CHOICE HOTELS INTERNATIONAL INC /DE
Form 10-K
February 26, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the year ended December 31, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-13393

CHOICE HOTELS INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer", "accelerated filer", "smaller reporting company”, and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check one):
Large accelerated filer x Accelerated filer o Smaller reporting company o Non-accelerated filer 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. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act)
Yes ¨ No ý
The aggregate market value of common stock of Choice Hotels International, Inc. held by non-affiliates was $2,690,763,894 as of June 30, 2018 based upon a closing price of $75.60 per share.
The number of shares outstanding of Choice Hotels International, Inc.’s common stock at February 15, 2019 was 55,653,557.

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DOCUMENTS INCORPORATED BY REFERENCE.
Certain portions of our definitive proxy statement, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the Annual Meeting of Shareholders to be held on April 19, 2019, are incorporated by reference under Part III of this Form 10-K.

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PART I

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

Forward-Looking Statements

Certain matters discussed in this 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, expenses, 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 software as a service ("SaaS") technology solutions division's products and services; our ability to grow our franchise system; exposure to risks related to our hotel development activities; exposures to risks associated with our investments in new businesses; fluctuations in the supply and demand for hotel rooms; our ability to realize anticipated benefits from acquired businesses; the level of acceptance of alternative growth strategies we may implement; cyber security and data breach risks; operating risks associated with our international operations; the outcome of litigation; and our ability to manage our indebtedness. These and other risk factors are discussed in detail in Item 1A. Risk Factors of this report. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). Our SEC filings are available to the public over the internet at the SEC’s web site at http://www.sec.gov. Our SEC filings are also available free of charge on our website at http://www.choicehotels.com as soon as reasonably practicable following the time that they are filed with or furnished to the SEC. Information on or connected to our website is neither part of nor incorporated by reference into this Annual Report on Form 10-K or any other SEC filings.

Item 1. Business.

Overview

We are one of the largest hotel franchisors in the world with 7,021 hotels open and 1,082 hotels under construction, awaiting conversion or approved for development as of December 31, 2018 representing 569,108 rooms open and 87,061 rooms under construction, awaiting conversion or approved for development in 50 states, the District of Columbia and over 40 countries and territories outside the United States. Choice franchises lodging properties under the following proprietary brand names: Comfort Inn®, Comfort Suites®, Quality®, Clarion®, Clarion Pointe ™, Sleep Inn®, Econo Lodge®, Rodeway Inn®, MainStay Suites®, Suburban Extended Stay Hotel®, WoodSpring Suites®, Cambria® Hotels, and Ascend Hotel Collection® (collectively, the "Choice brands").

The Company's primary segment is the hotel franchising business, which represents approximately 99% of the Company's total revenues. 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. 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 and relicensing fee revenue, ongoing royalty fees and procurement services revenues. In addition to these revenues, we also collect marketing and reservation system fees to provide support activities for the franchise system. Our operating results can also be improved through our company-wide efforts related to improving property-level performance.

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The principal factors that affect the Company’s franchising results are: the number and 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 royalty and marketing and reservation system fees are primarily based upon room revenues or the number of rooms at franchised hotels. The key industry standard for measuring hotel-operating performance is revenue per available room ("RevPAR"), which is calculated by multiplying the percentage of occupied rooms by the average daily room rate realized. Our variable overhead costs associated with franchise system growth of our established brands have historically been less than incremental royalty fees generated from new franchises. Accordingly, continued growth of our franchise business should enable us to realize benefits from the operating leverage in place and improve operating results.

We are required by our franchise agreements to use the marketing and reservation system fees we collect for system-wide support activities. These expenditures, which include advertising costs and costs to maintain our central reservations and property management systems, help to enhance awareness and increase consumer preference for our brands 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 them 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.

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. We maintain a capital structure that generates high financial returns and use our excess cash flow to provide returns to our shareholders primarily through share repurchases, dividends or investing in growth opportunities.

Historically, we have returned value to our shareholders in two primary ways: share repurchases and dividends. In 1998, we instituted a share repurchase program which has generated substantial value for our shareholders. Since the program's inception through December 31, 2018, we repurchased 50.5 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 $1.4 billion. Considering the effect of the two-for-one stock split, the Company repurchased 83.5 million shares at an average price of $16.74 per share. As of December 31, 2018, the Company had 2.2 million shares remaining under the current share repurchase authorization. We currently believe that our cash flows from operations will support our ability to complete the current board of directors repurchase authorization and 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. The annual dividend in 2018 was $0.86 per share. We expect to continue to pay dividends in the future, subject to quarterly declaration by our board of directors as well as future business performance, economic conditions, changes in income tax regulations and other factors.

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

Our direct lodging property real estate exposure is limited to activity in the United States. In addition, our development activities that involve financing, equity investments and guaranty support to hotel developers create limited additional exposure to the real estate markets. For additional information, see the "Investing Activities" caption under the "Liquidity and Capital Resources" section in Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Company was incorporated in 1980 under the laws of the State of Delaware.

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The Lodging Industry

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

- Ownership requires a substantial capital commitment and involves the most risk but offers high returns due to the owner's ability to influence margins by driving RevPAR, managing operating expenses and financial leverage. The ownership model has a high fixed-cost structure that results in a high degree of operating leverage relative to RevPAR performance. As a result, profits escalate rapidly in a lodging up-cycle but erode quickly in a downturn as costs rarely decline as fast as revenue. Profits from an ownership model increase at a greater rate from RevPAR growth attributable to average daily rate ("ADR") growth, than from occupancy gains since there are more incremental costs associated with higher guest volumes compared to higher pricing.
- Franchisors license their brands to a hotel owner, giving the hotel owner the right to use the brand name, logo, operating practices, and reservations systems in exchange for a fee and an agreement to operate the hotel in accordance with the franchisor's brand standards. Under a typical franchise agreement, the hotel owner pays the franchisor an initial fee, a percentage-of-revenue royalty fee and a marketing/reservation fee. A franchisor's revenues are dependent on the number of rooms in its system and the top-line performance of those hotels. Earnings drivers include RevPAR increases, unit growth and effective royalty rate improvement. Franchisors enjoy significant operating leverage in their business model since it typically costs little to add a new hotel franchise to an existing system. Franchisors normally benefit from higher industry supply growth, because unit growth usually outpaces lower RevPAR resulting from excess supply. As a result, franchisors benefit from both RevPAR growth and supply increases which aids in reducing the impact of lodging industry economic cycles.
- Management companies operate hotels for owners that do not have the expertise and/or the desire to self-manage. These companies collect management fees predominately based on revenues earned and/or profits generated. Similar to franchising activities, the key drivers of revenue based management fees are RevPAR and unit growth and similar to ownership activities, profit based fees are driven by improved hotel margins and RevPAR growth.

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

Hotel room supply growth is cyclical as hotel construction responds to interest rates, construction and material supply conditions, capital availability and industry fundamentals. Historically, the industry has added hotel rooms to its inventory through new construction due largely to favorable lending environments that encouraged hotel development. Typically, hotel development continues during favorable lending environments until the increase in room supply outpaces demand. The excess supply eventually results in lower occupancies, which results in hoteliers reducing room rates to stimulate demand, and reduced hotel development. Over time, the slow growth in hotel supply results in increased occupancy rates and allows hotels to again raise room rates. The increase in occupancy and room rates serves as a catalyst for increased hotel development.

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The following chart demonstrates these trends over the last fifteen years:
US Lodging Industry Trends: 2004 - 2018

Year	Occupancy Rates	Average Daily Room Rates (ADR)	Change in ADR Versus Prior Year	Change in CPI Versus Prior Year	Revenue Per Available Room (RevPAR)	New Rooms Added (Gross)
2004	61.3 %	$86.41	3.9 %	2.7 %	$52.93	55,245
2005	63.1 %	$90.84	5.1 %	3.4 %	$57.34	65,900
2006	63.4 %	$97.31	7.1 %	3.2 %	$61.69	73,308
2007	63.1 %	$104.04	6.9 %	2.8 %	$65.61	94,541
2008	60.3 %	$106.96	2.8 %	3.8 %	$64.49	146,312
2009	54.5 %	$98.17	(8.2)%	(0.4)%	$53.50	142,287
2010	57.5 %	$98.06	(0.1)%	1.6 %	$56.43	73,976
2011	59.9 %	$101.85	3.9 %	3.2 %	$61.02	38,409
2012	61.3 %	$106.25	4.3 %	2.1 %	$65.15	43,879
2013	62.2 %	$110.30	3.8 %	1.5 %	$68.58	54,020
2014	64.4 %	$114.92	4.2 %	0.8 %	$74.04	63,346
2015	65.4 %	$120.30	4.7 %	0.7 %	$78.68	85,596
2016	65.4 %	$124.13	3.2 %	2.1 %	$81.15	100,757
2017	65.9 %	$126.77	2.1 %	2.1 %	$83.53	118,947
2018	66.2 %	$129.83	2.4 %	1.9 %	$85.96	115,306

Source: Smith Travel Research and US Department of Labor

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

The Company’s portfolio of brands offers both new construction and conversion opportunities. Our new construction brands typically benefit from periods of supply growth and favorable capital availability and pricing. Our conversion brands also benefit from periods of supply growth as the construction of hotels increases the need for existing hotels to seek new brand affiliations. Furthermore, the Company's conversion brands benefit from lodging cycle downturns as our unit growth has been historically driven from the conversion of independent and other hotel chain affiliates into our system as these hotels endeavor to improve their performance.

