CHOICE HOTELS INTERNATIONAL INC /DE
Form 10-Q
August 04, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED June 30, 2017
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, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

Act. 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 JUNE 30, 2017
Common Stock, Par Value $0.01 per share	56,496,652

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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		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
REVENUES:				
Royalty fees	$92,486	$86,195	$161,475	$151,054
Initial franchise and relicensing fees	6,981	5,706	11,987	10,862
Procurement services	11,068	10,308	17,544	16,104
Marketing and reservation system	158,035	133,814	267,510	260,175
Other	8,229	5,728	16,181	10,674
Total revenues	276,799	241,751	474,697	448,869
OPERATING EXPENSES:				
Selling, general and administrative	38,208	40,039	71,054	75,158
Depreciation and amortization	3,050	2,956	6,120	5,721
Marketing and reservation system	158,035	133,814	267,510	260,175
Total operating expenses	199,293	176,809	344,684	341,054
Operating income	77,506	64,942	130,013	107,815
OTHER INCOME AND EXPENSES, NET:				
Interest expense	11,280	11,224	22,485	22,316
Interest income	(1,438)	(827)	(2,702)	(1,666)
Other (gains) losses	(576)	(321)	(1,473)	(259)
Equity in net (income) loss of affiliates	859	(744)	2,939	1,436
Total other income and expenses, net	10,125	9,332	21,249	21,827
Income before income taxes	67,381	55,610	108,764	85,988
Income taxes	22,386	16,788	35,025	26,003
Net income	$44,995	$38,822	$73,739	$59,985
Basic earnings per share	$0.80	$0.69	$1.31	$1.06
Diluted earnings per share	$0.79	$0.68	$1.30	$1.06
Cash dividends declared per share	$0.215	$0.205	$0.43	$0.41

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$44,995	$38,822	$73,739	$59,985
Other comprehensive income, net of tax:				
Amortization of loss on cash flow hedge	216	216	431	431
Foreign currency translation adjustment	1,423	(629)	1,991	899
Other comprehensive income (loss), net of tax	1,639	(413)	2,422	1,330
Comprehensive income	$46,634	$38,409	$76,161	$61,315

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

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

	June 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$197,957	$ 202,463
Receivables (net of allowance for doubtful accounts of $9,945 and $8,557, respectively)	146,653	107,336
Income taxes receivable	59	316
Notes receivable, net of allowance	10,362	7,873
Other current assets	25,196	26,885
Total current assets	380,227	344,873
Property and equipment, at cost, net	83,134	84,061
Goodwill	80,036	78,905
Intangible assets, net	15,101	15,738
Notes receivable, net of allowances	132,004	110,608
Investments, employee benefit plans, at fair value	19,451	16,975
Investments in unconsolidated entities	131,722	94,839
Deferred income taxes	54,030	52,812
Other assets	52,268	53,657
Total assets	$947,973	$ 852,468
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	$67,736	$ 48,071
Accrued expenses and other current liabilities	65,837	80,388
Deferred revenue	135,350	133,218
Current portion of long-term debt	1,302	1,195
Income taxes payable	6,136	796
Total current liabilities	276,361	263,668
Long-term debt	862,965	839,409
Deferred compensation and retirement plan obligations	23,927	21,595
Deferred income taxes	—	292
Other liabilities	37,337	38,853
Total liabilities	1,200,590	1,163,817
Commitments and Contingencies		
Common stock, $0.01 par value, 160,000,000 shares authorized; 95,065,638 shares issued at June 30, 2017 and December 31, 2016 and 56,496,652 and 56,299,949 shares outstanding at June 30, 2017 and December 31, 2016, respectively	951	951
Additional paid-in-capital	164,812	159,045
Accumulated other comprehensive loss	(6,100)	(8,522)
Treasury stock (38,568,986 and 38,765,689 shares at June 30, 2017 and December 31, 2016, respectively), at cost	(1,069,241)	(1,070,383)
Retained earnings	656,961	607,560
Total shareholders' deficit	(252,617)	(311,349)
Total liabilities and shareholders' deficit	$947,973	$ 852,468

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

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

	Six Months Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$73,739	$59,985
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,120	5,721
Loss on disposal of assets	4	7
Provision for bad debts, net	916	962
Non-cash stock compensation and other charges	6,809	7,966
Non-cash interest and other (income) loss	(274)	958
Deferred income taxes	(1,446)	4,030
Equity in net losses from unconsolidated joint ventures, less distributions received	3,543	2,193
Changes in assets and liabilities:		
Receivables	(40,673)	(39,058)
Advances to/from marketing and reservation system activities, net	17,407	(42,671)
Forgivable notes receivable, net	(14,108)	(13,174)
Accounts payable	18,955	10,567
Accrued expenses and other current liabilities	(11,286)	(8,842)
Income taxes payable/receivable	5,629	10,463
Deferred revenue	2,061	42,164
Other assets	(1,764)	(10,834)
Other liabilities	(1,524)	(2,576)
Net cash provided by operating activities	64,108	27,861
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in property and equipment	(10,687)	(10,912)
Investment in intangible assets	(2,228)	(322)
Proceeds from sales of assets	—	1,700
Acquisitions of real estate	—	(25,389)
Contributions to equity method investments	(42,127)	(19,688)
Distributions from equity method investments	1,696	3,619
Purchases of investments, employee benefit plans	(1,736)	(1,140)
Proceeds from sales of investments, employee benefit plans	2,094	1,136
Issuance of mezzanine and other notes receivable	(14,977)	(13,048)
Collections of mezzanine and other notes receivable	552	10,158
Other items, net	110	11
Net cash used by investing activities	(67,303)	(53,875)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings pursuant to revolving credit facilities	23,200	87,950
Principal payments on long-term debt	(309)	(623)
Purchases of treasury stock	(7,414)	(28,278)
Dividends paid	(24,333)	(23,193)
Proceeds from exercise of stock options	6,590	4,234
Net cash provided (used) by financing activities	(2,266)	40,090
Net change in cash and cash equivalents	(5,461)	14,076
Effect of foreign exchange rate changes on cash and cash equivalents	955	371

Cash and cash equivalents at beginning of period	202,463	193,441
Cash and cash equivalents at end of period	$197,957	$207,888
Supplemental disclosure of cash flow information:		
Cash payments during the period for:		
Income taxes, net of refunds	$30,813	$12,500
Interest, net of capitalized interest	$21,206	$21,035
Non-cash investing and financing activities:		
Dividends declared but not paid	$12,133	$11,498
Investment in property and equipment acquired in accounts payable	$895	$674
Non-cash sale of investment of unconsolidated joint venture	$—	$2,350

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

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

1. Company Information and Significant Accounting Policies

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

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

The consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2016 and notes thereto included in the Company's Annual Report on Form 10-K, filed with the SEC on February 27, 2017 (the "10-K"). Interim results are not necessarily indicative of the entire year results. All inter-company transactions and balances between Choice Hotels International, Inc. and its subsidiaries have been eliminated in consolidation.

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

Recently Adopted Accounting Guidance

In October 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-17, Consolidation (Topic 810) - Interests Held through Related Parties That Are under Common Control ("ASU No. 2016-17"). ASU No. 2016-17 alters the primary beneficiary assessment a reporting entity must perform as part of consolidation analysis to determine whether it should consolidate certain types of legal entities. Under legacy GAAP, indirect interests held through related parties under common control were to be considered in their entirety by the reporting entity in performing the primary beneficiary assessment. ASU No. 2016-17 revises the guidance such that indirect interests held through related parties under common control are considered on a proportionate basis in performing the primary beneficiary assessment. The Company adopted this ASU on January 1, 2017, and it did not have an impact on the Company's consolidated financial statements.

Future Adoption of Recently Announced Accounting Guidance

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

determined the method of adoption. The Company's evaluation is still preliminary for all areas below.
The Company has determined royalties earned in exchange for a license to brand intellectual property on franchise agreements will be recognized in revenue over time typically after the occurrence of a completed stay, which is consistent with current practice. We are continuing to evaluate the services we provide as part of the franchise agreement, including the Choice Privileges loyalty program and other programs we operate as part of the marketing and reservation system, to determine if they

are distinct from the license to brand intellectual property and thus represent separate performance obligations. We do not expect significant changes to the pattern of revenue recognition regardless of these determinations.

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

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

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

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

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

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

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

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

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment ("ASU No. 2017-04"). ASU 2017-04 eliminates the two-step process that required identification of

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potential impairment and a separate measure of the actual impairment. The annual assessment of goodwill impairment will be determined by using the difference between the carrying amount and the fair value of the reporting unit. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The Company is currently assessing the potential impact that ASU No. 2017-04 will have on the financial statements and disclosures.

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

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation: Scope of Modification Accounting, which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award changes as a result of the change in terms or conditions. ASU 2017-09 will be applied prospectively to awards modified on or after the adoption date. The standard is effective for the Company’s financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of this ASU will have on the financial statements and disclosures.

2. Other Current Assets

Other current assets consist of the following:

	June 30, 2017	December 31, 2016
	(in thousands)	
Prepaid expenses	$22,709	$ 22,210
Other current assets	2,487	4,675
Total	$25,196	$ 26,885

3. Notes Receivable and Allowance for Losses

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

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

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

Credit Quality Indicator	June 30, 2017 (in thousands) Forgivable Notes Receivable	Mezzanine & Other Notes Receivable	Total	December 31, 2016 (in thousands) Forgivable Notes Receivable	Mezzanine & Other Notes Receivable	Total
Senior	$—	$ 70,409	$70,409	$—	$ 61,482	$61,482
Subordinated	—	14,813	14,813	—	9,336	9,336
Unsecured	61,915	3,543	65,458	51,475	3,618	55,093
Total notes receivable	61,915	88,765	150,680	51,475	74,436	125,911
Allowance for losses on non-impaired loans	5,897	770	6,667	5,013	770	5,783
Allowance for losses on receivables specifically evaluated for impairment	—	1,647	1,647	—	1,647	1,647
Total loan reserves	5,897	2,417	8,314	5,013	2,417	7,430
Net carrying value	$56,018	$ 86,348	$142,366	$46,462	$ 72,019	$118,481
Current portion, net	$369	$ 9,993	$10,362	$333	$ 7,540	$7,873
Long-term portion, net	55,649	76,355	132,004	46,129	64,479	110,608
Total	$56,018	$ 86,348	$142,366	$46,462	$ 72,019	$118,481

The following table summarizes the activity related to the Company’s Forgivable Notes Receivable and Mezzanine and Other Notes Receivable allowance for losses for the six months ended June 30, 2017:

	Forgivable Notes Receivable	Mezzanine & Other Notes Receivable
	(in thousands)	
Beginning balance	$5,013	$ 2,417
Provisions	1,326	—
Recoveries	(135)	—
Write-offs	(24)	—
Other[1]	(283)	—
Ending balance	$5,897	$ 2,417

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

Variable Interest through Notes Issued

The Company has issued mezzanine and other notes receivables to certain entities that have created variable interests in these borrowers totaling $33.5 million as of June 30, 2017. The Company has determined that it is not the primary beneficiary of these variable interest entities. Each of these loans have stated fixed and/or variable interest amounts. The Company has identified loans totaling approximately $2.1 million with stated interest rates that are less than market rate, representing a total discount of $0.1 million. These discounts are reflected as a reduction of the outstanding loan amounts and are amortized over the life of the related loan.

Forgivable Notes Receivable

As of June 30, 2017 and December 31, 2016, the unamortized balance of the Company's forgivable notes receivable totaled $61.9 million and $51.5 million, respectively. The Company recorded an allowance for credit losses on these forgivable notes receivable of $5.9 million and $5.0 million at June 30, 2017 and December 31, 2016, respectively.

Amortization expense

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included in the accompanying consolidated statements of income related to the notes for the three months ended June 30, 2017 and 2016 was $2.4 million and $2.2 million, respectively. Amortization expense included in the accompanying consolidated statements of income related to the notes for the six months ended June 30, 2017 and 2016 was $4.9 million and $4.4 million, respectively.

