes receivable	(587)	—
Collections of mezzanine and other notes receivable	68	19
Purchases of investments, employee benefit plans	(890)	(1,242)
Proceeds from sales of investments, employee benefit plans	281	3,882
Proceeds from sales of assets	8,703	—
Other items, net	(154)	(101)
Net cash provided (used) in investing activities	1,027	(12,537)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings pursuant to revolving credit facility	15,000	18,000
Principal payments on long-term debt	(2,052)	(2,046)
Purchase of treasury stock	(4,530)	(3,634)
Dividends paid	(10,784)	(503)
Excess tax benefits from stock-based compensation	1,024	952
Proceeds from exercise of stock options	1,547	5,367
Net cash provided by financing activities	205	18,136
Net change in cash and cash equivalents	6,496	6,194
Effect of foreign exchange rate changes on cash and cash equivalents	587	(146)

Cash and cash equivalents at beginning of period	167,795	134,177
Cash and cash equivalents at end of period	$174,878	$140,225
Supplemental disclosure of cash flow information:		
Cash payments during the period for:		
Income taxes, net of refunds	$5,842	$1,029
Interest	$19,613	$20,400
Non-cash investing and financing activities:		
Dividends declared but not paid	$11,173	$10,759
Issuance of restricted shares of common stock	$6,062	$7,151
Issuance of performance vested restricted stock units	$1,191	$1,298
Investment in property and equipment acquired in accounts payable	$603	$10,356

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

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

1. Company Information and Significant Accounting Policies (as restated)

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

Certain information and footnote disclosures normally included in financial statements presented in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted. The Company believes the disclosures made are adequate to make the information presented not misleading.

The consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2013 and notes thereto included in the Company's Form 10-K/A, filed with the SEC on November 3, 2014 (the "10-K/A"). Interim results are not necessarily indicative of the entire year results. All inter-company transactions and balances between Choice Hotels International, Inc. and its subsidiaries have been eliminated in consolidation.

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

Revision to Prior Annual Financial Statements and Restatement of Prior Interim Financial Statements

In connection with the preparation of the consolidated financial statements for the second quarter of 2014, the Company reviewed its accounting policies and practices, including the historical practice of reporting royalty and certain marketing and reservation fees one month in arrears as compared to when the gross room revenues (on which the fees are based) are earned by the Company's franchisees. The Company previously determined that the impact of the revenue recognition timing related to these revenues on its annual financial statements was not material and therefore reported these revenues one month in arrears despite the fact that these fees meet the definition of being earned and realizable in the same period that the underlying gross room revenues are earned by its franchisees. However, the Company reassessed the impact of reporting these revenues one month in arrears on interim periods and determined that this revenue recognition practice, which was not in accordance with GAAP, was material to interim periods due to the seasonality of the Company's business. As a result, the Company has corrected its revenue recognition method to recognize royalty and certain marketing and reservation system fees as revenue in the same period as the gross room revenues are earned by its franchisees.

In accordance with Accounting Standards Codification ("ASC") 250 (SEC's Staff Accounting Bulletin 99, "Materiality"), the Company assessed the materiality of the misapplication of GAAP and concluded that the restatement of revenues was not material to any of its previously issued annual financial statements but was material to certain interim periods. In accordance with the accounting guidance in ASC 250 (SEC Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements"), the Company restated its previously issued interim financial statements for the periods ended March 31, 2014 and 2013 and September 30, 2013 and 2012 through the filing of amended quarterly filings on Form 10-Q. In addition, the Company has revised its previously issued audited financial statements for the years ended December 31, 2011, 2012, and 2013 to correct the presentation of revenues and amend its report on internal control over financial reporting.

The following tables present the effect of this and other immaterial errors for the financial statement line items impacted in the affected periods included within this interim financial statements.