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

Chain Scale	Brand Examples	Room Count	% of Total	Avg. No. of Rooms Per Hotel
Luxury	Four Seasons, Ritz Carlton, W Hotel, JW Marriott	125,065	2.4 %	318.2
Upper Upscale	Marriott, Hilton, Hyatt, Sheraton	620,910	11.7%	332.6
Upscale	Cambria Hotels, Courtyard, Hyatt Place, Hilton Garden Inn	790,995	15.0%	150.4
Upper Midscale	Comfort Inn, Holiday Inn Express, Hampton Inn, Fairfield Inn	984,673	18.6%	97.6
Midscale	Quality Inn, Sleep Inn, Best Western, Baymont	493,501	9.3 %	83.2
Economy	Econo Lodge, Super 8, Days Inn, Motel 6	766,227	14.5%	75.0
Sub-Total Brand Affiliated		3,781,371	71.5%	112.0
Independents		1,508,867	28.5%	68.1
Total All Hotels		5,290,238	100 %	94.6

According to Smith Travel Research, the lodging industry consisted of approximately 55,900 hotels representing approximately 5.3 million rooms open and operating in the United States at December 31, 2018. During the year ended December 31, 2018, the industry added approximately 115,000 gross rooms to the industry supply and net room growth was approximately 1.7%. Approximately, 77% of the new rooms opened during the year were positioned in the Upscale, Upper Midscale, Midscale and Economy chain scale segments in which we primarily operate.

The lodging industry consists of independent operators of hotels and those that have joined national hotel franchise chains. Independent operators of hotels not owned or managed by major lodging companies have increasingly joined national hotel franchise chains as a means of remaining competitive with hotels owned by or affiliated with national lodging companies. Over the years, the industry has seen a significant movement of hotels from independent to chain affiliation, with affiliated hotels increasing from 46% of the rooms in the market in 1990 to 72% of the market in 2018. However, the pace of this increase has moderated over the last several years and in 2018 the percentage of rooms in the market affiliated with a chain increased by approximately 50 basis points from 71.0% to 71.5%.

Due to the fact that a significant portion of the costs of owning and operating a hotel are generally fixed, increases in revenues generated by affiliation with a franchise lodging chain can improve a hotel’s financial performance. The large franchise lodging chains, including us, generally provide a number of support services to hotel operators designed to improve the financial performance of their properties including central reservation and property management systems, marketing and advertising programs, training and education programs, revenue enhancement services and relationships with qualified vendors to streamline purchasing processes and make lower cost products available. We believe that national franchise chains with a large number of hotels enjoy greater brand awareness among potential guests and greater bargaining power with suppliers than those with fewer hotels, and that greater brand awareness and bargaining power can increase the desirability of a hotel to its potential guests and reduce operating costs of a hotel. Furthermore, we believe that hotel operators choose lodging franchisors based primarily on the perceived value and quality of each franchisor’s brand and its services, and the extent to which affiliation with that franchisor may increase the hotel operator profitability.

Choice’s Franchising Business

Choice operates primarily as a hotel franchisor offering 13 brands. This family of well-known and diversified new construction and conversion brands competes at various hotel consumer and developer price points.

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

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

Our family of well-known and diversified brand offerings positions us well within the lodging industry. Our new build brands such as Cambria Hotels, Comfort, Sleep Inn and WoodSpring offer hotel developers an array of choices at various price points for transient and extended stay business during periods of supply growth. Our brands such as Quality, Ascend Hotel Collection and Econo Lodge offer conversion opportunities during both industry contraction and growth cycles to independent operators and non-Choice affiliated hotels who desire to affiliate with our brands and take advantage of the services we have to offer.

Strategy. Our mission is a commitment to franchisee profitability by providing our franchisees with hotel franchises that strive to generate the highest return on investment of any hotel franchise. Our business strategy is to create franchise system growth by leveraging Choice's large and well-known hotel brands, franchise sales capabilities, effective marketing and reservation delivery efforts, training and education programs, RevPAR enhancing services and technologies and financial strength created by our significant free cash flow. We believe our brands' growth will be driven by our ability to create a compelling return on investment for franchisees. Our strategic objective is to improve profitability of our franchisees by providing services which increase business delivery, enhance RevPAR, reduce hotel operating and development costs, and/or improve guest satisfaction. Specific elements of our strategy include: building strong brands, delivering exceptional services, reaching more consumers and leveraging our size, scale and distribution to reduce costs for hotel owners. We believe that by focusing on these elements we can increase the gross room revenues generated by our franchisees by increasing the business delivered to existing franchisees and expanding our market share of franchised hotels in the chain scale segments in which we operate or seek to operate. Improving the desirability of our brands should also allow us to continue to improve the effective royalty rate of our contracts.

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

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

We strive to maintain the strength of our brands by enhancing product consistency and quality. We attempt to achieve consistency and quality for new entrants into the franchise system by placing prospective hotels in the appropriate brand based on the physical characteristics, performance and amenities of the hotel and by requiring property improvement plans, when necessary, to ensure the new hotel meets the quality standards of the brand. Furthermore, we may require hotels currently in our franchise system to execute property improvement plans at specified contractual windows to ensure that they continue to maintain the product consistency and quality standards of the brand.

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

Delivering Exceptional Services. We provide a combination of services and technology based offerings to help our franchisees improve performance. We have field services staff members located nationwide that help franchisees improve RevPAR performance and guest satisfaction. In addition, we provide our franchisees with education and

training programs as well as revenue management technology and services designed to improve property level performance. These services and products promote revenue gains for franchisees and improve guest satisfaction which translate into both higher royalties for the Company and improved returns for owners, leading to further room growth by making our brands even more attractive to prospective franchisees. We develop our services based on customer needs and focus on activities that generate high return on investment for our franchisees.
Reaching More Consumers. We believe hotel owners value and benefit from the large volume of guests we deliver through a mix of activities including brand marketing, reservation systems, account sales (corporate, government, social, military,

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educational and fraternal organizations), and the Company's loyalty program, Choice Privilege®. Our strategy is to maximize the effectiveness of these activities in delivering both leisure and business travelers to Choice-branded hotels.

The Company intends to continue to increase awareness of its brands through its national marketing campaigns and its Choice Privileges loyalty program promotions. These campaigns are intended to generate a compelling message to consumers to create even greater awareness for our brands with the ultimate goal of driving business through our central reservation system. Local and regional co-op marketing campaigns will continue to be utilized to leverage the national marketing programs to drive business to our franchised properties at a local level. We expect our efforts at marketing directly to individual guests and corporate customers will continue to be enhanced through the use of our customer relationship management technology and programs; as well as, our field based sales agents that are focused on increasing our share of business travelers. Our continued focus on overall brand quality coupled with our marketing initiatives is designed to stimulate room demand for our franchised hotels through improved guest awareness and satisfaction.

Our central reservations system is a critical technology used to deliver guests to our franchisees through multiple channels, including our call centers, proprietary web and mobile sites, global distribution systems (e.g., SABRE, Amadeus), on-line travel agents ("OTAs") (e.g., Expedia, Booking.com) and internet referral or booking services (e.g., Kayak, Trip Advisor). We believe our well-known brands, combined with our relationships with many internet distribution web sites, benefits our franchisees by facilitating increased rate and reservations delivery, and reducing costs and operational complexity.

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

Domestic Franchise System

Our standard domestic franchise agreements grant franchisees the non-exclusive right to use certain of our trademarks and receive other benefits of our franchise system to facilitate the operation of their franchised hotel at a specified location. The majority of our standard domestic franchise agreements are 10 to 30 years in duration with certain rights for each of the franchisor and franchisee to terminate their franchise agreement, such as upon designated anniversaries of the agreement, before the 30th (or 10th, as applicable) year. Our franchisees operate domestically under one of thirteen Choice brand names: Comfort Inn, Comfort Suites, Quality, Clarion, Clarion Pointe, Sleep Inn, Econo Lodge, Rodeway Inn, Mainstay Suites, Suburban Extended Stay Hotel, WoodSpring Suites, Cambria Hotels, and Ascend Hotel Collection.

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The following table presents key statistics related to our domestic franchise system over the five years ended December 31, 2018:

	As of and For the Year Ended December 31,				
	2014	2015	2016	2017	2018
Number of properties, end of period	5,221	5,276	5,362	5,501	5,863
Number of rooms, end of period	398,661	400,372	404,498	413,015	450,028
Royalty fees ($000)(1)	$262,675	$281,100	$300,383	$323,674	$359,502
Average royalty rate(2)	4.28 %	4.30 %	4.41 %	4.60 %	4.75 %
Average occupancy percentage(2)	59.5 %	61.1 %	61.7 %	62.2 %	63.3 %
Average daily room rate (ADR)(2)	$77.03	$79.86	$82.64	$84.02	$81.64
Revenue per available room (RevPAR)(2)	$45.80	$48.78	$51.00	$52.25	$51.65

(1) Royalty fees exclude the impact of franchise agreement acquisition cost amortization.

(2) 2014 and 2015 amounts exclude operating statistics from Cambria Hotel properties open during these periods as the operating statistics are not representative of a stabilized brand which the Company defines as having at least 25 units open and operating for a twelve month period. Additionally, the periods prior to 2018 exclude operating statistics from WoodSpring Suites properties, while 2018 includes full year operating statistics.