Past due balances of forgivable notes receivable are as follows:

	30-89 Past Due	> 90 days Past Due	Total Past Due	Current	Total Notes Receivable
	(in thousands)				
As of June 30, 2017					
Forgivable Notes	$17	$1,744	$1,761	$60,154	$ 61,915
	$17	$1,744	$1,761	$60,154	$ 61,915
As of December 31, 2016					
Forgivable Notes	$116	$1,349	$1,465	$50,010	$ 51,475
	$116	$1,349	$1,465	$50,010	$ 51,475

Mezzanine and Other Notes Receivable

The Company determined that approximately $1.8 million and $1.9 million of its subordinated mezzanine and other notes receivable were impaired at June 30, 2017 and December 31, 2016, respectively, and recorded allowance for credit losses on these impaired loans totaling $1.6 million at both June 30, 2017 and December 31, 2016. The average mezzanine and other notes receivable on non-accrual status was approximately $1.9 million and $0.8 million for the six months ended June 30, 2017 and 2016, respectively. The Company recognizes interest income for impaired loans on a cash basis. Approximately $44 thousand and $43 thousand of interest income on impaired loans was recognized during the six months ended June 30, 2017, and 2016, respectively. The Company provided loan reserves on non-impaired loans totaling $0.8 million at June 30, 2017 and December 31, 2016.

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

	30-89 Past Due	> 90 days Past Due	Total Past Due	Current	Total Notes Receivable
	(in thousands)				
As of June 30, 2017					
Senior	$—	$—	$—	$70,409	$ 70,409
Subordinated	—	—	—	14,813	14,813
Unsecured	—	—	—	3,543	3,543
	$—	$—	$—	$88,765	$ 88,765
As of December 31, 2016					
Senior	$—	$—	$—	$61,482	$ 61,482
Subordinated	—	—	—	9,336	9,336
Unsecured	—	—	—	3,618	3,618
	$—	$—	$—	$74,436	$ 74,436

4. Marketing and Reservation Activities

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

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result, expenditures by the Company in support of marketing and reservation services in excess of available revenues are deferred and recorded as an asset in the Company's financial statements. Conversely, cumulative marketing and reservation system fees not expended in the current period are deferred and recorded as a liability in the financial statements and are carried over to the next fiscal year and expended in accordance with the franchise agreements or utilized to reimburse the Company for prior year advances.
Under the terms of these agreements, the Company has the contractually enforceable right to assess and collect from its current franchisees, fees sufficient to pay for the marketing and reservation services the Company has procured for the benefit of the franchise system, including fees to reimburse the Company for past services rendered. The Company has the contractual authority to require that the franchisees in the system at any given point repay any deficits related to marketing and reservation activities. The Company's current franchisees are contractually obligated to pay any assessment the Company imposes on its franchisees to obtain reimbursement of such deficit regardless of whether those constituents continue to generate gross room revenue and whether or not they joined the system following the deficit's occurrence.
At June 30, 2017 and December 31, 2016, cumulative marketing and reservation system costs exceeded cumulative marketing and reservation system revenues earned by $14.5 million and $18.1 million, respectively, with the excess reflected as a long-term asset in the accompanying consolidated balance sheet. Depreciation and amortization expense attributable to marketing and reservation activities for the three and six months ended June 30, 2017 was $5.9 million and $12.3 million, respectively. Depreciation and amortization expense attributable to marketing and reservation activities for the three and six months ended June 30, 2016 was $6.5 million and $12.4 million, respectively. Interest expense attributable to marketing and reservation activities was $1 thousand for the three and six months ended June 30, 2017. Interest expense attributable to marketing and reservation activities were $2 thousand and $5 thousand for the three and six months ended June 30, 2016.

5. Other Assets

Other assets consist of the following:

	June 30, 2017	December 31, 2016
	(in thousands)	
Land and buildings	$29,027	$ 29,023
Advances to marketing and reservation system activities (Note 4)	14,532	18,069
Other assets	8,709	6,565
Total	$52,268	$ 53,657

Land and buildings

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

6. Investments in Unconsolidated Entities

The Company maintains a portfolio of investments owned through noncontrolling interest in equity method investments with one or more partners. Investments in unconsolidated entities include investments in joint ventures totaling $128.4 million and $91.9 million at June 30, 2017 and December 31, 2016, respectively, that the Company determined to be variable interest entities ("VIEs"). These investments relate to the Company's program to offer equity support to qualified franchisees to develop and operate Cambria hotel & suites hotels in strategic markets. Based on an analysis of who has the power to direct the activities that most significantly impact these entities performance and who has an obligation to absorb losses of these entities or a right to receive benefits from these entities that could potentially be significant to the entity, the Company determined that it is not the primary beneficiary of any of its VIEs. The Company based its qualitative analysis on its review of the design of the entity, its organizational structure including decision-making ability and the relevant development, operating management and financial agreements. Although the Company is not the primary beneficiary of these VIEs, it does exercise significant influence through its equity ownership and as a result the Company's investment in these entities is accounted for under the equity method. For the three months ended June 30, 2017 and 2016, the Company recognized (income) losses totaling $1.4 million and $(0.5) million, respectively, from these investments. For the six months ended June 30, 2017 and 2016, the Company recognized losses totaling $3.9 million and $2.0 million, respectively, from these investments. The Company's

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maximum exposure to losses related to its investments in VIEs is limited to its equity investments as well as certain guarantees described in Note 17 "Commitments and Contingencies" of these financial statements.

7. Deferred Revenue

Deferred revenue consists of the following:

	June 30, 2017	December 31, 2016
	(in thousands)	
Loyalty programs	$ 121,222	$ 115,851
Initial, relicensing and franchise fees	7,732	9,352
Procurement service fees	6,207	7,668
Other	189	347
Total	$ 135,350	$ 133,218

8. Debt

Debt consists of the following:

	June 30, 2017	December 31, 2016
	(in thousands)	
$400 million senior unsecured notes with an effective interest rate of 6.0% less deferred issuance costs of $4.3 million and $4.7 million at June 30, 2017 and December 31, 2016, respectively	$ 395,681	$ 395,316
$250 million senior unsecured notes with an effective interest rate of 6.19%, less a discount and deferred issuance costs of $1.0 million and $1.1 million at June 30, 2017 and December 31, 2016, respectively	249,029	248,875
$450 million senior unsecured credit facility with an effective interest rate of 2.51% and 2.23%, less deferred issuance costs of $2.4 million and $2.6 million at June 30, 2017 and December 31, 2016, respectively	205,847	182,359
Fixed rate collateralized mortgage with an effective interest rate of 4.57%, plus a fair value adjustment of $0.6 million and $0.7 million at June 30, 2017 and December 31, 2016, respectively	9,119	9,432
Economic development loans with an effective interest rate of 3.0% at June 30, 2017 and December 31, 2016	3,712	3,712
Other notes payable	879	910
Total debt	$ 864,267	$ 840,604
Less current portion	1,302	1,195
Total long-term debt	$ 862,965	$ 839,409

Senior Unsecured Notes Due 2022

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

Senior Unsecured Notes Due 2020

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

Senior Notes will mature on August 28, 2020, with interest to be paid semi-annually on February 28th and August 28th. The Company used the net proceeds from the offering, after deducting underwriting discounts and other offering expenses, to repay outstanding

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borrowings and for other general corporate purposes. The Company's 2010 Senior Notes are guaranteed jointly, severally, fully and unconditionally, subject to certain customary limitations by certain of the Company’s domestic subsidiaries.

Revolving Credit Facilities

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

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

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

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

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

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

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

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

The Credit Agreement includes customary events of default, the occurrence of which, following any applicable cure period, would permit the lenders to, among other things, declare the principal, accrued interest and other obligations of the Company under the Credit Agreement to be immediately due and payable. At June 30, 2017, the Company was in compliance with all financial covenants under the Credit Agreement.

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

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

Economic Development Loans

The Company entered into economic development agreements with various governmental entities in conjunction with the relocation of its corporate headquarters in April 2013. In accordance with these agreements, the governmental entities agreed to advance approximately $4.4 million to the Company to offset a portion of the corporate headquarters relocation and tenant improvement costs in consideration of the employment of permanent, full-time employees within the jurisdictions. At June 30, 2017, the Company had been advanced approximately $3.7 million pursuant to these agreements and expects to receive the remaining $0.7 million over the next several years, subject to annual appropriations by the governmental entities. These advances bear interest at a rate of 3% per annum.

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

9. Accumulated Other Comprehensive Loss

The following represents the changes in accumulated other comprehensive loss, net of tax, by component for the six months ended June 30, 2017:

	Loss on Cash Flow Hedge	Foreign Currency Items	Total
	(in thousands)		
Beginning balance, December 31, 2016	$(3,160)	$(5,362)	$(8,522)
Other comprehensive income before reclassification	—	1,991	1,991
Amounts reclassified from accumulated other comprehensive loss	431	—	431
Net current period other comprehensive income	431	1,991	2,422
Ending balance, June 30, 2017	$(2,729)	$(3,371)	$(6,100)

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The amounts reclassified from accumulated other comprehensive loss during the three and six months ended June 30, 2017 were reclassified to the following line items in the Company's Consolidated Statements of Income.

Component	Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item in the Consolidated Statement of Income
	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017	
	(in thousands)		
Loss on cash flow hedge			
Interest rate contract	$ 216	$ 431	Interest expense
	—	—	Tax (expense) benefit
	$ 216	$ 431	Net of tax

10. Non-Qualified Retirement, Savings and Investment Plans

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

In 2002, the Company adopted the Choice Hotels International, Inc. Executive Deferred Compensation Plan ("EDCP"), which became effective January 1, 2003. Under the EDCP, certain executive officers may defer a portion of their salary into an irrevocable trust and invest these amounts in a selection of available diversified investment options. In 1997, the Company adopted the Choice Hotels International, Inc. Non-Qualified Retirement Savings and Investment Plan ("Non-Qualified Plan"). The Non-Qualified Plan allows certain employees who do not participate in the EDCP to defer a portion of their salary and invest these amounts in a selection of available diversified investment options. Under the EDCP and Non-Qualified Plan, (together, the "Deferred Compensation Plan"), the Company recorded current and long-term deferred compensation liabilities of $24.7 million at both June 30, 2017 and December 31, 2016, respectively, related to these deferrals and credited investment return under these two deferred compensation plans. Compensation expense is recorded in selling, general and administrative ("SG&A") expense on the Company's consolidated statements of income based on the change in the deferred compensation obligation related to earnings credited to participants as well as changes in the fair value of diversified investments. The net increase in compensation expense recorded in SG&A expense for the three months ended June 30, 2017 and 2016 was $0.7 million and $0.5 million, respectively. The net increase in compensation expense recorded in SG&A expense for the six months ended June 30, 2017 and 2016 was $1.7 million and $0.6 million, respectively.

Under the Deferred Compensation Plan, the Company has invested the employee salary deferrals in diversified long-term investments which are intended to provide investment returns that offset the earnings credited to the participants. The diversified investments held in the trusts totaled $20.3 million and $19.1 million as of June 30, 2017 and December 31, 2016, respectively, and are recorded at their fair value, based on quoted market prices. At June 30, 2017, the Company expects $0.8 million of the assets held in the trust to be distributed during the next twelve months to participants. These investments are considered trading securities and therefore the changes in the fair value of the diversified assets are included in other gains and losses in the accompanying consolidated statements of income. The Company recorded investment gains during the three months ended June 30, 2017 and 2016 of approximately $0.6 million and $0.3 million, respectively. The Company recorded investment gains during the six months ended June 30, 2017 and 2016 of approximately $1.5 million and $0.3 million, respectively.