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Consolidated Statements of Income

	Three Months Ended March 31, 2014			Three Months Ended March 31, 2013		
	As Previously Reported	Adjustment	As Restated	As Previously Reported	Adjustment	As Restated
	(in thousands, except per share amounts)					
Royalty fees	$51,681	$6,859	$58,540	$49,736	$6,372	$56,108
Marketing and reservation revenues	84,012	5,594	89,606	76,440	5,883	82,323
Total revenues	147,283	12,453	159,736	135,916	12,255	148,171
Selling, general and administrative	26,463	217	26,680	26,916	(248)	26,668
Depreciation and amortization	2,122	156	2,278	2,041	—	2,041
Marketing and reservation expenses	84,012	5,594	89,606	76,440	5,883	82,323
Total operating expenses	112,597	5,967	118,564	105,397	5,635	111,032
Operating income	34,686	6,486	41,172	30,519	6,620	37,139
Income from continuing operations before income taxes	25,042	6,486	31,528	20,962	6,620	27,582
Income taxes	7,711	2,348	10,059	5,406	2,400	7,806
Income from continuing operations, net of income taxes	17,331	4,138	21,469	15,556	4,220	19,776
Basic earnings per share, continuing operations	$0.30	$0.07	$0.37	$0.27	$0.07	$0.34
Diluted earnings per share, continuing operations	$0.29	$0.07	$0.36	$0.26	$0.08	$0.34

Consolidated Statements of Cash Flows	Three Months Ended March 31, 2014			Three Months Ended March 31, 2013		
	As Previously Reported	Adjustment	As Restated	As Previously Reported	Adjustment	As Restated
	(in thousands)					
Operating Activities:						
Net income	$18,972	$4,138	$23,110	$15,523	$4,220	$19,743
Depreciation and amortization	2,122	156	2,278	2,175	—	2,175
Provision for bad debts, net	1,182	217	1,399	844	202	1,046
Non-cash stock compensation and other charges	2,887	(12)	2,875	2,549	(13)	2,536
Deferred income taxes	(3)	2,347	2,344	446	2,401	2,847
Receivables	(7,491)	(12,440)	(19,931)	(3,531)	(11,484)	(15,015)
Advances to/from marketing and reservation, activities	5,309	5,594	10,903	(4,101)	5,124	1,023
Net cash provided by operating activities	5,264	—	5,264	145	450	595
Investing Activities:						
Investment in property and equipment	(3,015)	—	(3,015)	(13,645)	(450)	(14,095)
	1,027	—	1,027	(12,087)	(450)	(12,537)

Net cash provided (used) by
investing activities

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	As of March 31, 2014			As of December 31, 2013		
	As Previously Reported	Adjustment	As Restated	As Previously Reported	Adjustment	As Revised
Consolidated Balance Sheets	(in thousands)					
Receivables	$59,241	$40,906	$100,147	$53,521	$28,864	$82,385
Deferred income taxes	7,220	21,202	28,422	7,220	19,464	26,684
Total current assets	277,714	62,108	339,822	258,646	48,328	306,974
Property and equipment, at cost, net	56,664	1,604	58,268	66,092	1,760	67,852
Advances, marketing and reservation activities	18,856	(18,696)	160	19,127	(13,283)	5,844
Deferred income taxes	20,321	(20,321)	—	20,282	(20,282)	—
Total assets	554,900	24,695	579,595	539,899	16,523	556,422
Deferred income taxes	—	9,196	9,196	—	5,149	5,149
Total liabilities	1,009,533	9,196	1,018,729	1,004,144	5,149	1,009,293
Accumulated other comprehensive loss	(5,469)	(12)	(5,481)	(6,217)	—	(6,217)
Retained earnings	349,458	15,511	364,969	341,649	11,374	353,023
Total shareholders' deficit	(454,633)	15,499	(439,134)	(464,245)	11,374	(452,871)

Discontinued Operations

In the first quarter of 2014, the Company's management approved a plan to dispose of the three Company owned Mainstay Suites hotels. As a result, the Company has reported the operations related to these three hotels as discontinued operations beginning with our financial results presented in this Quarterly Report on Form 10-Q. The Company's results of operations for the comparative prior year period have also been recast to account for these operations as discontinued. For additional information regarding discontinued operations, see Note 17, Discontinued Operations.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less at the date of purchase to be cash equivalents. As of March 31, 2014 and December 31, 2013, $6.1 million and $5.0 million, respectively, of book overdrafts representing outstanding checks in excess of funds on deposit are included in accounts payable in the accompanying consolidated balance sheets.

The Company maintains cash balances in domestic banks, which at times, may exceed the limits of amounts insured by the Federal Deposit Insurance Corporation. In addition, as of March 31, 2014, the Company maintains cash balances of $164.2 million in international banks which do not provide deposit insurance.