Currently, no individual franchisee accounts for more than 2% of the Company's total domestic royalty fees.

Industry Positioning

Our brands offer consumers and developers a wide range of options, including economy, mid-scale, upper mid-scale and upscale hotels. Our brands are as follows:

Cambria Hotels: Cambria Hotels is predominantly a new construction select service hotel chain that operates in the upscale lodging category, targeting primary market locations. The brand has expanded to target growth through conversions and adaptive reuse projects in markets where new construction has an extremely high barrier to entry. Designed for the modern business traveler, Cambria offers guests a distinct experience with simple, guilt-free indulgences allowing them to treat themselves while on the road. The brand is designed to provide guests with the freedom to be their best self. The environment matches guests' casual lifestyle but tailored to their business travel needs. Properties feature compelling design inspired by the location, spacious and comfortable rooms, spa inspired bathrooms, flexible meeting space, and locally sourced prepared food and craft beer. Principal competitor brands include Courtyard by Marriott, Aloft, Hyatt Place, Hotel Indigo and Hilton Garden Inn.

Ascend Hotel Collection: Ascend Hotel Collection is an innovative membership program that enables individual hotels (unique, boutique and/or historic) to retain their individuality and identity but have access to Choice Hotels' global distribution, technology, services, training and loyalty benefits. Ascend Hotel Collection offers the best of both worlds: independence backed up by a powerful global distribution network. Principal competitors include Tapestry, Autograph Collection, BW Premier Collection, BW Signature Collection and Small Luxury Hotels.

Comfort Inn & Comfort Suites: The Comfort brands are primarily upper mid-scale limited service hotels that offer a warm and welcoming guest experience designed to help travelers feel refreshed and ready to take on the day. The brand family includes Comfort Inn, Comfort Inn & Suites, and Comfort Suites. One of the original brands in the limited service category, Comfort has built a reputation for consistent high-value accommodations for both business and leisure travelers. Comfort hotels offer complimentary hot breakfast with hearty and healthy options, a swimming pool and/or fitness center, free high-speed internet access and a 100% smoke-free environment. Comfort Suites properties are tailored to meet the demands of today's business traveler, with each oversized suite featuring separate areas for working and relaxing, along with a sleeper sofa, refrigerator and microwave. Comfort Suites hotels also offer a business center and marketplace. Principal competitor brands include Hampton, Holiday Inn Express and Fairfield Inn & Suites.

Sleep Inn: Sleep Inn is a midscale new construction brand offering developers a lower cost to build with competitive mid-scale average daily rates. Sleep Inn delivers a reliable, simply stylish guest experience, providing both business and leisure travelers with free high-speed internet access, a complimentary Morning Medley hot breakfast, and

an exercise room and/or pool. Sleep Inn’s competitors include AmericInn, Baymont and Country Inn & Suites.
Clarion: Clarion helps owners of existing midscale assets with food and beverage capabilities achieve strong returns with reasonable investment. Clarion allows a more focused and efficient food and beverage operational model that works well with a variety of conversion property configurations. Clarion helps business and leisure guests "get together" by providing meeting/banquet facilities with catering, hot breakfast, a simplified menu of basic evening meals and lounge with at least beer and wine

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selections. Amenities include free high-speed internet access, a pool or fitness center, and a business center. Principal competitor brands include Four Points by Sheraton and Radisson.

Clarion Pointe: Clarion Pointe is a select service franchise that is ideal for owners who want to strategically reposition their limited service property into a brand with strong awareness and a concept that satisfies the expectations of emerging travelers-a convenient and affordable experience with premium elements in just the right places. It was launched in September 2018, and the Company expects the first hotel to open in the first quarter of 2019.

Quality: Quality helps both guests and owners "get your money's worth" in the midscale category. Quality hotels provide clean, comfortable, and affordable accommodations, as well as the "Value Qs" - Q Bed, Q Breakfast, Q Shower, Q Service, and the Q Essentials including free high-speed internet access, coffee, local phone calls, and a daily newspaper. Principal competitor brands include Best Western and Ramada.

MainStay Suites: MainStay Suites competes in the mid-scale extended stay category. The Mainstay Suites guest experience delivers on a "Live Like Home" promise for guests whose stays are longer than a few nights. Typically, longer hotel stays involve relocations, leisure travel, training, or temporary job assignments. MainStay guest rooms feature free high-speed internet access, fully equipped kitchens with a two-burner range, dishes, utensils, dishwasher, sink with disposal, microwave, and full size refrigerator. All suites include a sleeper sofa or lounge chair and comfortable work area with ergonomic chair. MainStay Suites offer a business center with computer and printer, as well as complimentary continental breakfast. Each hotel also has a ‘MainStay Marketplace’ when guests may purchase a variety of food and sundry items. MainStay Suites' principal competitors include TownePlace Suites, Candlewood Suites, Home2 Suites and Hawthorn Suites.

Suburban Extended Stay Hotel: Suburban Extended Stay Hotel suites are built with today’s value-conscious extended stay guest in mind. All suites provide well-equipped kitchens, free high-speed internet access, and access to on-site laundry facilities. Suburban rooms offer well equipped kitchens including two burner cooktops, refrigerator, microwave and necessary cooking and eating utensils. Suburban’s “just what you need” philosophy matches attractive weekly pricing with weekly housekeeping to provide extended stay guests with the all-suite accommodations they want without the cost of services they do not need. All hotels offer complimentary high-speed internet access. Principal competitors include Extended Stay America, InTown Suites, and Studio 6.

WoodSpring Suites: The Company acquired WoodSpring Suites on February 1, 2018 adding 239 new hotels to its portfolio. WoodSpring hotels are value-engineered, purpose built new construction hotels that operate in the economy extended stay category. WoodSpring guests typically stay longer than guests at a traditional hotel with guest stay occasions including government/military temporary duty, traveling medical practitioners, relocations, home renovations, vacations, continuing education, crew projects, and life circumstances necessitating alternatives to traditional hotels. WoodSpring developers adhere to strict prototype/design specifications. Every room is a suite with chairs or sofa, flat panel TV, free movie channel, desk/work table, well-designed kitchenette with full-size refrigerator, twin-burner cooktop, and microwave oven. Free basic Wi-Fi is included, and bi-weekly housekeeping is provided. Guests may purchase additional linen replacement/housekeeping services. Most hotels are pet-friendly and offer a 24/7 guest laundry room. WoodSpring’s essential value proposition is: Simple, done better. The brand was founded in 2003 as Value Place and re-launched as WoodSpring Suites in 2015. Principal national competitors include Extended Stay America, MyPlace and Studio 6.

Econo Lodge: Econo Lodge is the premier brand in the economy hotel category that is an easy stop on the road for value-oriented travelers. Free high speed internet, a premium movie channel and complimentary continental breakfast are just some of the amenities that position Econo Lodge as a great value in the economy category. The brand competes primarily with Days Inn, Super 8 and Red Roof Inn.

Rodeway Inn: Rodeway Inn is a brand that also serves the economy segment and offers sensible lodging for travelers on a budget. Rodeway offers a welcoming environment at an affordable rate. With free coffee to get guests started in the morning, free high-speed internet and a free premium movie channel, Rodeway is a great option for practical travelers. Principal competitor brands include Americas Best Value Inn and Motel 6.

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The following table presents key statistics related to the domestic system for our brands over the five years ended December 31, 2018:

	As of and For the Year Ended December 31,				
	2014	2015	2016	2017	2018
COMFORT INN DOMESTIC SYSTEM					
Number of properties, end of period	1,240	1,156	1,113	1,083	1,056
Number of rooms, end of period	95,862	89,545	86,310	84,626	82,901
Royalty fees ($000)(1)	$93,630	$96,546	$96,497	$97,616	$96,589
Average occupancy percentage	63.3 %	65.0 %	65.6 %	66.0 %	65.2 %
ADR	$86.08	$89.68	$92.56	$94.23	$94.73
RevPAR	$54.50	$58.25	$60.70	$62.23	$61.72
COMFORT SUITES DOMESTIC SYSTEM					
Number of properties, end of period	577	569	565	567	571
Number of rooms, end of period	44,632	43,949	43,610	44,029	44,381
Royalty fees ($000)(1)	$48,278	$51,114	$53,057	$55,393	$56,424
Average occupancy percentage	66.5 %	68.3 %	69.3 %	70.1 %	69.7 %
ADR	$90.24	$93.89	$96.32	$97.01	$97.64
RevPAR	$60.01	$64.16	$66.74	$67.96	$68.04
QUALITY DOMESTIC SYSTEM					
Number of properties, end of period	1,284	1,379	1,447	1,542	1,636
Number of rooms, end of period	104,454	110,116	114,582	120,227	126,533
Royalty fees ($000)(1)	$52,589	$59,554	$69,799	$80,924	$90,128
Average occupancy percentage	56.1 %	58.2 %	59.1 %	59.8 %	60.1 %
ADR	$71.98	$75.06	$77.80	$79.25	$80.15
RevPAR	$40.39	$43.69	$45.99	$47.41	$48.20
CLARION DOMESTIC SYSTEM					
Number of properties, end of period	178	175	167	166	174
Number of rooms, end of period	25,049	24,449	22,941	22,138	22,179
Royalty fees ($000)(1)	$11,480	$11,479	$12,137	$12,589	$12,798
Average occupancy percentage	54.5 %	57.2 %	58.3 %	59.3 %	57.9 %
ADR	$77.65	$79.85	$82.35	$84.62	$84.45
RevPAR	$42.34	$45.63	$48.01	$50.14	$48.90
SLEEP INN DOMESTIC SYSTEM					
Number of properties, end of period	371	377	379	384	393
Number of rooms, end of period	26,811	27,047	27,097	27,410	27,962
Royalty fees ($000)(1)	$18,914	$20,226	$21,925	$23,093	$24,003
Average occupancy percentage	62.5 %	63.9 %	65.1 %	65.5 %	65.2 %
ADR	$77.13	$80.41	$82.08	$82.96	$84.71
RevPAR	$48.24	$51.41	$53.47	$54.35	$55.20
MAINSTAY SUITES DOMESTIC SYSTEM					
Number of properties, end of period	45	52	56	60	63
Number of rooms, end of period	3,568	3,846	4,108	4,249	4,268
Royalty fees ($000)(1)	$2,608	$2,693	$2,909	$3,252	$3,669
Average occupancy percentage	71.4 %	67.1 %	65.2 %	68.4 %	69.7 %
ADR	$74.82	$77.02	$76.29	$76.70	$83.08
RevPAR	$53.40	$51.71	$49.70	$52.47	$57.89
ECONO LODGE DOMESTIC SYSTEM					
Number of properties, end of period	856	856	857	840	839
Number of rooms, end of period	52,878	52,978	52,791	51,233	50,692