11. Fair Value Measurements

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

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

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Level 2: Observable inputs, other than quoted prices in active markets for identical assets and liabilities, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable. The Company’s Level 2 assets consist of money market funds held in the Company's Deferred Compensation Plan and those recorded in cash and cash equivalents.
Level 3: Unobservable inputs, supported by little or no market data available, where the reporting entity is required to develop its own assumptions to determine the fair value of the instrument. The Company does not currently have any assets whose fair value was determined using Level 3 inputs.

The Company's policy is to recognize transfers in and transfers out of the three levels of the fair value hierarchy as of the end of each quarterly reporting period. There were no transfers between Level 1, 2 and 3 assets during the three and six months ended June 30, 2017.
As of June 30, 2017 and December 31, 2016, the Company had the following assets measured at fair value on a recurring basis:

	Fair Value Measurements at Reporting Date Using			
	Total	Level 1	Level 2	Level 3
Assets	(in thousands)			
As of June 30, 2017				
Money market funds, included in cash and cash equivalents	$50,177	$—	$50,177	$ —
Mutual funds[(1)]	18,619	18,619	—	—
Money market funds[(1)]	1,635	—	1,635	—
	$70,431	$18,619	$51,812	$ —
As of December 31, 2016				
Money market funds, included in cash and cash equivalents	$50,085	$—	$50,085	$ —
Mutual funds[(1)]	17,468	17,468	—	—
Money market funds[(1)]	1,676	—	1,676	—
	$69,229	$17,468	$51,761	$ —

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

Other Financial Instruments
The Company believes that the fair value of its current assets and current liabilities approximate their reported carrying amounts due to the short-term nature of these items. In addition, the interest rates of the Company's Credit Facility adjust frequently based on current market rates; accordingly its carrying amount approximates fair value.
The Company estimates the fair value of notes receivable, which approximate their carrying value, utilizing an analysis of future cash flows and credit worthiness for similar types of arrangements. Based upon the availability of market data, the notes receivable have been classified as Level 3 inputs. The primary sensitivity in these calculations is based on the selection of appropriate interest and discount rates. For further information on the notes receivables, see Note 3.
The fair values of the Company's $250 million and $400 million senior notes are classified as Level 2 as the significant inputs are observable in an active market. At June 30, 2017 and December 31, 2016, the $250 million senior notes had an approximate fair value of $272.6 million and $273.0 million, respectively. At June 30, 2017 and December 31, 2016, the $400 million senior notes had an approximate fair value of $445.1 million and $430.4 million, respectively.

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

12. Income Taxes

The effective income tax rates were 33.2% and 30.2% for the three months ended June 30, 2017 and 2016, respectively. The effective income tax rates were 32.2% and 30.2% for the six months ended June 30, 2017 and 2016, respectively.

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The effective income tax rates for the three and six months ended June 30, 2017 and 2016 were lower than the U.S. federal income tax rate of 35% due the impact of foreign operations and ASU 2016-09 benefits from share-based compensation, partially offset by state income taxes.

13. Share-Based Compensation and Capital Stock

Stock Options

No stock options were granted during the three months ended June 30, 2017 and 2016. The Company granted 0.2 million and 0.7 million options to certain employees of the Company at a fair value of $2.0 million and $6.9 million for the six months ended June 30, 2017 and 2016, respectively. The stock options granted by the Company had an exercise price equal to the market price of the Company's common stock on the date of grant. The fair value of the options granted was estimated on the grant date using the Black-Scholes option-pricing model with the following weighted average assumptions:

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

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

The aggregate intrinsic value of the stock options outstanding and exercisable at June 30, 2017 was $31.9 million and $21.7 million, respectively. The total intrinsic value of options exercised during the three months ended June 30, 2017 and 2016 was approximately $0.5 million and $4 thousand, respectively. The total intrinsic value of options exercised during the six months ended June 30, 2017 and 2016 was approximately $3.2 million and $4.4 million, respectively.

The Company received approximately $1.6 million and $0.1 million in proceeds from the exercise of 33,571 and 2,126 employee stock options during the three months ended June 30, 2017 and 2016, respectively. The Company received approximately $6.6 million and $4.2 million in proceeds from the exercise of 157,196 and 192,956 employee stock options during the six months ended June 30, 2017 and 2016, respectively.

Restricted Stock

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Restricted share grants	25,526	42,042	145,580	167,152
Weighted average grant date fair value per share	$62.84	$52.00	$61.02	$51.62
Aggregate grant date fair value ($000)	$1,604	$2,186	$8,883	$8,628
Restricted shares forfeited	11,597	5,342	23,268	9,614
Vesting service period of shares granted				

	12 - 48 months	12 - 48 months	12 - 48 months	12 - 48 months
Fair value of shares vested ($000)	$1,094	$880	$7,911	$7,183

Compensation expense related to the fair value of these awards is recognized straight-line over the requisite service period based on those restricted stock grants that ultimately vest. The fair value of grants is measured by the market price of the Company's stock on the date of grant. Restricted stock awards generally vest ratably over the service period beginning with the

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first anniversary of the grant date. Awards granted to retirement eligible non-employee directors are recognized over the shorter of the requisite service period or the length of time until retirement since the terms of the grant provide that the awards will vest upon retirement.

Performance Vested Restricted Stock Units

The Company has granted performance vested restricted stock units ("PVRSU") to certain employees. The fair value is measured by the market price of the Company's common stock on the date of the grant. The vesting of these stock awards is contingent upon the Company achieving performance targets at the end of specified performance periods and the employees' continued employment. The performance conditions affect the number of shares that will ultimately vest. The range of possible stock-based award vesting is generally between 0% and 200% of the initial target. If minimum performance targets are not attained, then no awards will vest under the terms of the various PVRSU agreements. Compensation expense related to these awards is recognized over the requisite service period based on the Company's estimate of the achievement of the various performance targets. The Company has currently estimated that between 0% and 100% of the various award targets will be achieved. Compensation expense is recognized ratably over the requisite service period only on those PVRSUs that ultimately vest.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Performance vested restricted stock units granted at target	—	44,524	158,978	79,557
Weighted average grant date fair value per share	$—	$44.92	$60.60	$47.81
Aggregate grant date fair value ($000)	$—	$2,000	$9,634	$3,804
Stock units forfeited	56,717	—	71,786	28,193
Requisite service period	—	31 - 43 months	36 months	31 -43 months

During the three months ended June 30, 2017, PVRSU grants totaling 3,116 vested at a grant date fair value of $0.2 million. During the six months ended June 30, 2017, PVRSU grants totaling 38,329 vested at a grant date fair value of $1.8 million. Of these grants, PVRSU grants totaling 10,641 vested at a grant date fair value of $0.5 million. These grants were initially granted at a target of 21,282 units. However, since the Company achieved only 50% of the targeted performance conditions contained in the stock awards granted in prior periods, 10,641 shares were forfeited. Additionally, during the six months ended June 30, 2017, PVRSU grants totaling 4,113 were forfeited since the Company did not achieve the targeted performance conditions contained in the stock awards granted in prior periods. Furthermore, during the six months ended June 30, 2017, PVRSU grants totaling 24,572 vested at a grant date fair value of $1.1 million. These PVRSU grants were initially granted at a target of 15,081 units. However, since the Company achieved an average of 163% of the various targeted performance conditions contained in the stock awards granted in prior periods, an additional 9,491 shares were earned and issued. The remaining grants totaling 3,116 vested at a grant date fair value of $0.2 million, achieving 100% of the targeted performance conditions contained in the stock awards granted in prior periods.

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

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A summary of stock-based award activity as of June 30, 2017 and changes during the six months ended are presented below:

	Stock Options			Restricted Stock		Performance Vested Restricted Stock Units	
	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2017	2,193,502	$ 48.26		407,812	$ 50.61	235,980	$ 47.59
Granted	185,627	60.63		145,580	61.02	158,978	60.60
Performance based leveraging [1]	—	—		—	—	9,491	45.59
Exercised/Vested	(157,196)	41.92		(131,919)	48.02	(38,329)	46.19
Expired	(9,729)	56.67		—	—	—	—
Forfeited	(30,300)	54.23		(23,268)	54.60	(71,786)	38.79
Outstanding at June 30, 2017	2,181,904	$ 49.65	4.3 years	398,205	$ 55.04	294,334	$ 56.89
Options exercisable at June 30, 2017	1,120,619	$ 44.85	3.4 years				

[1]PVRSU units outstanding have been increased by 9,491 units due to the Company exceeding the targeted performance conditions contained in PVRSUs granted in prior periods during the six months ended June 30, 2017.

The components of the Company’s pretax share-based compensation expense and associated income tax benefits are as follows for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2017	2016	2017	2016
Stock options	$1.1	$1.5	$2.2	$2.6
Restricted stock	1.7	2.2	3.4	4.0
Performance vested restricted stock units	1.1	0.7	2.1	1.3
Total	$3.9	$4.4	$7.7	$7.9
Income tax benefits	$1.5	$1.6	$2.9	$2.9

In conjunction with the termination of a Company officer, stock option, restricted stock and PVRSU expense for the three and six months ended June 30, 2016, included an additional $0.4 million, $0.4 million and $0.1 million, respectively, of accelerated recognition of share based payment awards.

Dividends

The Company currently pays a quarterly dividend on its common stock of $0.215 per share, however the declaration of future dividends is subject to the discretion of the board of directors. During the three and six months ended June 30, 2017, the Company's board of directors declared dividends totaling $0.215 and $0.43 per share or approximately $12.1 million and $24.3 million, in the aggregate.

In addition, during the six months ended June 30, 2017, the Company recorded dividends totaling $0.1 million related to previously declared dividends that were contingent upon the vesting of performance vested restricted stock units.

Share Repurchases and Redemptions

No shares of common stock were purchased by the Company under the share repurchase program during the three and six months ended June 30, 2017.

During the three and six months ended June 30, 2017, the Company redeemed 2,203 and 121,134 shares of common stock at a total cost of approximately $0.1 million and $7.4 million, from employees to satisfy the option exercise price and statutory

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minimum tax-withholding requirements related to the exercising of stock options and vesting of performance vested restricted stock units and restricted stock grants. These redemptions were outside the share repurchase program.

14. Earnings Per Share

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(In thousands, except per share amounts)	2017	2016	2017	2016
Computation of Basic Earnings Per Share:				
Numerator:				
Net income	$44,995	$38,822	$73,739	$59,985
Income allocated to participating securities	(319)	(272)	(526)	(411)
Net income available to common shareholders	$44,676	$38,550	$73,213	$59,574
Denominator:				
Weighted average common shares outstanding – basic	56,073	56,060	56,007	56,043
Basic earnings per share	$0.80	$0.69	$1.31	$1.06
Computation of Diluted Earnings Per Share:				
Numerator:				
Net income	$44,995	$38,822	$73,739	$59,985
Income allocated to participating securities	(317)	(271)	(524)	(410)
Net income available to common shareholders	$44,678	$38,551	$73,215	$59,575
Denominator:				
Weighted average common shares outstanding – basic	56,073	56,060	56,007	56,043
Diluted effect of stock options and PVRSUs	355	296	361	304
Weighted average common shares outstanding – diluted	56,428	56,356	56,368	56,347
Diluted earnings per share	$0.79	$0.68	$1.30	$1.06

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

At June 30, 2017 and 2016, the Company had 2.2 million and 2.6 million outstanding stock options, respectively. Stock options are included in the diluted earnings per share calculation using the treasury stock method and average market prices during the period, unless the stock options would be anti-dilutive. For the three months ended June 30, 2017, no anti-dilutive stock options were excluded from the diluted earnings per share calculation. For the six months ended June 30, 2017, 0.4 million of anti-dilutive stock options were excluded from the diluted earnings per share calculation. For the three and six months ended June 30, 2016, the Company excluded 1.2 million of anti-dilutive stock options from the diluted earnings per share calculation.

PVRSUs are also included in the diluted earnings per share calculation when the performance conditions have been met at the reporting date. However, at June 30, 2017 and 2016, PVRSUs totaling 294,334 and 251,956, respectively, were excluded from the computation since the performance conditions had not been met.