Recently Adopted Accounting Guidance

In February 2013, the Financial Accounting Standards Board ("FASB") issued ASU No. 2013-04, "Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date" ("ASU 2013-04"). The ASU requires entities to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of the following: (a) The amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and (b) any additional amount the reporting entity expects to pay on behalf of its co-obligors. Required disclosures include a description of the joint-and-several arrangement and the total outstanding amount of the obligation for all joint parties. The ASU permits entities to aggregate disclosures (as opposed to providing separate disclosures for each joint-and-several obligation). ASU 2013-04 was effective for all interim and annual periods beginning after December 15, 2013. The Company has adopted this ASU on January 1, 2014 and the adoption of this ASU did not have a material impact on its financial statements.

In March 2013, the FASB issued ASU No. 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity" ("ASU 2013-05"). ASU 2013-05 clarifies that when a reporting entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity, the parent is required to apply the guidance in ASC 830 "Foreign Currency Matters" Subtopic 830-30 to release any related cumulative translation adjustment into

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net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The provisions of ASU 2013-05 are effective prospectively for reporting periods beginning after December 15, 2013 and the Company has adopted this ASU on January 1, 2014. The adoption of this ASU does not have a material impact on the Company's financial statements.

In July 2013, the FASB issued ASU No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" ("ASU 2013-11"). ASU 2013-11 requires an entity to present an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss ("NOL") carryforward, or similar tax loss or tax credit carryforward, rather than as a liability when (1) the uncertain tax position would reduce the NOL or other carryforward under the tax law of the applicable jurisdiction and (2) the entity intends to use the deferred tax asset for that purpose. The ASU does not require new recurring disclosures. The provisions of ASU 2013-11 are effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company adopted this ASU on January 1, 2014 and the adoption of this ASU did not have a material impact on its financial statements.

Future Adoption of Recently Announced Accounting Guidance

In April 2014, the FASB issued ASU No. 2014-08, "Presentation of Financial Statements and Property, Plant, and Equipment: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" ("ASU 2014-08"). ASU 2014-08 changes the definition of a discontinued operation to include only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. ASU 2014-08 is effective for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. The Company is currently evaluating what impact, if any, the adoption of this ASU will have on the presentation of its consolidated financial statements.

2. Other Current Assets

Other current assets consist of the following:

	March 31, 2014	December 31, 2013
	(In thousands)	
Notes receivable, net of allowances (See Note 3)	$13,312	$12,816
Prepaid expenses	16,560	13,746
Assets held for sale	3,166	—
Other current assets	3,163	3,148
Total	$36,201	$29,710

Assets held for sale at March 31, 2014 represent a Company-owned MainStay Suites hotel located in Greenville, South Carolina and an office building located in Grand Junction, Colorado. The Company entered into a plan to dispose of these assets on January 1, 2014 and therefore has recorded these assets as held for sale. The Company expects to complete the sales of these properties within one year.

3. Notes Receivable and Allowance for Losses

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

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

	March 31, 2014 (In thousands)			December 31, 2013 (In thousands)		
Credit Quality Indicator	Forgivable Notes Receivable	Mezzanine & Other Notes Receivable	Total	Forgivable Notes Receivable	Mezzanine & Other Notes Receivable	Total
Senior	$—	$18,101	$18,101	$—	$18,052	$18,052
Subordinated	—	14,745	14,745	—	14,152	14,152
Unsecured	23,341	3,363	26,704	20,625	3,405	24,030
Total notes receivable	23,341	36,209	59,550	20,625	35,609	56,234
Allowance for losses on non-impaired loans	2,079	1,587	3,666	1,650	1,607	3,257
Allowance for losses on receivables specifically evaluated for impairment	—	8,349	8,349	—	8,289	8,289
Total loan reserves	2,079	9,936	12,015	1,650	9,896	11,546
Net carrying value	$21,262	$26,273	$47,535	$18,975	$25,713	$44,688
Current portion, net	$221	$13,091	$13,312	$361	$12,455	$12,816
Long-term portion, net	21,041	13,182	34,223	18,614	13,258	31,872
Total	$21,262	$26,273				