Royalty fees ($000)(1)	$18,896	$20,784	$22,598	$23,867	$24,455
Average occupancy percentage	51.6 %	53.5 %	54.1 %	54.5 %	54.7 %
ADR	$57.85	$59.61	$61.41	$62.95	$63.44
RevPAR	$29.86	$31.90	$33.22	$34.29	$34.68

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RODEWAY INN DOMESTIC SYSTEM					
Number of properties, end of period	474	513	565	600	612
Number of rooms, end of period	26,172	28,880	32,515	34,488	35,124
Royalty fees ($000)(1)	$5,532	$6,006	$7,010	$8,799	$9,772
Average occupancy percentage	55.1 %	56.3 %	55.7 %	56.0 %	56.4 %
ADR	$56.68	$59.75	$63.04	$64.51	$64.26
RevPAR	$31.25	$33.64	$35.08	$36.09	$36.21
SUBURBAN EXTENDED STAY HOTEL DOMESTIC SYSTEM					
Number of properties, end of period	65	62	59	61	54
Number of rooms, end of period	7,198	6,994	6,561	6,698	5,699
Royalty fees ($000)(1)	$3,111	$3,395	$3,511	$3,716	$3,725
Average occupancy percentage	71.8 %	75.5 %	75.5 %	76.0 %	75.5 %
ADR	$45.25	$47.61	$49.96	$51.76	$55.81
RevPAR	$32.51	$35.95	$37.72	$39.31	$42.16
CAMBRIA HOTEL DOMESTIC SYSTEM(2)					
Number of properties, end of period	22	25	27	36	40
Number of rooms, end of period	2,642	3,113	3,503	4,917	5,685
Royalty fees ($000)(1)	$2,687	$3,745	$4,955	$6,731	$8,872
Average occupancy percentage(2)	N/A	N/A	76.3 %	73.8 %	71.5 %
ADR(2)	N/A	N/A	$131.73	$137.86	$146.71
RevPAR(2)	N/A	N/A	$100.46	$101.70	$104.84
ASCEND HOTEL COLLECTION DOMESTIC SYSTEM					
Number of properties, end of period	109	112	127	162	176
Number of rooms, end of period	9,395	9,455	10,480	13,000	14,693
Royalty fees ($000)(1)	$4,950	$5,558	$5,985	$7,694	$10,085
Average occupancy percentage	60.3 %	58.5 %	58.1 %	55.5 %	58.0 %
ADR	$121.49	$127.27	$129.97	$127.96	$126.86
RevPAR	$73.20	$74.47	$75.52	$71.05	$73.62
WOODSPRING SUITES DOMESTIC SYSTEM (3)					
Number of properties, end of period	N/A	N/A	N/A	N/A	249
Number of rooms, end of period	N/A	N/A	N/A	N/A	29,911
Royalty fees ($000)(1)	N/A	N/A	N/A	N/A	$18,982
Average occupancy percentage(3)	N/A	N/A	N/A	N/A	80.1 %
ADR(3)	N/A	N/A	N/A	N/A	$45.92
RevPAR(3)	N/A	N/A	N/A	N/A	$36.77

(1) Royalty fees exclude the impact of franchise agreement acquisition cost amortization.

(2) Statistics for average occupancy percentage, ADR and RevPAR exclude years in which the Cambria Hotel brand did not have 25 units open and operating for a twelve month period.

(3) Statistics prior to 2018 exclude WoodSpring Suites properties. Statistics for 2018 include royalties after acquisition on February 1. 2018 and full year statistics for average occupancy percentage, ADR and RevPAR.

International Franchise Operations

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

Our business philosophy has been to conduct direct franchising in those international markets where both franchising is an accepted business model and we believe our brands can achieve significant distribution. 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.

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

The following chart and narrative summarizes our franchise system outside of the United States(1):

	As of and For the Year Ended December 31,				
	2014	2015	2016	2017	2018
Number of properties, end of period	1,158	1,147	1,152	1,126	1,158
Number of rooms, end of period	106,617	107,111	111,624	112,558	119,080
Royalty fees ($000)(2)	$24,515	$20,166	$19,887	$21,396	$22,005

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

(2) Royalty fees exclude the impact of franchise agreement acquisition cost amortization.

The Company's direct franchising operations are primarily conducted in the following countries and territories:

Continental Europe. The Company conducts franchising operations in Germany, Italy, Czech Republic, Austria and Hungary, and portions of Switzerland through Choice Hotels Licensing B.V. ("Choice BV"), a wholly-owned subsidiary, and in France, Portugal and Belgium through a wholly-owned subsidiary of Choice BV, Choice Hotels France SAS. The Company also operates in Spain through a strategic alliance with Sercotel Hotels. At December 31, 2018, the Company's subsidiaries had 195 properties open and operating in continental Europe.

United Kingdom. The Company conducts direct franchising operations in the United Kingdom through Choice BV. At December 31, 2018, the Company’s subsidiary had 33 properties open and operating in the United Kingdom.

India. The Company conducts direct franchising operations in India through wholly-owned subsidiaries for the Comfort, Quality, Sleep and Clarion brands. As of December 31, 2018, the Company had 31 franchised properties open and operating.

Australasia. The Company conducts direct franchising operations in Australia, New Zealand, and Singapore through a wholly-owned subsidiary, Choice Hotels Asia-Pac Pty. Ltd. ("CHAP"). As of December 31, 2018, CHAP had 188 franchised properties open and operating in Australasia.

Mexico. The Company’s wholly-owned subsidiary Choice Hotels Mexico S. de R.L. de C.V. ("CHM") conducts direct franchising operations in Mexico on behalf of Choice BV, which acts as the franchisor in Mexico. CHM is focused on establishing Clarion, Quality, Sleep and Comfort brands through conversion of hotels in Mexico. At December 31, 2018, the Company’s subsidiary had 32 properties open and operating.

Canada. The Company conducts direct franchising operations for its extended stay and Cambria Hotel brands in Canada through its wholly-owned subsidiary, Choice Hotels International Licensing ULC, and had 4 properties open and operating at December 31, 2018.

Other International Relationships. The Company, through Choice BV, has direct franchise relationships with properties in Colombia, Malaysia, and Turkey. At December 31, 2018, 1 property was open and operating in Colombia, 1 property was open and operating in Malaysia and 4 properties were open and operating in Turkey.

The Company utilizes master franchising relationships primarily in the following countries and territories:

Scandinavia. We conduct our operations in Scandinavia through a master franchise relationship with Nordic Choice Commercial Services A/S ("NCH"), formerly known as Choice Hotels Scandinavia. As of December 31, 2018, NCH had 194 open properties in its development territory, which includes Denmark, Norway and Sweden on an exclusive basis and Latvia, Lithuania and Finland on a non-exclusive basis. The Company’s master franchise agreement with NCH grants rights to the Comfort, Quality, Sleep and Clarion brand and expires in 2023. Through a separate agreement signed in 2010, NCH also possesses the right to franchise Ascend Hotel Collection hotels in its territory. This agreement also expires in 2023.

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Japan. The Company conducts its operations in Japan through a master franchise relationship with Choice Hotels Japan Co. Ltd ("CHJ"). CHJ possesses exclusive rights to develop the Comfort and Quality brands and non-exclusive rights to the Sleep and Clarion brands. The Company’s master franchise agreement with CHJ expires in December 2023. As of December 31, 2018, CHJ had 60 open properties.
Canada. We conduct our operations in Canada for the majority of our brands through Choice Hotels Canada Inc. ("CHC"), a joint venture owned 50% by us and 50% by InnVest Management Holdings Ltd. CHC is one of the largest lodging organizations in Canada with 317 of our franchised properties open and operating as of December 31, 2018.
South America. We conduct our operations in Brazil and certain other South American territories through a master franchise relationship with Atlantica Holdings International, Ltd. ("Atlantica"). As of December 31, 2018, Atlantica had 72 open properties in its development territory. The Company’s master franchise agreement with Atlantica grants rights to the Comfort, Quality, Sleep and Clarion brands, which rights are exclusive in Brazil and non-exclusive in Atlantica's remaining territory. The agreement expires in December 2024.
Central America. We conduct our operations in certain Central American territories through a master franchise relationship with Real Hotels and Resorts, Inc. ("Real"). As of December 31, 2018, Real had 16 open properties in its development territory which consists of Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, and Panama. The Company’s master franchise agreement with Real grants rights to the Comfort, Quality, Sleep and Clarion brands. The agreement was executed in 1994 and is currently scheduled to expire in May of 2034, with certain rights by both parties to terminate the contract early. Through a separate agreement signed in 2011, we have also granted Real limited non-exclusive rights to franchise Ascend Hotel Collection hotels in Colombia, Costa Rica, Ecuador, Honduras and Panama.
Other International Relationships. We also have non-exclusive master development and area representative arrangements in place with local hotel management and franchising companies doing business in China. At December 31, 2018, 7 properties were open and operating in China.