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15. Condensed Consolidating Financial Statements

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

Choice Hotels International, Inc. and Subsidiaries
Condensed Consolidating Statement of Income
For the Three Months Ended June 30, 2017
(Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES:					
Royalty fees	$86,839	$ 41,918	$ 10,814	$ (47,085)	$ 92,486
Initial franchise and relicensing fees	6,902	—	79	—	6,981
Procurement services	10,869	—	199	—	11,068
Marketing and reservation system	146,134	112,060	3,976	(104,135)	158,035
Other	5,912	41	2,581	(305)	8,229
Total revenues	256,656	154,019	17,649	(151,525)	276,799
OPERATING EXPENSES:					
Selling, general and administrative	40,702	38,349	6,547	(47,390)	38,208
Depreciation and amortization	377	1,823	850	—	3,050
Marketing and reservation system	149,781	107,908	4,481	(104,135)	158,035
Total operating expenses	190,860	148,080	11,878	(151,525)	199,293
Operating income	65,796	5,939	5,771	—	77,506
OTHER INCOME AND EXPENSES, NET:					
Interest expense	11,138	—	142	—	11,280
Other items, net	(424)	968	(1,699)	—	(1,155)
Equity in earnings of consolidated subsidiaries	(9,704)	(21)	—	9,725	—
Total other income and expenses, net	1,010	947	(1,557)	9,725	10,125
Income before income taxes	64,786	4,992	7,328	(9,725)	67,381
Income taxes	19,791	2,105	490	—	22,386
Net income	$44,995	$ 2,887	$ 6,838	$ (9,725)	$ 44,995

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

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

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Choice Hotels International, Inc. and Subsidiaries
Condensed Consolidating Statement of Income
For the Six Months Ended June 30, 2017
(Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES:					
Royalty fees	$151,143	$ 72,653	$ 21,315	$ (83,636)	$ 161,475
Initial franchise and relicensing fees	11,814	—	173	—	11,987
Procurement services	17,124	—	420	—	17,544
Marketing and reservation system	244,336	205,756	7,597	(190,179)	267,510
Other	11,587	81	5,004	(491)	16,181
Total revenues	436,004	278,490	34,509	(274,306)	474,697
OPERATING EXPENSES:					
Selling, general and administrative	77,512	65,308	12,361	(84,127)	71,054
Depreciation and amortization	761	3,644	1,715	—	6,120
Marketing and reservation system	251,878	197,487	8,324	(190,179)	267,510
Total operating expenses	330,151	266,439	22,400	(274,306)	344,684
Operating income	105,853	12,051	12,109	—	130,013
OTHER INCOME AND EXPENSES, NET:					
Interest expense	22,201	—	284	—	22,485
Other items, net	(788)	1,896	(2,344)	—	(1,236)
Equity in earnings of consolidated subsidiaries	(21,024)	434	—	20,590	—
Total other income and expenses, net	389	2,330	(2,060)	20,590	21,249
Income before income taxes	105,464	9,721	14,169	(20,590)	108,764
Income taxes	31,725	3,035	265	—	35,025
Net income	$73,739	$ 6,686	$ 13,904	$ (20,590)	$ 73,739

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

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

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Choice Hotels International, Inc. and Subsidiaries
Condensed Consolidating Statement of Comprehensive Income
For the Three Months Ended June 30, 2017
(Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	$44,995	$ 2,887	$ 6,838	$ (9,725)	$ 44,995
Other comprehensive income, net of tax:					
Amortization of loss on cash flow hedge	216	—	—	—	216
Foreign currency translation adjustment	1,423	—	1,423	(1,423)	1,423
Other comprehensive income, net of tax	1,639	—	1,423	(1,423)	1,639
Comprehensive income	$46,634	$ 2,887	$ 8,261	$ (11,148)	$ 46,634

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

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

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Choice Hotels International, Inc. and Subsidiaries
Condensed Consolidating Statement of Comprehensive Income
For the Six Months Ended June 30, 2017
(Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	$73,739	$ 6,686	$ 13,904	$ (20,590)	$ 73,739
Other comprehensive income, net of tax:					
Amortization of loss on cash flow hedge	431	—	—	—	431
Foreign currency translation adjustment	1,991	—	1,991	(1,991)	1,991
Other comprehensive income, net of tax	2,422	—	1,991	(1,991)	2,422
Comprehensive income	$76,161	$ 6,686	$ 15,895	$ (22,581)	$ 76,161

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

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

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Choice Hotels International, Inc. and Subsidiaries
Condensed Consolidating Balance Sheet
As of June 30, 2017
(Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$6,769	$ 169	$ 191,019	$—	$ 197,957
Receivables, net	134,348	1,597	10,858	(150)	146,653
Income taxes receivable	—	643	3,063	(3,647)	59
Other current assets	11,327	22,786	1,498	(53)	35,558
Total current assets	152,444	25,195	206,438	(3,850)	380,227
Property and equipment, at cost, net	46,901	19,006	17,227	—	83,134
Goodwill	65,813	—	14,223	—	80,036
Intangible assets, net	4,973	3,192	6,936	—	15,101
Notes receivable, net of allowances	18,633	50,859	62,512	—	132,004
Investments, employee benefit plans, at fair value	—	19,451	—	—	19,451
Investment in affiliates	548,554	49,133	—	(597,687)	—
Advances to affiliates	9,551	79,726	953	(90,230)	—
Deferred income taxes	39,992	15,658	—	(1,620)	54,030
Other assets	14,815	117,819	51,406	(50)	183,990
Total assets	$901,676	$ 380,039	$ 359,695	$(693,437)	$ 947,973
LIABILITIES AND SHAREHOLDERS' DEFICIT					
Accounts payable	$25,271	$ 38,861	$ 3,754	$(150)	$ 67,736
Accrued expenses and other current liabilities	30,129	27,370	8,338	—	65,837
Deferred revenue	134,194	—	1,209	(53)	135,350
Other current liabilities	9,776	7	1,302	(3,647)	7,438
Total current liabilities	199,370	66,238	14,603	(3,850)	276,361
Long-term debt	850,557	3,712	8,696	—	862,965
Deferred compensation and retirement plan obligations	—	23,912	15	—	23,927
Advances from affiliates	87,471	1,256	1,503	(90,230)	—
Other liabilities	16,895	14,630	7,482	(1,670)	37,337
Total liabilities	1,154,293	109,748	32,299	(95,750)	1,200,590
Total shareholders' (deficit) equity	(252,617)	270,291	327,396	(597,687)	(252,617)
Total liabilities and shareholders' deficit	$901,676	$ 380,039	$ 359,695	$(693,437)	$ 947,973

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

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

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Choice Hotels International, Inc. and Subsidiaries
Condensed Consolidating Statement of Cash Flows
For the Six Months Ended June 30, 2017
(Unaudited, in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided (used) by operating activities	$9,541	$ 42,479	$ 12,745	$ (657)	$ 64,108
Cash Flows From Investing Activities					
Investment in property and equipment	(9,120)	(1,344)	(223)	—	(10,687)
Investment in intangible assets	(1,499)	(729)	—	—	(2,228)
Contributions to equity method investments	—	(42,090)	(37)	—	(42,127)
Distributions from equity method investments	—	—	1,696	—	1,696
Purchases of investments, employee benefit plans	—	(1,736)	—	—	(1,736)
Proceeds from sales of investments, employee benefit plans	—	2,094	—	—	2,094
Issuance of mezzanine and other notes receivable	(5,444)	—	(9,533)	—	(14,977)
Collections of mezzanine and other notes receivable	552	—	—	—	552
Advances to and investment in affiliates	—	(484)	—	484	—
Divestment in affiliates	—	1,707	—	(1,707)	—
Other items, net	—	113	(3)	—	110
Net cash used by investing activities	(15,511)	(42,469)	(8,100)	(1,223)	(67,303)
Cash Flows from Financing Activities					
Net borrowings pursuant to revolving credit facilities	23,200	—	—	—	23,200
Principal payments on long-term debt	—	—	(309)	—	(309)
Purchases of treasury stock	(7,414)	—	—	—	(7,414)
Dividends paid	(24,333)	—	(657)	657	(24,333)
Proceeds from contributions from affiliates	—	—	484	(484)	—
Distributions to affiliates	—	—	(1,707)	1,707	—
Proceeds from exercise of stock options	6,590	—		—	6,590
Net cash provided (used) by financing activities	(1,957)	—	(2,189)	1,880	(2,266)
Net change in cash and cash equivalents	(7,927)	10	2,456	—	(5,461)
Effect of foreign exchange rate changes on cash and cash equivalents	—	—	955	—	955
Cash and cash equivalents at beginning of period	14,696	159	187,608	—	202,463
Cash and cash equivalents at end of period	$6,769	$ 169	$ 191,019	$ —	$ 197,957

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

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

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16. Reportable Segment Information

Hotel Franchising: Hotel franchising includes the Company's hotel franchising operations consisting of its eleven brands. The eleven brands are aggregated within this segment considering their similar economic characteristics, types of customers, distribution channels and regulatory business environments. Revenues from the hotel franchising business include royalty fees, initial franchise and relicensing fees, marketing and reservation system fees, procurement services revenue and other franchising related revenue. The Company is obligated under its hotel franchise agreements to provide marketing and reservation services appropriate for the operation of its systems. These services do not represent separate reportable segments as their operations are directly related to the Company's hotel franchising business. The revenues received from franchisees that are used to pay for part of the Company's ongoing operations are included in hotel franchising revenues and are offset by the related expenses paid for marketing and reservation activities to calculate hotel franchising operating income.
SkyTouch Technology: SkyTouch Technology ("SkyTouch") is a division of the Company that develops and markets cloud-based technology products to hoteliers not under franchise agreements with the Company.
The Company evaluates its segments based primarily on the results of the segment without allocating corporate expenses, income taxes or indirect general and administrative expenses, which are included in the Corporate and Other column. Corporate and Other revenues include rental income related to an office building owned by the Company, as well as revenues related to the Company's vacation rental initiatives. Equity in earnings or losses from hotel franchising related joint ventures is allocated to the Company's hotel franchising segment. As described in Note 4, certain interest expenses related to the Company's marketing and reservation activities are allocated to the hotel franchising segment. The Company does not allocate the remaining interest expense, interest income, other gains and losses or income taxes to its segments.
The following table presents the financial information for the Company's segments:

	Three Months Ended June 30, 2017				Three Months Ended June 30, 2016			
(In thousands)	Hotel Franchising	SkyTouch Technology	Corporate & Other	Consolidated	Hotel Franchising	SkyTouch Technology	Corporate & Other	Consolidated
Revenues	$274,242	$ 684	$ 1,873	$ 276,799	$239,683	$ 463	$ 1,605	$ 241,751
Operating income (loss)	$92,414	$ (1,485)	$ (13,423)	$ 77,506	$83,573	$ (4,750)	$ (13,881)	$ 64,942
Income (loss) before income taxes	$91,555	$ (1,485)	$ (22,689)	$ 67,381	$84,317	$ (4,750)	$ (23,957)	$ 55,610

	Six Months Ended June 30, 2017				Six Months Ended June 30, 2016			
(In thousands)	Hotel Franchising	SkyTouch Technology	Corporate & Other	Consolidated	Hotel Franchising	SkyTouch Technology	Corporate & Other	Consolidated
Revenues	$469,585	$ 1,332	$ 3,780	$ 474,697	$444,772	$ 869	$ 3,228	$ 448,869
Operating income (loss)	$157,774	$ (2,579)	$ (25,182)	$ 130,013	$142,165	$ (9,075)	$ (25,275)	$ 107,815
Income (loss) before income taxes	$154,835	$ (2,579)	$ (43,492)	$ 108,764	$140,729	$ (9,075)	$ (45,666)	$ 85,988

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

On October 9, 2012, the Company entered into a limited payment guaranty with regards to a VIE's $18.0 million bank loan for the construction of a hotel franchised under one of the Company's brands in the United States. Under the terms of the limited

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guaranty, the Company agreed to guarantee 25% of the outstanding principal balance for a maximum exposure of $4.5 million and accrued unpaid interest, as well as any unpaid expenses incurred by the lender. The limited guaranty shall remain in effect until the maximum amount guaranteed by the Company is paid in full. In addition to the limited guaranty, the Company entered into an environmental indemnity agreement, which indemnifies the lending institution from and against any damages relating to or arising out of possible environmental contamination issues with regards to the property.