The following table presents key worldwide system size statistics as of and for the year ended December 31, 2018:

	Open and Operational		Approved for Development	
	Hotels	Rooms	Hotels	Rooms
Comfort	1,545	125,805	184	15,211
Comfort Suites	593	47,235	128	10,968
Quality	1,970	163,284	88	6,571
Ascend Hotel Collection	256	23,923	60	4,896
Clarion	309	43,185	24	2,752
Sleep Inn	415	30,487	156	7,900
MainStay Suites	64	4,368	139	6,250
Econo Lodge	906	53,790	33	1,850
Rodeway Inn	617	35,427	41	2,859
Suburban	57	6,008	22	1,432
Cambria Hotel	40	5,685	90	12,195
WoodSpring Suites	249	29,911	117	14,177
Totals	7,021	569,108	1,082	87,061

Franchise Sales
Brand growth is important to our business model. We have identified key market areas for hotel development based on supply/demand relationships and our strategic objectives. Development opportunities are typically offered to: (i) existing franchisees; (ii) developers of hotels; (iii) owners of independent hotels and motels; (iv) owners of hotels leaving other franchisors’ brands; and, (v) franchisees of non-hotel related products such as restaurants.
Our franchise sales organization is structured to support the Company’s efforts to leverage its core strengths in order to take advantage of opportunities for further growth. The franchise sales organization employs both sales managers as

well as franchise sales directors. This organization emphasizes the benefits of affiliating with the Choice system, our commitment to improving hotel profitability, our central reservation delivery services, our marketing and customer loyalty programs, our

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revenue management services, our training and support systems (including our proprietary property management systems) and our Company's track record of growth and profitability to potential franchisees. Franchise sales directors are assigned to specific brands to leverage their brand expertise to enhance product consistency and deal flow. Our sales managers ensure each prospective hotel is placed in the appropriate brand, facilitate teamwork and information sharing amongst the sales directors and provide better service to our potential franchisees. The structure of this organization supports the Company's efforts to leverage its core strengths in order to take advantage of opportunities for further growth. Integrating our brands and strategies allow our brand teams to focus on understanding, anticipating and meeting the unique needs of our customers.

Our objective is to continue to grow our portfolio by continuing to sell our existing brands, creating extensions of our existing brands and introducing new brands, either organically or via acquisition, within the various lodging chain categories. Based on market conditions and other circumstances, we may offer certain incentives to developers to increase development of our brands such as discounting various fees such as the initial franchise fee, royalty rates and marketing and reservation system rates as well as provide financing for property improvements and other purposes.

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

Investment, Financing and Guaranty Franchisee Support

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. 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.

Franchise Agreements

Our standard domestic franchise agreements grant franchisees the non-exclusive right to use certain trademarks we own and receive other benefits of our franchise system to facilitate the operation of their franchised hotel at a specified location. Our standard domestic franchise agreements generally have terms ranging between 10 and 30 years. Generally, either party to our standard domestic franchise agreement can terminate the agreement prior to the conclusion of the agreement's term under certain circumstances, such as upon designated anniversaries of the agreement, subject to applicable law. Early termination options give us flexibility in eliminating or re-branding properties for reasons other than contractual failure by the franchisee. This allows us the opportunity to strengthen our brand portfolio in various markets by replacing weaker performing hotels. We also have the right to terminate a franchise agreement if a franchisee fails to bring the property into compliance with contractual or quality standards within specific time periods. The franchise agreements also typically contain liquidated damages provisions which represent a fair and reasonable measure of damages that our franchisee and we agree should be paid to us upon an early termination of the franchise agreement.

The Company utilizes master development agreements ("MDA") with respect to the WoodSpring Suites brand. In exchange for a non-refundable fee, developers are provided geographic exclusivity to enter into a specified number of franchise agreements and develop WoodSpring Suites properties. The upfront fees received on signing of the MDA are allocable to the affiliation fees due upon the execution of each franchise agreement between the parties in the regions covered by the MDA. The MDA specifies development schedules the developer must maintain; if not met, the Company can terminate the geographic exclusivity, however the upfront fees remain allocable to future franchise agreement affiliation fees as long as the MDA remains in effect.

When the responsibility for development is transferred to an international master franchisee, that party has the responsibility to develop and grow our brands in the master franchise area. Additionally, the master franchisee generally must manage the delivery of certain necessary services (such as quality assurance, reservations and marketing) to support the franchised hotels in the master franchise area. The master franchisee collects the fees paid by the local franchisee and remits an agreed upon share to us. Master franchise agreements generally have a term of at least 10 years. We have only entered into master franchise agreements with respect to franchised hotels outside the United States.

Franchise agreements are individually negotiated and vary among the different Choice brands and franchises, but we believe they are competitive with the industry standard within their market group. Franchise fees usually have three primary components: an affiliation fee; a royalty fee; and a marketing and reservation system fee.

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Our standard franchise fees are as follows:
QUOTED FEES BY BRAND AS OF DECEMBER 31, 2018

Brand	Initial Fee Per Room/Minimum	Relicensing and Renewal Fee Minimum	Royalty Fees (1)		Marketing and Reservation System Fees (1)	
Cambria Hotels	$500/$60,000	$ 65,000	6.00	%	3.00	%
Comfort Inn	$500/$50,000	$ 55,000	6.00	%	3.50	%
Comfort Suites	$500/$50,000	$ 55,000	6.00	%	3.50	%
Quality Inn	$300/$35,000	$ 45,000	5.25	%	3.50	%
Ascend Hotel Collection	$375/$30,000	$ 30,000	5.00	%	2.50	%
Clarion	$300/$40,000	$ 45,000	5.00	%	3.00	%
Clarion Pointe	$300/$40,000	$ 45,000	5.50	%	3.25	%
Sleep Inn	$300/$40,000	$ 45,000	5.50	%	3.50	%
MainStay Suites(2)	$300/$30,000	$ 30,000	6.00	%	2.50	%
Econo Lodge	$250/$25,000	$ 30,000	5.00	%	3.00	%
Rodeway Inn	$125/$15,000	$ 15,000	5.00	%	3.00	%
Suburban Extended Stay Hotel(2)	$225/$30,000	$ 30,000	6.00	%	2.50	%
WoodSpring Suites	N/A/$50,000	$ 50,000	6.00	%	2.50	%

(1) Fees are based on a percentage of gross room revenue
(2) For dual brand hotels that combine either the Mainstay Suites or Suburban Extended Stay Hotel brand with another Choice brand, we may increase the System Fee up to the standard amount for such other Choice brand.

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

Franchise Operations

Our operations are designed to help our franchisees improve RevPAR and lower their operating and development costs, as these are the measures of performance that most directly impact franchisee profitability. Our focus is to not only to help increase the number of reservations delivered to our franchisees but also to help increase the percentage of guest reservations processed through our proprietary channels. We believe that our proprietary channels, which include our loyalty program, propriety internet sites (including mobile and tablet applications), global sales programs and interfaces with global distribution systems, help deliver guests to our franchisees' hotels at the lowest cost to the franchisee and the highest average daily rates. We believe that by helping our franchisees become more profitable we will enhance our ability to retain our existing franchisees, attract new franchisees, and improve the pricing of our franchise agreements. The key aspects of our franchise operations are:

Brand Name Marketing and Advertising. Our franchised hotels are typically located in areas conveniently accessible to business and leisure travelers, and therefore, a significant portion of hotel room nights are sold to guests who either walk-in or contact the hotel directly. As a result, we believe that brand name recognition and the strength of the brand reputation are important factors in influencing business and leisure traveler hotel accommodation choices.

Our marketing and advertising programs are designed to heighten consumer awareness and preference for our brands as offering the greatest value and convenience in the lodging categories in which we compete. Marketing and advertising efforts include national television, internet and radio advertising, on-line advertising, social media/digital advertising, print advertising in consumer and trade media and promotional events, including joint marketing promotions with qualified vendors and corporate partners. We also actively seek to maximize our presence on the internet by purchasing key search related terms from the various search engine providers to help ensure that our franchisees' hotels are prominently displayed to all potential guests.

We conduct numerous marketing and sales programs and deploy field-based sales agents which target specific groups, including business travelers, senior citizens, automobile club members, families, government and military employees, educational organizations and meeting planners. Other marketing efforts include domestic and international trade show programs, publication of group and tour rate directories, direct-mail programs, electronic direct marketing e-mail programs,

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centralized commissions for travel agents, fly-drive programs in conjunction with major airlines, and the publication of electronic travel and vacation directories.

We operate a loyalty program, Choice Privileges, for all of the Choice brands, with the exception of WoodSpring, to attract and retain travelers by rewarding stays with points towards free hotel nights and other rewards. Choice Privileges participants can earn points redeemable for free nights at Choice brand properties. The loyalty program also offers guests the ability to earn airline miles for qualifying stays redeemable for flights with various airline partners as well as redeem points for gift certificates at participating retailers. These programs allow us to conduct lower cost, more targeted marketing campaigns to our consumers, help us deliver incremental business to our franchised hotels and are an important selling point for our franchise sales personnel. The Choice Privileges program had approximately 40 million members worldwide as of December 31, 2018. Growing the membership of the Choice Privileges program as well as increasing the number of room nights consumed by existing members will continue to be a focus of the Company.

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

Our field-based franchise services area directors work with franchisees to help them maximize RevPAR. These consultants advise franchisees on topics such as marketing their hotels, improving quality and maximizing the benefits offered by the Choice reservations system. Our proprietary property management system includes a rate and selling management tool to help our franchisees better manage rates and inventory which are designed to help them improve RevPAR by optimizing ADR and occupancy. In addition, we offer revenue management services to our franchisees to assist them in maximizing their room rates.

Central Reservation System ("CRS"). Our central reservation system consists of our toll-free telephone reservation system, our proprietary internet sites, mobile phone and tablet reservation applications, interfaces with global distribution systems, and other internet reservations sites. We strive to improve the percentage of business delivered by our CRS as room nights reserved through these channels are typically at higher average daily rates than reservations booked directly through the property. In addition, increasing the percentage of business delivered through the CRS improves our value proposition to a hotel owner and therefore assists in retention of existing franchisees and acquisition of new franchisees.

Our CRS provides a data link to our franchised properties as well as to travel reservation systems such as Amadeus, Galileo, SABRE and Worldspan that facilitate the reservation process for travel agents and corporate travelers. We also offer rooms for sale on our own proprietary internet site (www.choicehotels.com) and mobile applications as well as those of OTA's and other third-party internet referral or booking services.

Our toll-free telephone reservation system primarily utilizes third party call center service providers. Reservation agents trained on the reservation system can match each caller with a Choice-branded hotel meeting the caller’s needs. We also operate a call forwarding program through which our franchisees can leverage our central reservation system capabilities by forwarding reservation calls received directly by the property to one of our reservation centers. Typically, this helps reduce the hotel’s front desk staffing needs, improves customer service and results in a higher average daily rate than reservations booked directly through the property.

We continue to implement our integrated reservation and distribution strategy to help improve reservations delivery, reduce franchisee costs and improve franchisee satisfaction by enhancing our website, www.choicehotels.com. We design our marketing campaigns to drive reservation traffic directly to our proprietary channels to minimize the impact that third party reservation sites may have on the pricing of our franchisees' inventory. In addition, we have introduced programs such as our Best Internet Rate Guarantee program which has greatly reduced the ability of the travel intermediaries to undercut the published rates at our franchisees' hotels. Further, we selectively distribute our franchisees' inventory to key third party travel intermediaries that we have established agreements with to help drive additional business to our franchisees' hotels. These agreements typically offer our brands preferred placement on these third party sites at reduced transaction fees. We continue to educate our individual franchisees about the unfavorable impact to their business of contracting with sites with which we do not have preferred agreements. We currently have agreements with many, but not all, major online third party booking sites.

We also continue to upgrade our technology to ensure that our CRS can effectively handle the current and future volume on digital channels and support the industry's shift toward accelerated digital communications and guest experience personalization. In support of these initiatives, in the first quarter of 2018, the Company transitioned to choiceEDGE, a cloud-based software developed by the Company to manage all distribution for the Company by optimizing rate, inventory, availability, shopping, booking and reservations for its website, mobile apps and third-party distribution partners.

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Property Management Systems. Our proprietary property and yield management system, choiceADVANTAGE, is designed to help franchisees maximize profitability and compete more effectively by assisting them in managing their room inventory, rates and reservations. choiceADVANTAGE synchronizes each hotel's inventory with our central reservation system, giving our reservation sales agents and other proprietary channels last room sell capabilities at every hotel. Our property management system also includes a proprietary revenue management feature ("SmartRates") that calculates and suggests optimum rates based on each hotel's past performance and projected occupancy. These tools are critical to business delivery and yield improvement as they facilitate a franchisee's ability to effectively manage hotel operations, determine appropriate rates, help drive occupancy and participate in our marketing programs. As a cloud-based solution, the choiceADVANTAGE system helps reduce each hotel's investment in on-site computer equipment, typically resulting in a lower total cost of ownership for property management systems than traditional on-site solutions.

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

Training. We maintain a training department that conducts mandatory and voluntary training programs for all franchisees and general managers. Regularly scheduled regional and national training meetings are also conducted for owners and general managers. We offer an interactive computer and mobile-based training system to help train hotel employees in real-time as well as at their own pace. Additional training is conducted through a variety of methods, including group instruction seminars and live on-line instructor-led programs.

Opening Services. We maintain an opening services department that ensures incoming hotels meet or exceed brand standards and are properly displayed in our various reservation distribution systems to help ensure that each incoming hotel opens successfully. We also maintain a design and construction department to assist franchisees in refurbishing, renovating, or constructing their properties prior to or after joining the system. Department personnel assist franchisees in meeting our brand specifications by providing technical expertise and cost-savings suggestions.

Competition

Competition among franchise lodging brands is intense in attracting potential franchisees, retaining existing franchisees and generating reservations for franchisees. Franchise contracts are typically long-term in nature, but most allow either the hotel owner or the Company to opt-out of the agreement at mutually agreed upon anniversary dates. We believe that hotel operators choose lodging franchisors based primarily on the value and quality of each franchisor's brand(s) and services and the extent to which affiliation with that franchisor may increase the franchisee's reservations and profits. We also believe that hotel operators select a franchisor in part based on the franchisor's reputation among other franchisees and the success of its existing franchisees.

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

The ability of a hotel to compete may be affected by a number of factors, including the location and quality of the property, the abilities of the franchisee, the number and quality of competing lodging facilities nearby, its affiliation with a recognized name brand and general regional and local economic conditions. We believe the effect of local economic conditions on our results is substantially reduced by our range of products and room rates and the geographic diversity of our franchised properties, which are open and operating in 50 states, the District of Columbia and over 40 countries and territories outside the United States.

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

Service Marks and Other Intellectual Property

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

Seasonality

The hotel industry is seasonal in nature. For most hotels, demand is lower in 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 and third quarters.

Regulation

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

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

Impact of Inflation and Other External Factors

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

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

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

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

Employees

We employed approximately 1,882 people in our global operations as of February 15, 2019. None of our employees are represented by unions or covered by collective bargaining agreements. We consider our relations with our employees to be good.

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EXECUTIVE OFFICERS OF CHOICE HOTELS INTERNATIONAL, INC.

The name, age, title, present principal occupation, business address and other material occupations, positions, offices and employment of each of the executive officers of the Company as of December 31, 2018 are set forth below. The business address of each executive officer is 1 Choice Hotels Circle, Suite 400, Rockville, Maryland 20850.

Name	Age	Position
Stewart W. Bainum, Jr.	72	Chairman of the Board of Directors
Patrick S. Pacious	52	President and Chief Executive Officer
Dominic E. Dragisich	36	Chief Financial Officer
David A. Pepper	51	Chief Development Officer
Simone Wu	53	Senior Vice President, General Counsel, Corporate Secretary & External Affairs
John E. Bonds	47	Senior Vice President, Enterprise Operations and Technology
Robert McDowell	52	Chief Commercial Officer
Patrick J. Cimerola	50	Chief Human Resources Officer
Scott E. Oaksmith	47	Senior Vice President, Finance and Chief Accounting Officer

Stewart W. Bainum, Jr. Director from 1977 to 1996 and since 1997. Chairman of the Board of Choice Hotels International, Inc., from March 1987 to November 1996 and since October 1997; Director of the Board of Realty Investment Company, Inc., a real estate management and investment company, from December 2005 through December 2016 and Chairman from December 2005 through June 2009; Director of the Board of Sunburst Hospitality Corporation, a real estate developer, owner and operator, from November 1996 through December 2016 and Chairman from November 1996 through June 2009. Director of SunBridge Manager, LLC from September 2011 through December 2016. He was a director of Manor Care, Inc., from September 1998 to September 2002, serving as Chairman from September 1998 until September 2001. From March 1987 to September 1998, he was Chairman and Chief Executive Officer of Manor Care, Inc. He served as President of Manor Care of America, Inc., and Chief Executive Officer of ManorCare Health Services, Inc., from March 1987 to September 1998, and as Vice Chairman of Manor Care of America, Inc., from June 1982 to March 1987.

Patrick S. Pacious. President and Chief Executive Officer since September 2017; President and Chief Operating Officer from May 2016 until September 2017; and Chief Operating Officer from January 2014 until May 2016. He was Executive Vice President, Global Strategy & Operations from February 2011 through December 2013. He was Senior Vice President Corporate Strategy and Information Technology from August 2009 to February 2011. He was Senior Vice President, Corporate Development and Strategy from December 2007 to August 2009. He was Vice President, Corporate Development and Innovation from May 2006 to December 2007 and was Senior Director of Corporate Strategy from July 2005 to May 2006. Prior to joining the Company, he was employed by Bearingpoint Inc. as a Senior Manager from 2002 until 2005 and Arthur Andersen Business Consulting LLP as a Senior Manager from 1996 until 2002.