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

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

The Company believes the likelihood of having to perform under the aforementioned limited payment guarantees was remote at June 30, 2017 and December 31, 2016.

Commitments

The Company has the following commitments outstanding at June 30, 2017:

- The Company provides financing in the form of forgivable promissory notes or cash incentives to franchisees for property improvements, hotel development efforts and other purposes. At June 30, 2017, the Company had commitments to extend an additional $193.9 million for these purposes provided certain conditions are met by its franchisees, of which $84.9 million is scheduled to be advanced in the next twelve months.
- The Company committed to make additional capital contributions totaling $18.8 million to existing joint ventures related to the construction of various hotels to be operated under the Company's Cambria hotel & suites brand.
- In November 2015, the Company provided financing to a development company to acquire and redevelop a historic office building into a Cambria hotel & suites hotel. The Company has committed to provide up to an aggregate of $50.1 million, if necessary, for acquisition of the property and property improvements. As of June 30, 2017, the Company advanced $45.3 million. The promissory notes mature on November 30, 2019, and bear interest at variable and fixed rates and are payable monthly.

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

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18. Transactions with Unconsolidated Joint Ventures

The Company has a management fee arrangement for marketing services with a joint venture partner. For the three and six months ended June 30, 2017, fees earned and payroll costs reimbursed under this arrangement totaled $0.4 million and $0.8 million, respectively. For the three and six months ended June 30, 2016, fees earned and payroll costs reimbursed under this arrangement totaled $0.2 million.

The Company has entered into franchise agreements with certain of the unconsolidated joint ventures discussed in Note 6. Pursuant to these franchise agreements, the Company has recorded royalty and marketing and reservation system fees of approximately $8.1 million and $6.6 million for the three months ended June 30, 2017 and 2016, respectively. For the six months ended June 30, 2017 and 2016, the Company has recorded royalty and marking reservation system fees of approximately $12.0 million and $9.7 million, respectively. The Company has recorded $1.1 million and $1.1 million as a receivable due from these joint ventures as of June 30, 2017 and December 31, 2016, respectively. In addition, the Company has paid commissions of $45 thousand and $42 thousand for the three months ended June 30, 2017 and 2016, respectively, and $67 thousand and $72 thousand for the six months ended June 30, 2017 and 2016 to an online travel agent for which the Company is a joint venture member.

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

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

Overview

We are primarily a hotel franchisor with franchise agreements representing 6,553 hotels open and 792 hotels under construction, awaiting conversion or approved for development as of June 30, 2017, with 520,224 rooms and 61,944 rooms, respectively, in 50 states, the District of Columbia and over 40 countries and territories outside the United States. Our brand names include Comfort Inn®, Comfort Suites®, Quality®, Clarion®, Ascend Hotel Collection®, Sleep Inn®, Econo Lodge®, Rodeway Inn®, MainStay Suites®, Suburban Extended Stay Hotel®, and Cambria hotel & suites® (collectively, the "Choice brands").

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

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

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

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

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

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

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

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

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

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

Historically, we have returned value to our shareholders through share repurchases and dividends. In 1998, we instituted a share repurchase program which has generated substantial value for our shareholders. Since the program's inception through June 30, 2017, we have repurchased 48.7 million shares (including 33.0 million prior to the two-for-one stock split effected in October 2005) of common stock at a total cost of $1.3 billion. Considering the effect of the two-for-one stock split, the Company has repurchased 81.7 million shares at an average price of $15.38 per share. The Company purchased no shares of common stock under the share repurchase program during the six months ended June 30, 2017. At June 30, 2017, we had approximately 4.0

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million shares remaining under the current share repurchase authorization. We currently believe that our cash flows from operations will support our ability to complete the current repurchase authorization. Upon completion of the current authorization, our board of directors will evaluate the advisability of additional share repurchases.

The Company commenced paying quarterly dividends in 2004 and in 2012 the Company elected to pay a special cash dividend totaling approximately $600 million. The Company currently maintains the payment of a quarterly dividend on its common shares outstanding; however, the declaration of future dividends is subject to the discretion of the board of directors. During the fourth quarter of 2016, the Company's board of directors announced a 5% increase to the quarterly cash dividend rate to $0.215 per common share outstanding. The projected annual dividend in 2017 is $0.86 per common share outstanding. During the six months ended June 30, 2017, we paid cash dividends totaling approximately $24.3 million. We expect to continue to pay dividends in the future, subject to declaration by our board of directors as well as future business performance, economic conditions, changes in income tax regulations and other factors including limitations in the Company's credit facility. Based on the present dividend rate and outstanding share count, we expect that aggregate annual regular dividends for 2017 would be approximately $48.6 million.

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

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

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

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

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

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

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

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

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

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

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Non-GAAP Financial Statement Measurements

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

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

Calculation of Hotel Franchising Revenues

	Three Months Ended June 30,		Six Months Ended June 30,	
	(In thousands)			
	2017	2016	2017	2016
Total Revenues	$276,799	$241,751	$474,697	$448,869
Adjustments:				
Marketing and reservation system revenues	(158,035)	(133,814)	(267,510)	(260,175)
Non-hotel franchising activities	(2,557)	(2,068)	(5,112)	(4,097)
Hotel Franchising Revenues	$116,207	$105,869	$202,075	$184,597

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Operations Review

Comparison of Operating Results for the Three-Month Periods Ended June 30, 2017 and 2016

Summarized financial results for the three months ended June 30, 2017 and 2016 are as follows:

(in thousands)	2017	2016
REVENUES:		
Royalty fees	$92,486	$86,195
Initial franchise and relicensing fees	6,981	5,706
Procurement services	11,068	10,308
Marketing and reservation system	158,035	133,814
Other	8,229	5,728
Total revenues	276,799	241,751
OPERATING EXPENSES:		
Selling, general and administrative	38,208	40,039
Depreciation and amortization	3,050	2,956
Marketing and reservation system	158,035	133,814
Total operating expenses	199,293	176,809
Operating income	77,506	64,942
OTHER INCOME AND EXPENSES, NET:		
Interest expense	11,280	11,224
Interest income	(1,438)	(827)
Other (gains) losses	(576)	(321)
Equity in net (income) loss of affiliates	859	(744)
Total other income and expenses, net	10,125	9,332
Income before income taxes	67,381	55,610
Income taxes	22,386	16,788
Net income	$44,995	$38,822

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Results of Operations

The Company recorded income before income taxes of $67.4 million for the three month period ended June 30, 2017, an $11.8 million or 21% increase from the same period of the prior year. The increase in income before income taxes primarily reflects a $12.6 million increase in operating income, a $0.6 million increase in interest income, an increase of $0.3 million in other gains and losses, offset by a $1.6 million increase in equity in net losses from affiliates.

Operating income increased $12.6 million primarily due to a $10.3 million or 10% increase in the Company's hotel franchising revenues and a $1.8 million or 5% decrease in selling, general, and administrative expenses. The key drivers of these fluctuations are described in more detail below.

Hotel Franchising Revenues

Hotel franchising revenues were $116.2 million for the three months ended June 30, 2017 compared to $105.9 million for the three months ended June 30, 2016, an increase of $10.3 million or 10%. The increase in hotel franchising revenues is primarily due to a $6.3 million or 7% increase in royalty revenues, a $1.3 million or 22% increase in initial and relicensing fees, a $0.8 million or 7% increase in procurement services revenues, and an increase of approximately $1.9 million in non-compliance and other revenues.

Royalty Fees

Domestic royalty fees for the three months ended June 30, 2017, increased $5.9 million to $87.0 million, an increase of 7% compared to the three months ended June 30, 2016. The increase in royalties is primarily attributable to a 2.0% increase in RevPAR, a 2.2% increase in the number of domestic franchised hotel rooms and an increase in the effective royalty rate. System-wide RevPAR increased due to a 1.5% increase in average daily rates, accompanied by a 30 basis point increase in occupancy rates. The Company's effective royalty rate for the domestic hotel system increased from 4.39% for the three months ended June 30, 2016 to 4.58% for the three months ended June 30, 2017. The increase in the effective royalty rate is attributable to improved royalty rate pricing on recently executed domestic franchise agreements as well as annual contractual royalty rate increases contained in existing franchise agreements.
A summary of the Company's domestic franchised hotels operating information is as follows:

	For the Three Months Ended June 30, 2017			For the Three Months Ended June 30, 2016*			Change		
	Average Daily Rate	Occupancy	RevPAR	Average Daily Rate	Occupancy	RevPAR	Average Daily Rate	Occupancy	RevPAR
Comfort Inn	$95.96	70.6 %	$ 67.76	$93.87	70.1 %	$ 65.84	2.2 %	50 bps	2.9 %
Comfort Suites	98.54	73.4 %	72.32	98.19	73.6 %	72.24	0.4 %	(20) bps	0.1 %
Sleep	84.84	69.9 %	59.27	83.93	69.5 %	58.35	1.1 %	40 bps	1.6 %
Quality	80.36	63.6 %	51.12	78.61	63.3 %	49.79	2.2 %	30 bps	2.7 %
Clarion	85.70	63.9 %	54.76	84.14	62.3 %	52.46	1.9 %	160 bps	4.4 %
Econo Lodge	63.31	57.6 %	36.48	61.84	57.3 %	35.46	2.4 %	30 bps	2.9 %
Rodeway	64.94	58.7 %	38.12	63.13	57.9 %	36.56	2.9 %	80 bps	4.3 %
MainStay	76.88	72.4 %	55.62	78.07	68.4 %	53.40	(1.5)%	400 bps	4.2 %
Suburban	52.42	78.2 %	41.00	51.07	76.9 %	39.27	2.6 %	130 bps	4.4 %
Cambria hotel & suites	142.23	77.2 %	109.78	NA	NA	NA	NA	NA bps	NA
Ascend Hotel Collection	129.17	56.8 %	73.32	133.28	60.0 %	79.94	(3.1)%	(320) bps	(8.3)%
Total	$85.19	65.9 %	$ 56.17	$83.89	65.6 %	$ 55.07	1.5 %	30 bps	2.0 %

*Totals for the three months ended June 30, 2016 have been revised from previous disclosures to include the operating statistics for the Cambria hotel & suites brand. Operating statistics for Cambria hotel & suites have been excluded for 2016 since the brand had fewer than 25 units open and operating for the trailing 12 month period.

The number of domestic rooms on-line increased by 2.2% to 406,902 as of June 30, 2017, from 398,190 as of June 30, 2016. The total number of domestic hotels on-line increased by 2.6% to 5,409 as of June 30, 2017, from 5,273 as of June 30, 2016.