Dominic E. Dragisich. Chief Financial Officer since joining the Company in March 2017. Prior to joining the Company, he was employed by XO Communications as Chief Financial Officer from July 2015 to February 2017 and Vice President, Financial Planning and Analysis ("FP&A") and Strategic Finance from September 2014 to July 2015. Before that, he was Senior Director, IR Business Consultancy of Marriott International from October 2013 to September 2014, Global Director of FP&A of NII Holdings, Inc. from March 2012 to October 2013, and held various management positions at Deloitte Consulting from 2004 to 2012.

David A. Pepper. Chief Development Officer since May 2015. He was Senior Vice President, Global Development from October 2009 to May 2015. He was Senior Vice President, Franchise Development & Emerging Brands from July 2007 to October 2009. He was Senior Vice President and Division President Cambria Suites and Extended Stay Market Brands from January 2007 to July 2007 and was Senior Vice President, Franchise Growth and Performance of Choice from December 2005 until January 2007. He was Senior Vice President, Development of Choice from January 2005 until December 2005. He was Vice President, Franchise Sales from June 2002 until January 2005. He was Vice President, Franchise Sales with USFS in Atlanta, Georgia from 1996 through June 2002.

Simone Wu. Senior Vice President, General Counsel, Corporate Secretary & External Affairs since 2015. She was Senior Vice President, General Counsel, Corporate Secretary & Chief Compliance Officer from 2012 to 2015. Prior to joining the Company in 2012, she was employed by XO Communications and its affiliates as Executive Vice President, General Counsel and Secretary from 2011 until 2012, Senior Vice President, General Counsel and Secretary from 2006 to 2011, Vice President, the

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acting General Counsel and Secretary from 2005 to 2006, Vice President and Assistant General Counsel from 2004 until 2005, and Senior Corporate Counsel from 2001 until 2004. Before that she was Vice President of Legal and Business Affairs at LightSource Telecom, held legal and business positions at MCI and AOL, and began her legal career in 1989 at Skadden, Arps, Slate, Meagher & Flom.

John E. Bonds. Senior Vice President, Enterprise Operations and Technology since September 2017. He was Senior Vice President, Strategy and Services from January 2013 to August 2017. He was Vice President, Corporate Strategy from March 2011 to December 2012. Prior to joining the Company in 2006, he was employed by Navigant Consulting from 2003 to 2006, BearingPoint from 2002 to 2003 and Arthur Andersen Business Consulting from 1999 to 2002.

Robert McDowell. Chief Commercial Officer since February 2016. He was Senior Vice President, Marketing and Distribution from May 2011 until January 2016. Prior to joining the Company, he was employed by United Airlines from 1995 to 2006 and 2006 to 2011 as Managing Director of Distribution and eCommerce and C&H International as Chief Operating Officer from January 2007 to December 2007.

Patrick J. Cimerola. Chief Human Resources Officer since 2015. He was Senior Vice President, Human Resources and Administration from September 2009 to 2015. He was Vice President of Human Resources from January 2003 to September 2009. He was Sr. Director of Human Resources from January 2002 to January 2003.

Scott E. Oaksmith. Senior Vice President, Finance & Chief Accounting Officer since May 2016 and Controller of the Company from September 2006 until May 2016. He was Senior Director & Assistant Controller of Choice from February 2004 to September 2006. He was Director, Marketing and Reservations, Finance from October 2002 until February 2004. Prior to joining the Company, he was employed by American Express Tax & Business Services, Inc. from January 1994 to October 2002, last serving as Senior Manager from October 2000 to October 2002.

Item 1A. Risk Factors.

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

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

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

- changes in the number of hotels operating under franchised brands;
- changes in the relative mix of franchised hotels in the various lodging industry price categories;
- changes in occupancy and room rates achieved by hotels;
- desirability of hotel geographic location;
- changes in general and local economic and market conditions, which can adversely affect the level of business and leisure travel, and therefore the demand for lodging and related services;
- level of consumer unemployment;
- increases in operating costs that may not be able to be offset by increases in room rates, such as through increases in minimum wage levels;
- increases in corporate-level operating costs resulting in lower operating margins;
- over-building in one or more sectors of the hotel industry and/or in one or more geographic regions, could lead to excess supply compared to demand, and to decreases in hotel occupancy and/or room rates;
- the availability and cost of capital to allow hotel owners and developers to build new hotels and fund investments;
- changes in travel patterns;
- travelers’ fears of exposure to contagious diseases or insect infestations in hotel rooms and certain geographic areas;
- changes in governmental regulations that influence or determine wages, benefits, prices or increase operating, maintenance or construction costs of our franchisees;

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- changes by governmental agencies and within relevant legal systems of prevailing opinion and interpretation of new or existing rules, regulations and legal doctrine, particularly those limiting the liability of franchisors for employment and general liability claims involving franchisees;
- security concerns or travel restrictions (whether security-related or otherwise) imposed by governmental authorities that have the effect of discouraging or limiting travel to and from certain jurisdictions;
- the costs and administrative burdens associated with compliance with applicable laws and regulations, including, among others, franchising, lending, privacy, marketing and sales, licensing, labor, climate change, employment and regulations applicable under the Office of Foreign Asset Control and the Foreign Corrupt Practices Act;
- the financial condition of franchisees and travel related companies;
- franchisors' ability to develop and maintain positive relations with current and potential franchisees; and
- changes in exchange rates or economic weakness in the United States (affecting domestic travel) and internationally could also unfavorably impact future results.

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

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

We compete with other lodging companies for franchisees. As a result, the terms of new franchise agreements may not be as favorable as our current franchise agreements. For example, competition may require us to reduce or change fee structures, make greater use of financial incentives such as loans and guaranties to acquire franchisees and/or reduce the level of property improvements required before operating under our brand names. This could potentially impact our margins negatively. New competition may also emerge using different business models with a lesser reliance on franchise fees. In addition, an excess supply of hotel rooms or unfavorable borrowing conditions may discourage potential franchisees from expanding or constructing new hotels, thereby limiting a source of growth of the franchise fees received by us.

In addition, each of our hotel brands competes with major hotel chains in national and international markets and with independent companies in regional markets. Our ability to remain competitive and to attract and retain business and leisure travelers depends on our success in distinguishing our products and services from those offered by our competitors. If we are unable to compete successfully in these areas, this could adversely affect our market share and our results of operations. An adverse incident involving our franchisees or their guests, and any media coverage resulting therefrom, could also damage our brands and reputation. The considerable increase in the use of social media over recent years has greatly accelerated the speed at which negative publicity could spread and the scope of its dissemination, and could lead to litigation, increase our costs or result in a loss of consumer confidence in our brands.

Increasing use by consumers of alternative internet reservation channels may decrease loyalty to our brands and our existing distribution channels, and may influence our distribution strategies, in ways that may adversely affect us.

A significant, and increasing, percentage of hotel rooms are booked through internet travel intermediaries. If these intermediaries are successful in continuing to increase their share of bookings or are otherwise successful in executing strategies to strengthen their commercial and contractual ties to our hotels and hotel guests, these intermediaries may be able to obtain higher commissions, reduced room rates or other significant contractual and operational concessions from our franchisees or us.

Moreover, some of these internet travel intermediaries hope that consumers will eventually develop brand loyalties to their reservations systems rather than to our lodging brands and our existing distribution channels. As the internet travel intermediary industry continues to consolidate, and/or if well-known or well-financed companies decide to enter the internet travel intermediary space, the resources that the internet travel intermediaries have available and may be willing to apply toward their own marketing and customer loyalty could significantly exceed the resources that we are able to apply for the same purposes.

The increasing use of alternative internet reservation channels influences the way in which we utilize and market the benefits of our existing distribution channel. For example, we have introduced programs such as "Best Internet Rate Guarantee" and a closed-user group pricing to encourage bookings directly through our distribution system. However, there can be no assurance that current margins or levels of utilization associated with these or other strategies will succeed in increasing the booking

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percentages to our direct channels at the expense of channels controlled by travel intermediaries. In addition, our implementation of programs such as closed-user group pricing may cause travel intermediaries to respond by diverting business away from our hotels by removing or marginalizing our hotels in search results on their platforms.

Finally, there can be no assurance that we will be able to maintain stable commercial or contractual relationships with every significant internet travel intermediary, and any resulting instability may have a significant adverse impact on our business, if for example, our brands are not available through one or more of such intermediaries. Relatedly, we may not be able to negotiate mutually acceptable agreements or renegotiate extensions of agreements with existing internet travel intermediaries upon their expiration, and any such renegotiated or extended agreement may not be entered into on terms as favorable as the provisions that existed before such expiration, replacement or renegotiation.

We and our franchisees are reliant upon information technology systems to operate our business and remain competitive, and any disruption or malfunction or failure to adapt to technological developments could adversely affect our business.

The lodging industry depends upon the use of sophisticated information technology and systems including those utilized for reservations, property management, procurement, hotel revenue management, operation of our customer loyalty programs, communications, and our administrative systems. We also maintain physical facilities to support these systems and related services.

Information technology and systems that we rely upon are or may be vulnerable to damage or interruption from:

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

Disruptions, failures or malfunctions in technology can impact our revenue as well as our ability to retain existing franchisees and attract new franchisees to our system. In addition, the operation of many of these systems is dependent upon third party data communication networks and software upgrades, maintenance and support. These technologies and systems can be expected to require refinements, updates or replacements, and there is the risk that advanced new technologies will be introduced. There can be no assurance that as various systems and technologies become outdated or new technology is required, we will be able to replace or introduce them as quickly as our competitors or within budgeted costs for such technology.