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Our unit growth has outpaced the growth in our rooms primarily due to the Company's multi-year strategy to rejuvenate the Comfort family of brands by terminating under-performing hotels that no longer meet the Comfort brand standards. Hotels terminated from the Comfort brand family may be repositioned to a more suitable brand within the Company's family of brands or exit our franchise system. As a result of this strategy our unit growth has been driven primarily by brands with lower average room counts than the Comfort family of brands. A summary of domestic hotels and rooms on-line at June 30, 2017 and 2016 by brand is as follows:

	June 30, 2017		June 30, 2016		Variance			
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	%	%
Comfort Inn	1,093	84,956	1,138	88,085	(45)	(3,129)	(4.0)%	(3.6)%
Comfort Suites	565	43,721	564	43,522	1	199	0.2 %	0.5 %
Sleep	385	27,574	380	27,188	5	386	1.3 %	1.4 %
Quality	1,493	116,961	1,395	110,952	98	6,009	7.0 %	5.4 %
Clarion	163	22,159	168	23,033	(5)	(874)	(3.0)%	(3.8)%
Econo Lodge	843	51,757	847	52,385	(4)	(628)	(0.5)%	(1.2)%
Rodeway	586	34,085	528	29,771	58	4,314	11.0 %	14.5 %
MainStay	56	4,074	54	4,020	2	54	3.7 %	1.3 %
Suburban	59	6,578	58	6,471	1	107	1.7 %	1.7 %
Cambria hotel & suites	31	4,160	25	3,113	6	1,047	24.0 %	33.6 %
Ascend Hotel Collection	135	10,877	116	9,650	19	1,227	16.4 %	12.7 %
Total Domestic Franchises	5,409	406,902	5,273	398,190	136	8,712	2.6 %	2.2 %

Domestic hotels open and operating increased by 66 during the three months ended June 30, 2017, compared to a net decrease of 3 during the three months ended June 30, 2016. Gross domestic franchise additions increased from 73 for the three months ended June 30, 2016 to 113 for the same period of 2017. New construction hotels represented 12 of the gross domestic additions during the three months ended June 30, 2017, compared to 11 hotels in the same period of the prior year. Gross domestic additions for conversion hotels during the three months ended June 30, 2017 increased by 39 units to 101 from 62 for the three months ended June 30, 2016. The number of new construction and conversion hotel openings during a particular quarter are impacted by various factors including the level of franchise sales in prior periods, the complexity of property improvement plans required to be completed prior to opening or other local economic and market conditions that may impact the pace of new hotel construction. The timing of new construction hotel openings typically averages 18 to 36 months to open after the franchise agreement is executed. Conversion hotels typically open three to four months after the execution of a franchise agreement.

Net domestic franchise terminations decreased from 76 in the three months ended June 30, 2016 to 47 for the three months ended June 30, 2017.

International royalties increased $0.4 million or 8% from $5.1 million for the three months ended June 30, 2016 to $5.5 million for the three months ended June 30, 2017, primarily due to a 1.8% increase in the number of rooms available and improvements in RevPAR in the countries in which we operate. International rooms increased by 1,956 from 111,366 as of June 30, 2016 to 113,322 as of June 30, 2017. The total number of international hotels decreased by 12 from 1,156 as of June 30, 2016 to 1,144 as of June 30, 2017. International rooms grew 1.8% despite a decline in the number of hotels open and operating primarily due to a focus on new entrants with higher per unit room counts than currently in the Company's international franchised hotel portfolio.

Initial Franchise and Relicensing Fees

Domestic initial franchise fee revenue, included in the initial franchise and relicensing fees caption on the Company's statements of income, generated from executed franchise agreements remained unchanged at $3.0 million for the three months ended June 30, 2017 and 2016. Domestic initial fee revenue remained unchanged despite a 20% increase in executed franchise agreements primarily due to an increase in franchise agreements containing forgivable promissory note incentives when compared to the same period of the prior year. Revenues associated with agreements including incentives are deferred and recognized when the incentive criteria are met or the agreement is terminated, whichever comes first. Executed franchise agreements increased from 147 franchise agreements, representing 13,005 rooms, executed in the second quarter of 2016, to 176 franchise agreements, representing 13,321 rooms executed in the second quarter of 2017.

During the second quarter of 2017, 56 of the executed agreements were for new construction hotel franchises representing 4,187 rooms compared to 42 contracts representing 3,757 rooms for the three months ended June 30, 2016. Conversion hotel executed franchise agreements totaled 120 representing 9,134 rooms for the three months ended June 30, 2017 compared to 105 agreements representing 9,248 rooms for the same period a year ago.
Relicensing fees include fees charged to the new owners of a franchised property whenever an ownership change occurs and the property remains in the franchise system as well as fees required to renew expiring franchise contracts. Domestic relicensing contracts increased 25% from 101 for the three months ended June 30, 2016 to 126 for the three months ended June 30, 2017, slightly offset by renewals of expired contracts which decreased from 6 for the three months ended June 30, 2016 to 1 during the current period. As a result of the 19% increase in relicensing and renewal contracts and the increase in average fees per contract, domestic relicensing and renewal revenues increased 59% from $2.5 million in the second quarter of 2016 to $3.9 million in the second quarter of 2017.
As of June 30, 2017, the Company had 721 franchised hotels with 55,119 rooms under construction, awaiting conversion or approved for development in its domestic system as compared to 591 hotels and 46,887 rooms at June 30, 2016. The number of new construction franchised hotels in the Company's domestic pipeline increased 30% to 523 at June 30, 2017 from 403 at June 30, 2016. The growth in the number of new construction hotels in the domestic pipeline reflects the 16%, 9% and 79% increase in new construction franchise agreements executed in 2016, 2015 and 2014, respectively, as well as a 65% increase in the six months ended June 30, 2017. New construction hotels typically average 18 to 36 months to open after the franchise agreement is executed. The number of conversion franchised hotels in the Company's domestic pipeline increased by 10 hotels or 5% from 188 hotels at June 30, 2016 to 198 hotels at June 30, 2017, primarily due to the timing of hotel openings and the timing of signing new conversion franchise agreements. Conversion hotels typically open three to four months after the execution of a franchise agreement. The Company had an additional 71 franchised hotels with 6,825 rooms under construction, awaiting conversion or approved for development in its international system as of June 30, 2017 compared to 82 hotels and 9,110 rooms at June 30, 2016. While the Company's hotel pipeline provides a strong platform for growth, a hotel in the pipeline does not always result in an open and operating hotel due to various factors.

Procurement Services: Revenues increased $0.8 million or 7% from $10.3 million for the three months ended June 30, 2016 to $11.1 million for the three months ended June 30, 2017. The increase in revenues primarily reflects the implementation of new brand programs as well as an increase in the volume of business transacted with existing and new qualified vendors and strategic alliance partners.
Other Income: Revenue increased $2.5 million from the three months ended June 30, 2016 to $8.2 million for the three months ended June 30, 2017. The increase in other income is primarily due to a $0.5 million increase in revenues related to the Company's non-hotel franchising divisions, $1.6 million related to the sale of chip-enabled card readers to our franchised hotels, and an increase in non-compliance fees related to franchisees not operating in accordance with the Company's brand standards.
Selling, General and Administrative Expenses: The cost to operate the business is reflected in SG&A on the consolidated statements of income. SG&A expenses were $38.2 million for the three months ended June 30, 2017, which decreased $1.8 million from the three months ended June 30, 2016.
SG&A expenses for the three months ended June 30, 2017 and 2016 include approximately $5.4 million and $7.0 million, respectively, related to the Company's SkyTouch and vacation rental divisions, and expenses related to operations of an office building leased to a third party. Excluding SG&A expenses for non-hotel franchising divisions, SG&A for the three months ended June 30, 2017 decreased $0.2 million or 1% to $32.8 million in the current year primarily due to the impact of employee termination benefits totaling $2.2 million incurred in the second quarter of 2016, offset by $1.1 million of increased costs related to the distribution of chip-enabled credit card readers to our franchisees, and a $0.3 million increase mark-to-market expense related to changes in the fair value of investments held in the Company's deferred compensation plans over the same period of the prior year.
Marketing and Reservation System: The Company's franchise agreements require the payment of franchise fees, which include marketing and reservation system fees. The fees, which are primarily based on a percentage of the franchisees' gross room revenues, are used exclusively by the Company for expenses associated with providing

franchise services such as central reservation systems, national marketing and media advertising. The Company is contractually obligated to expend the marketing and reservation system fees it collects from franchisees in accordance with the franchise agreements; as such, no net income or loss to the Company is generated. Cumulative marketing and reservation fees not expended are deferred and recorded as a liability in the Company's financial statements and carried over to the next year and expended in accordance with the franchise agreements. Conversely, cumulative marketing and reservation expenditures incurred in excess of fees billed for

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

Total marketing and reservation system revenues increased 18% from $133.8 million for the three months ended June 30, 2016 to $158.0 million for the three months ended June 30, 2017. Marketing and reservation system revenues for the three months ended June 30, 2017 were impacted by increased revenues related to new reservation delivery programs, as well as improved revenues from the Choice Privileges loyalty program resulting from the growth in program membership, increases in average daily rates as well as a reduction in the actuarial estimate of points earned by members that will ultimately be redeemed.

At June 30, 2017 and December 31, 2016, cumulative marketing and reservation system expenses exceeded fees billed by $14.5 million and $18.1 million, respectively. The deficits are reflected as other long-term assets in the accompanying consolidated balance sheets.

Other (gains) losses: Other (gains) losses increased $0.3 million from a gain of $0.3 million for the three months ended June 30, 2016 to a gain of $0.6 million in the same period of the current year, due to the fluctuations in the fair value of investments held in the Company's non-qualified employee benefit plans.

Equity in Net (Income) Loss of Affiliates: The Company recorded net losses of $0.9 million from its unconsolidated joint ventures for the three months ended June 30, 2017, compared to income of $0.7 million for the three months ended June 30, 2016. The fluctuations in net income and loss from affiliates is primarily attributable to the results from operations during the ramp-up period of operations for several recently opened hotel projects owned by unconsolidated joint ventures. These investments relate to the Company's program to offer equity support to qualified franchisees to develop and operate Cambria hotel & suites in strategic markets.

Income Taxes: The effective income tax rates were 33.2% and 30.2% for the three months ended June 30, 2017 and 2016, respectively. The effective income tax rates for the three months ended June 30, 2017 and 2016 were lower than the U.S. federal income tax rate of 35% due the impact of foreign operations and ASU 2016-09 benefits from share-based compensation, partially offset by state income taxes.

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Operations Review

Comparison of Operating Results for the Six-Month Periods Ended June 30, 2017 and 2016

Summarized financial results for the six months ended June 30, 2017 and 2016 are as follows:

(in thousands)	2017	2016
REVENUES:		
Royalty fees	$161,475	$151,054
Initial franchise and relicensing fees	11,987	10,862
Procurement services	17,544	16,104
Marketing and reservation system	267,510	260,175
Other	16,181	10,674
Total revenues	474,697	448,869
OPERATING EXPENSES:		
Selling, general and administrative	71,054	75,158
Depreciation and amortization	6,120	5,721
Marketing and reservation system	267,510	260,175
Total operating expenses	344,684	341,054
Operating income	130,013	107,815
OTHER INCOME AND EXPENSES, NET:		
Interest expense	22,485	22,316
Interest income	(2,702)	(1,666)
Other gains	(1,473)	(259)
Equity in net losses of affiliates	2,939	1,436
Total other income and expenses, net	21,249	21,827
Income before income taxes	108,764	85,988
Income taxes	35,025	26,003
Net income	$73,739	$59,985

Results of Operations

The Company recorded income before income taxes of $108.8 million for the six month period ended June 30, 2017, a $22.8 million, or 26% increase from the same period of the prior year. The increase in income before income taxes primarily reflects a $22.2 million increase in operating income, as well as a $1.2 million increase in other gains, a $1.0 million increase in interest income, offset by an increase in net loss of affiliates of $1.5 million.

Operating income increased $22.2 million as the Company's hotel franchising revenues increased by $17.5 million or 9% and SG&A expenses decreased by $4.1 million or 5%. The key drivers of these fluctuations are described in more detail below.

Hotel Franchising Revenues

Hotel franchising revenues were $202.1 million for the six months ended June 30, 2017 compared to $184.6 million for the six months ended June 30, 2016, a $17.5 million or 9% increase. The increase in hotel franchising revenues is primarily due to a $10.4 million or 7% increase in royalty revenues and a $1.4 million or 9% increase in procurement services revenues, a $1.1 million or 10% increase in initial franchising and relicensing revenues and a $4.5 million increase in non-compliance and other revenues.

Royalty Fees

Domestic royalty fees for the six months ended June 30, 2017 increased $9.8 million to $151.5 million, a 7% increase compared to the six months ended June 30, 2016. The increase in royalties is attributable to a 2.8% increase in RevPAR, a 2.2% increase in the number of domestic franchised hotel rooms, and an increase in the effective royalty rate. System-wide RevPAR increased due to a 1.7% increase in average daily rates accompanied by a 60 basis point increase in occupancy rates. The effective royalty rate increased to 4.56% for the six months ended June 30, 2017, compared to 4.39% for the prior year period.

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The increase in the effective royalty rate is attributable to improved royalty rate pricing on recently executed domestic franchise agreements as well as annual contractual royalty rate increases contained in existing franchise agreements.
A summary of the Company's domestic franchised hotels operating information is as follows:

	For the Six Months Ended June 30, 2017			For the Six Months Ended June 30, 2016*			Change		
	Average Daily Rate	Occupancy	RevPAR	Average Daily Rate	Occupancy	RevPAR	Average Daily Rate	Occupancy	RevPAR
Comfort Inn	$92.00	64.7 %	$ 59.48	$90.11	64.0 %	$ 57.67	2.1 %	70 bps	3.1 %
Comfort Suites	96.16	69.3 %	66.65	95.51	68.9 %	65.80	0.7 %	40 bps	1.3 %
Sleep	82.29	65.0 %	53.51	81.13	64.2 %	52.08	1.4 %	80 bps	2.7 %
Quality	77.45	58.5 %	45.32	75.79	57.9 %	43.88	2.2 %	60 bps	3.3 %
Clarion	82.30	58.9 %	48.45	80.52	56.3 %	45.35	2.2 %	260 bps	6.8 %
Econo Lodge	60.64	53.2 %	32.26	59.24	52.4 %	31.03	2.4 %	80 bps	4.0 %
Rodeway	62.61	55.1 %	34.51	60.72	54.6 %	33.15	3.1 %	50 bps	4.1 %
MainStay	74.51	67.1 %	49.99	75.80	63.4 %	48.02	(1.7)%	370 bps	4.1 %
Suburban	51.74	76.2 %	39.44	49.67	74.9 %	37.21	4.2 %	130 bps	6.0 %
Cambria hotel & suites	133.34	72.9 %	97.16	NA	NA	NA	NA	NA	NA
Ascend Hotel Collection	123.71	54.1 %	66.96	125.21	56.9 %	71.28	(1.2)%	(280) bps	(6.1)%
Total	$82.16	61.1 %	$ 50.22	$80.77	60.5 %	$ 48.84	1.7 %	60 bps	2.8 %

*Totals for the six months ended June 30, 2016 have been revised from previous disclosures to include the operating statistics for the Cambria hotel & suites brand. Operating statistics for Cambria hotel & suites have been excluded for 2016 since the brand had fewer than 25 units open and operating for the trailing twelve month period.

Domestic hotels open and operating increased by 47 hotel during the six months ended June 30, 2017 compared to a decrease of 3 domestic hotels open and operating during the six months ended June 30, 2016. Gross domestic franchise additions increased from 131 for the six months ended June 30, 2016 to 162 for the same period of 2017. New construction hotels represented 21 of the gross domestic additions during the six months ended June 30, 2017 as compared to 23 new construction hotel openings in the same period of the prior year. New construction hotels typically average 18 to 36 months to open after the franchise agreement is executed. Gross domestic additions for conversion hotels during the six months ended June 30, 2017 increased by 33 units to 141 from 108 for the six months ended June 30, 2016. The timing of conversion hotel openings are impacted by various factors including the complexity of the property improvement plans required to be completed prior to opening but typically open within three to four months after the execution of the franchise agreement.

Net domestic franchise terminations decreased from 134 in the six months ended June 30, 2016 to 115 for the six months ended June 30, 2017.

International royalties increased by $0.6 million or 6% from the six months ended June 30, 2016 to $10.0 million for the same period of 2017, primarily due to a 1.8% increase in the number of rooms available and improvements in RevPAR in the countries in which we operate. International rooms increased by 1,956 from 111,366 as of June 30, 2016 to 113,322 as of June 30, 2017. The total number of international hotels decreased by 12 from 1,156 as of June 30, 2016 to 1,144 as of June 30, 2017. International rooms grew 1.8% despite a decline in the number of hotels open and operating primarily due to a focus on new entrants with higher per unit room counts than currently in the Company's international franchised hotel portfolio.

Initial Franchise and Relicensing Fees

Domestic initial fee revenue, included in the initial franchise and relicensing fees caption on the Company's statements of income, generated from executed franchise agreements decreased $0.4 million to $5.1 million for the six months ended June 30, 2017 from $5.4 million for the six months ended June 30, 2016. Domestic initial fee revenue decreased approximately 7% despite a 30% increase in executed franchise agreements primarily due to an increase in franchise agreements containing forgivable promissory note incentives when compared to the same period of the prior year. Revenues associated with agreements including incentives are deferred and recognized when the incentive criteria are met or the agreement is terminated, whichever comes first. Executed franchise agreements increased from 217 franchise agreements, representing 18,376 rooms, executed in the six months ended June 30, 2016, to 282 franchise agreements, representing 20,592 rooms executed in the six months ended June 30, 2017.

During the six months ended June 30, 2017, 94 of the executed agreements were for new construction hotel franchises representing 6,645 rooms, compared to 57 contracts representing 5,038 rooms for the six months ended June 30, 2016. Conversion hotel executed franchise agreements totaled 188 representing 13,947 rooms for the six months ended June 30, 2017 compared to 160 agreements representing 13,338 rooms for the same period a year ago.

Relicensing fees include fees charged to the new owners of a franchised property whenever an ownership change occurs and the property remains in the franchise system as well as fees required to renew expiring franchise contracts. Domestic relicensing contracts increased 19% from 199 for the six months ended June 30, 2016 to 237 for the six months ended June 30, 2017, offset by renewals of expired contracts decreasing from 15 for the six months ended June 30, 2016 to 6 in the current period. As a result of the net increase in relicensing and renewal contracts, domestic relicensing and renewal revenues increased $1.6 million or 30% from $5.2 million for the six months ended June 30, 2016 to $6.8 million for the six months ended June 30, 2017.

Procurement Services: Revenues increased $1.4 million or 9% from $16.1 million for the six months ended June 30, 2016 to $17.5 million for the six months ended June 30, 2017. The increase in revenues primarily reflects the implementation of new brand programs as well as an increase in the volume of business transacted with existing and new qualified vendors and strategic alliance partners.

Other Income: Revenue increased $5.5 million from the six months ended June 30, 2016 to $16.2 million for the six months ended June 30, 2017. The increase in other income is primarily due to a $1.0 million increase in revenues related to the Company's non-hotel franchising divisions, $3.0 million related to the sale of chip-enabled credit card readers to our franchisees, as well as a $1.5 million increase in non-compliance and termination awards.

Selling, General and Administrative Expenses: The cost to operate the business is reflected in SG&A on the consolidated statements of income. SG&A expenses were $71.1 million for the six months ended June 30, 2017, a decrease of $4.1 million or 5% from the six months ended June 30, 2016.

SG&A expenses for the six months ended June 30, 2017 and 2016 include approximately $9.1 million and $13.7 million, respectively, related to the Company's SkyTouch and vacation rental divisions, and expenses related to operations of an office building leased to a third party. Excluding the SG&A expenses for non-hotel franchising divisions, SG&A for the six months ended June 30, 2017 increased $0.5 million or 1% to $62.0 million in the current year primarily due to $2.2 million of increased costs related to distribution of chip-enabled card readers to our franchisees, a $1.2 million increase in expenses related to the fluctuation of the fair market value of investments held in the Company's non-qualified deferred compensation plans, partially offset by a $2.3 million decrease in employee termination benefits from the same period of the prior year.

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

Total marketing and reservation system revenues increased 3% from $260.2 million for the six months ended June 30, 2016 to $267.5 million for the six months ended June 30, 2017. Marketing and reservation system revenues for the six months ended June 30, 2016 were impacted by the recognition of $30.7 million of previously deferred revenues. The recognition of deferred revenues during the prior year period was primarily due to a change in the expiration policy for the Choice Privileges membership program. Excluding the impact of the recognition of these deferred revenues, marketing and reservation system revenues increased approximately $38 million or 17%. Revenues growth for the six months ended June 30, 2017 primarily reflect new reservation delivery programs as well as improved revenues from the Choice Privileges loyalty program resulting from the growth in program membership, increases in average daily rates as well as a reduction in the actuarial estimate of points earned by members that will ultimately be redeemed.

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Other Gains: Other gains increased from a gain of $0.3 million for the six months ended June 30, 2016 to a gain of $1.5 million for same period of the current year due to fluctuations in the fair value of investments held in the Company's non-qualified employee benefit plans.
Equity in Net Losses of Affiliates: The Company recorded net losses of $2.9 million from its unconsolidated joint ventures for the six months ended June 30, 2017, compared to net losses of $1.4 million for the six months ended June 30, 2016. The fluctuations in net income and loss from affiliates is primarily attributable to the results from operations during the ramp-up period of operations for several recently opened hotel projects owned by unconsolidated joint ventures. These investments relate to the Company's program to offer equity support to qualified franchisees to develop and operate Cambria hotel & suites in strategic markets.

Income Taxes: The effective income tax rates were 32.2% and 30.2% for the six months ended June 30, 2017 and 2016, respectively. The effective income tax rates for the six months ended June 30, 2017 and 2016 were lower than the U.S. federal income tax rate of 35% due the impact of foreign operations and ASU 2016-09 benefits from share-based compensation, partially offset by state income taxes.

Liquidity and Capital Resources
Operating Activities
During the six months ended June 30, 2017 and 2016, net cash provided by operating activities totaled $64.1 million and $27.9 million, respectively. Operating cash flows increased $36.2 million primarily due to improvements in operating income, an increase in cash flows from marketing and reservation activities, and timing of working capital items. The increases were offset by a $40.1 million decrease in deferred revenues as the prior year deferred revenues increased by $42.1 million primarily due to a change in the Company's point expiration policy for its Choice Privileges loyalty program.
Net cash provided by marketing and reservation activities totaled $17.4 million during the six months ended June 30, 2017 compared to net cash used of $42.7 million during the six months ended June 30, 2016. The increase in net cash used by marketing and reservation activities primarily reflects a one-time deferral of revenue related to a change in the Company's expiration policy for the Company's loyalty program in 2016.
In conjunction with brand and development programs, the Company provides financing to franchisees for property improvements and other purposes in the form of forgivable notes receivable. If the franchisee remains in the system in good standing over the term of the promissory note, the Company forgives the outstanding principal balance and related interest. Since these forgivable notes are predominantly forgiven ratably over the term of the promissory note rather than repaid, the Company classifies the related issuance and collections of these notes as operating activities. During the six months ended June 30, 2017 and 2016, the Company's net advances for these purposes totaled $14.1 million and $13.2 million, respectively. The timing and amount of these cash flows is dependent on various factors including the implementation of various development and brand incentive programs, the level of franchise sales and the timing of hotel openings. At June 30, 2017, the Company had commitments to extend an additional $193.8 million for these purposes provided certain conditions are met by its franchisees, of which $84.9 million is scheduled to be advanced in the next twelve months.
Investing Activities
Cash utilized for investing activities totaled $67.3 million and $53.9 million for the six months ended June 30, 2017 and 2016, respectively. The increase in cash utilized for investing activities for the six months ended June 30, 2017 primarily reflects the following items:
During the six months ended June 30, 2017 and 2016, capital expenditures in intangible assets totaled $2.2 million and $0.3 million, respectively. The increase in capital expenditures from 2017 primarily reflects the adoption of Accounting Standards Update 2015-05, Intangibles - Goodwill and Other - Internal Use Software, which provides for capitalization of qualifying Software as a Service licenses as intangible assets.
During the six months ended June 30, 2016, the Company completed three acquisitions of real estate as part of a program to incent franchise development in strategic markets for certain brands for cash totaling $25.4 million. The Company did not have any acquisitions during the six months ended June 30, 2017.

During the six months ended June 30, 2017 and 2016, the Company invested $42.1 million and $19.7 million, respectively, in joint ventures accounted under the equity method of accounting. In addition, the Company received distributions from these joint ventures totaling $1.7 million and $3.6 million for the six months ended June 30, 2017 and 2016, respectively. The Company's investment in these joint ventures primarily relate to ventures that support the Company's efforts to promote growth of our emerging brands. The Company expects to make additional capital contributions totaling $18.8 million to existing joint ventures supporting these efforts.

The Company provides financing to franchisees for hotel development efforts and other purposes in the form of notes receivables. These loans bear interest and are expected to be repaid in accordance with the terms of the loan arrangements. During the six months ended June 30, 2017, the Company advanced and received repayments totaling $15.0 million and $0.6 million for these purposes, respectively. For the six months ended June 30, 2016, the Company advanced $13.0 million and received $10.2 million in repayments related to hotel development efforts. At June 30, 2017, the Company had commitments to extend an additional $4.8 million for these purposes within the next twelve months provided certain conditions are met by its franchisees.

From time to time, our board of directors authorizes specific transactions and general programs which permit us to provide financing, investment and guarantees and similar credit support to qualified franchisees, as well as to acquire and resell real estate to incent franchise development. Since 2006, we have engaged in these financial support activities to encourage acceleration of the growth of our Cambria hotel & suites brand, primarily in strategic markets and locations. Over the next three to five years, depending on market and other conditions, we expect to continue to deploy capital in support of this brand and expect our investment to total approximately $475 million over that time period. The annual pace of future financial support activities will depend upon market and other conditions including among others, our franchise sales results, the environment for new construction hotel development and the hotel lending environment. Our support of the Cambria brand’s growth is expected to be primarily in the form of joint venture investments, forgivable key money loans, senior mortgage loans, development loans, mezzanine lending, and through the operation of a land-banking program. With respect to our lending and joint venture investments, we generally expect to recycle these loans and investments within a five year period. At June 30, 2017, the Company had approximately $261.3 million outstanding pursuant to these financial support activities.

Financing Activities

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

Debt

Senior Unsecured Notes due 2022

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

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

Senior Unsecured Notes due 2020

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

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

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Revolving Credit Facility

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

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

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

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

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

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

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

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

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

At June 30, 2017, the Company maintained a total leverage ratio of 2.75x and a consolidated fixed charge ratio of 7.46x and was in compliance with all financial covenants under the credit agreement.

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

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

Economic Development Loans

The Company entered into economic development agreements with various governmental entities in conjunction with the relocation of its corporate headquarters in April 2013. In accordance with these agreements, the governmental entities agreed to advance approximately $4.4 million to the Company to offset a portion of the corporate headquarters relocation and tenant improvement costs in consideration of the employment of permanent, full-time employees within the jurisdictions. At June 30, 2017, the Company had been advanced approximately $3.7 million pursuant to these agreements and expects to receive the remaining $0.7 million over the next several years, subject to annual appropriations by the governmental entities. These advances bear interest at a rate of 3% per annum.

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

Dividends

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

During the six months ended June 30, 2017, the Company paid cash dividends totaling $24.3 million. We expect to continue to pay dividends in the future, subject to the declaration of our board of directors as well as to future business performance, economic conditions, changes in income tax regulations and other factors including limitations in the Company's credit facility. Based on the present dividend rate and outstanding share count, we expect that aggregate annual regular dividends for 2017 would be approximately $48.6 million.

Share Repurchases

No shares of common stock were purchased by the Company under the share repurchase program during the six months ended June 30, 2017. Since the program's inception through June 30, 2017, we have repurchased 48.7 million shares (including 33.0 million prior to the two-for-one stock split effected in October 2005) of common stock at a total cost of $1.3 billion. Considering the effect of the two-for-one stock split, the Company has repurchased 81.7 million shares at an average price of $15.38 per share. As of June 30, 2017, the Company had approximately 4.0 million shares remaining under the current share repurchase authorization.

During the six months ended June 30, 2017, the Company redeemed 121,134 shares of common stock at a total cost of approximately $7.4 million from employees to satisfy the option exercise price and statutory minimum tax-withholding requirements related to the exercising of stock options and vesting of performance vested restricted stock units and restricted stock grants. These redemptions were outside the share repurchase program.

Other items

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Approximately $190.3 million of the Company's cash and cash equivalents at June 30, 2017 pertains to undistributed earnings of the Company's consolidated foreign subsidiaries. Since the Company's intent is for such earnings to be reinvested by the foreign subsidiaries, the Company has not provided additional U.S. income taxes on these amounts. While the Company has no intention to utilize these cash and cash equivalents in its domestic operations, any change to this policy would result in the Company incurring additional U.S. income taxes on any amounts utilized domestically.

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

Off Balance Sheet Arrangements

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

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

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

The Company believes the likelihood of having to perform under the aforementioned limited payment guarantees was remote at June 30, 2017 and December 31, 2016.

Critical Accounting Policies

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

Revenue Recognition

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

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

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

Marketing and Reservation System Revenues and Expenses

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

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

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

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

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

Valuation of Intangibles and Long-Lived Assets

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

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

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testing is required. If the conclusion is that it is more likely than not that the fair value of the asset is less than its carrying value, then a two-step impairment test is performed for goodwill. The Company may elect to forego the qualitative assessment and move directly to the two-step impairment test for goodwill and the fair value determination for indefinite-lived intangibles. The Company determines the fair value of its reporting units and indefinite-lived intangibles using income and market methods.

Valuation of Investments in Equity Method Investments

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

Loan Loss Reserves

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

Mezzanine and Other Notes Receivables

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

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

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

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

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Forgivable Notes Receivable

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

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

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

Stock Compensation

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

Income Taxes

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

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

New Accounting Standards

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

FORWARD-LOOKING STATEMENTS

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Certain matters discussed in this quarterly report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Generally, our use of words such as "expect," "estimate," "believe," "anticipate," "should", "will," "forecast," "plan," "project," "assume" or similar words of futurity identify such forward-looking statements. These forward-looking statements are based on management's current beliefs, assumptions and expectations regarding future events, which in turn are based on information currently available to management. Such statements may relate to projections of the Company's revenue, earnings and other financial and operational measures, Company debt levels, ability to repay outstanding indebtedness, payment of dividends, and future operations, among other matters. We caution you not to place undue reliance on any such forward-looking statements. Forward-looking statements do not guarantee future performance and involve known and unknown risks, uncertainties and other factors.
Several factors could cause actual results, performance or achievements of the Company to differ materially from those expressed in or contemplated by the forward-looking statements. Such risks include, but are not limited to, changes to general, domestic and foreign economic conditions; changes in law and regulation applicable to the lodging and franchising industries foreign currency fluctuations; operating risks common in the lodging and franchising industries; changes to the desirability of our brands as viewed by hotel operators and customers; changes to the terms or termination of our contracts with franchisees and our relationships with our franchisees; our ability to keep pace with improvements in technology utilized for marketing and reservations systems and other operating systems; the commercial acceptance of our SkyTouch division's products and services; our ability to grow our franchise system; exposures to risks relating to our hotel development and financing activities; fluctuations in the supply and demand for hotels rooms; our ability to realize anticipated benefits of acquired businesses; the level of acceptance of alternative growth strategies we may implement; cyber security and data breach risks; operating risks associated with international operations; the outcome of litigation; and our ability to effectively manage our indebtedness. These and other risk factors are discussed in detail in the Risk Factors section of the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission on February 27, 2017. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law.

ITEM 3.QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in interest rates and the impact of fluctuations in foreign currencies on the Company's foreign investments and operations. The Company manages its exposure to these market risks through the monitoring of its available financing alternatives including in certain circumstances the use of derivative financial instruments. We are also subject to risk from changes in debt and equity prices from our non-qualified retirement savings plan investments in debt securities and common stock, which have a carrying value of $20.3 million and $19.1 million at June 30, 2017 and December 31, 2016, respectively which we account for as trading securities. The Company will continue to monitor the exposure in these areas and make the appropriate adjustments as market conditions dictate.
At June 30, 2017, the Company had $208.2 million of variable interest rate debt instruments outstanding at an effective rate of 2.51%. A hypothetical change of 10% in the Company’s effective interest rate from June 30, 2017 levels would increase or decrease annual interest expense by $0.5 million. The Company expects to refinance its fixed and variable long-term debt obligations prior to their scheduled maturities.
The Company does not presently have any derivative financial instruments.

ITEM 4. CONTROLS AND PROCEDURES

Management’s Evaluation of Disclosure Controls and Procedures

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

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

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An evaluation was performed under the supervision and with the participation of the Company's CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of June 30, 2017.

Changes in internal control over financial reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2017, that materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

Issuer Purchases of Equity Securities

The following table sets forth purchases and redemptions of Choice Hotels International, Inc. common stock made by the Company during the six months ended June 30, 2017:

Month Ending	Total Number of Shares Purchased or Redeemed	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1),(2)	Maximum Number of Shares that may yet be Purchased Under the Plans or Programs, End of Period
January 31, 2017	—	$ —	—	4,019,895
February 28, 2017	39,214	59.13	—	4,019,895
March 31, 2017	79,717	62.13	—	4,019,895
April 30, 2017	879	63.06	—	4,019,895
May 31, 2017	—	—	—	4,019,895
June 30, 2017	1,324	65.35	—	4,019,895
Total	121,134	$ 61.20	—	4,019,895

(1) The Company's share repurchase program was initially approved by the board of directors on June 25, 1998. The program has no fixed dollar amount or expiration date. Since the program's inception through June 30, 2017, the Company has repurchased 48.7 million shares (including 33.0 million prior to the two-for-one stock split effected in October 2005) of common stock at a total cost of $1.3 billion. Considering the effect of the two-for-one stock split, the Company has repurchased 81.7 million shares at an average price of $15.38 a share.

(2) During the six months ended June 30, 2017, the Company redeemed 121,134 shares of common stock from employees to satisfy the option price and minimum tax-withholding requirements related to the exercising of options and vesting of restricted stock and performance vested restricted stock unit grants. These redemptions were

not part of the board repurchase authorization.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS
Exhibit Number and Description

Exhibit Number	Description
3.01(a)	Restated Certificate of Incorporation of Choice Hotels Franchising, Inc. (renamed Choice Hotels International, Inc.)
3.02(b)	Amendment to the Restated Certificate of Incorporation of Choice Hotels International, Inc.
3.03(c)	Amended and Restated Bylaws of Choice Hotels International, Inc.
3.04(d)	Amendment to the Amended and Restated Bylaws of Choice Hotels International, Inc.
3.05(e)	Amendment to the Amended and Restated Bylaws of Choice Hotels International, Inc.
10.01(f)	Choice Hotels International, Inc. 2017 Long-Term Incentive Plan
10.02*	Third Amendment to Office Lease Between Choice Hotels International Services Corp., a wholly owned subsidiary of Choice Hotels International, Inc., and FP Rockville Limited Partnership, dated April 18, 2017
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a)
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a)
32*	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Label Linkbase Document
101.PRE*	XBRL Taxonomy Presentation Linkbase Document

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*Filed herewith

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

Incorporated by reference to the identical document filed as an exhibit to Choice Hotels International, Inc.'s Current Report on Form 8-K filed February 16, 2010.

(d) Incorporated by reference to the identical document filed as an exhibit to Choice Hotels International, Inc.'s Current Report on Form 8-K filed April 29, 2015.

(e) Incorporated by reference to the identical document filed as an exhibit to Choice Hotels International, Inc.'s Current Report on Form 8-K filed on January 13, 2016.

(f) Incorporated by reference to the identical document filed as an exhibit to Choice Hotels International, Inc.'s Current Report on Form 8-K filed on April 24, 2017.

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SIGNATURE

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

	CHOICE HOTELS INTERNATIONAL, INC.	
August 4, 2017	By:	/s/ STEPHEN P. JOYCE
		Stephen P. Joyce
		Chief Executive Officer