There can also be no assurance that improvements or upgrades to technologies and systems will maintain or improve the performance, reliability and integrity of our systems or that we will achieve the benefits that may have been anticipated from such improvements or upgrades. Further, there can be no assurance that disruptions of the operation of these systems will not occur as a result of failures related to our internal or third-party systems and support.

We are subject to risks related to cybersecurity.

The hospitality industry is under increasing attack by cyber-criminals. Because of the scope and complexity of our information technology systems and those of our franchisees, our reliance on third party vendors, and the nature of the cyber threat landscape, our systems may be vulnerable to intrusions, disruptions, and other significant malicious cyber-enabled incidents, including through viruses, malware, ransomware, denial of service attacks, phishing, hacking, malicious social engineering, and similar attacks by criminal actors, foreign governments, activists, and terrorists. Our systems may also be vulnerable to human error, negligence, fraud or other misuse. These attacks can be deliberate attacks or unintentional events that could result in theft, unauthorized access, loss, fraudulent or unlawful use of sensitive information or cause interruptions, outages, or delays in our business, loss of data, or render us unable to operate our business. Accordingly, an extended interruption in any of our systems or the systems of our franchisees could significantly curtail, directly and indirectly, our ability to conduct our business and generate revenue. Like most large multinational companies, we have experienced, and expect to continue to be subject to, cybersecurity threats and attempts to disrupt or gain access to our systems and those operated by our franchisees, and attempts to affect the integrity of our data, none of which are known to be material to the Company to date.

We seek to minimize the impact of these cybersecurity incidents through the use of various technologies, processes and practices designed to help protect our networks, systems, computers and data from attack, damage or unauthorized access. We continuously assess our security posture, seek to implement appropriate risk reduction measures, enhance our operating processes, improve our defenses and take other measures to strengthen our cybersecurity program. Cybersecurity threats are constantly evolving and becoming more sophisticated, which increases the difficulty and cost of detecting and defending against them. Incidents can be difficult to detect for long periods of time and can involve complex or extended assessment and remediation periods, which could magnify the severity of an incident. Accordingly, there are no guarantees that our cybersecurity practices and our efforts to implement appropriate risk reduction measures will be sufficient to prevent or mitigate all attacks. While we carry cyber breach, property and business operation interruption insurance, we may not be sufficiently compensated for all losses we may incur. These losses include not only a loss of revenues but also potential reputational damage to our brands, serious disruption to our operations, investigations, litigation and liability due to regulatory fines or penalties or pursuant to our contractual obligations. Furthermore, the Company may also incur substantial remediation costs to repair system damage as well as satisfy liabilities for stolen assets or information that may further reduce our profits. Such losses may have a material adverse effect on our business, financial condition and results of operations.

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

Our business requires the collection and retention of large volumes of internal and sensitive customer data, including credit card numbers and other personally identifiable information of our employees, franchisees and guests as such information is entered into, processed, summarized, and reported by the various information systems we use. The integrity and protection of that franchisee, guest, employee, and company data is critical to us and our reputation. Our customers have a high expectation that we will adequately protect their personal information, and the failure to do so could result in a material adverse impact to our reputation, operations, and financial condition. Further, the regulatory environment surrounding information security and privacy is increasingly demanding, both in the United States and in the international jurisdictions in which we operate. If the Company fails to maintain compliance with the various United States and international laws and regulations applicable to the protection of such data or with the Payment Card Industry data security standards, the Company's ability to process such data could be adversely impacted and expose the Company to fines, litigation or other expenses or sanctions.

Privacy laws and regulations could adversely affect our ability to transfer guest data and market our products effectively and could be applied to impose costs, fines and operational conditions on our business in the event of perceived non-compliance, and could otherwise impact our results from operations.

Our business operations are subject to various U.S. and international privacy and data protection laws. Any future changes or restrictions in U.S. or international privacy and data protection laws could adversely affect our operations, including our ability to transfer guest data, which could adversely impact guest bookings. For example, the California Consumer Protection Act (CCPA), which is currently slated to take effect in 2020, creates new compliance regulations on businesses that collect information from California residents and is enforced by the state attorney general. Compliance with requirements imposed by the CCPA, the European Union General Data Protection Regulation (GDPR) and similar laws, or any future changes in such laws or additional restrictions, could result in significant costs and require us to change some of our business practices. Failure to comply could expose the Company to fines, litigation, or other expenses or sanctions as well as reputational harm.

We also rely on a variety of direct marketing techniques, including telemarketing, text/SMS, email, and postal mailings. Any future restrictions in laws such as Telemarketing Sales Rule, CANSPAM Act, and various United States state laws, or new federal laws regarding marketing and solicitation or international data protection laws that govern these activities could adversely affect the continuing effectiveness of telemarketing, text/SMS, email, and postal mailing techniques and could force changes in our marketing strategies. If this occurs, we may not be able to develop adequate alternative marketing strategies, which could impact the amount and timing of our revenues. We also obtain access to potential customers from travel service providers and other companies with whom we have substantial relationships and market to some individuals on these lists directly or by including our marketing message in the other company's marketing materials. If access to these lists was prohibited or otherwise restricted, our ability to develop new customers and introduce them to our products could be impaired.

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

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

- the ability of our franchisees to open and operate additional hotels profitably. Factors affecting the opening of new hotels, or the conversion of existing hotels to a Choice brand, include, among others:
- the availability of hotel management, staff and other personnel;
- the cost and availability of suitable hotel locations;
- the availability and cost of capital to allow hotel owners and developers to fund investments;

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- cost effective and timely construction of hotels (which construction can be delayed due to, among other reasons, availability of financing, labor and materials availability, labor disputes, local zoning and licensing matters, and weather conditions); and
- securing required governmental permits.
- our ability to continue to enhance our reservation, operational and service delivery systems to support additional franchisees in a timely, cost-effective manner;
- our formal impact policy, which may offer certain franchisees protection from the opening of a same-brand property within a specified distance;
- the effectiveness and efficiency of our development organization;
- our failure to introduce new brands that gain market acceptance;
- our dependence on our independent franchisees' skills and access to financial resources necessary to open the desired number of hotels; and
- our ability to attract and retain qualified domestic and international franchisees.

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

We are subject to risks relating to the acquisition of new brands or lines of business

From time-to-time, we consider acquisitions of new brands that complement our current portfolio of brands. In many cases, we will be competing for these opportunities with third parties who may have substantially greater financial resources or different or lower acceptable return requirements than we do. There can be no assurance that we will be able to identify acquisition candidates, acceptable new markets or complete transactions on commercially reasonable terms or at all. If transactions are consummated or new markets entered, there can be no assurance that any anticipated benefits will actually be realized. Similarly, there can be no assurance that we will be able to obtain additional financing for acquisitions or investments, or that the ability to obtain such financing will not be restricted by the terms of our existing debt agreements. Furthermore, if events or changes in circumstances indicate that the carrying value of the acquisition costs are not recoverable, we may be required to record a significant non-cash impairment charge in our financial statements which may negatively impact our results of operations and shareholders' equity.

New brands may not be accepted by franchisees and consumers

We have developed and launched additional hotel brands, such as Cambria Hotels, Clarion Pointe and Ascend Hotel Collection, and may develop and launch additional brands in the future. There can be no assurance regarding the level of acceptance of new brands in the development and consumer marketplaces, that costs incurred to develop the brands will be recovered or that the anticipated benefits from these new brands will be realized.

Our investment in new business lines is inherently risky and could disrupt our core business.

In March 2013, we launched SkyTouch Technology ("SkyTouch") which develops and markets cloud-based technology products to the hotel industry. In 2015, we acquired a Netherlands-based company that provides SaaS solutions for vacation rental management companies ("SaaS for vacation rentals"). These business lines collectively comprise our SaaS technology solutions division. We expect to continue to invest in alternate lines of business and may in the future invest in other new business strategies, products, services, and technologies.

Such investments generally involve significant risks and uncertainties, including distraction of management from our core franchising operations, unanticipated expenses, inadequate return of capital on our investments, losses of key customers or contracts, and unidentified issues and risks not discovered in our development or analysis of such strategies and offerings. For our SaaS technology solutions division, additional specific risks and uncertainties include, among others, a limited history as a stand-alone operating business, the willingness of our potential competitors to enter into a business relationship with one of our operating divisions, the ability to develop and offer innovative products that appeal to hoteliers and vacation rental management companies, continuing market acceptance of the division's enterprise cloud-based technology products, security threats to processed and stored data, intense competition in the technology industry, protection of intellectual property rights, and claims of infringement of the intellectual property of third parties.

Because these ventures are software and technology businesses, they are inherently risky, and there can be no assurance that our investments will be successful. If we do not realize the financial or strategic goals that are contemplated at the time we commit to significant investments in support of these ventures, our reputation, financial condition, operating results and growth trajectory may be impacted. In 2018, we recognized a non-cash impairment charge to goodwill associated with the SaaS for vacation rentals business line. There can be no assurance there will not be further impairments or charges in future periods.

Our international operations are subject to political and monetary risks.

We have franchised properties open and operating in more than 40 countries and territories outside of the United States. We also have, and may in the future make, investments in foreign hotel franchisors. International operations generally are subject to greater economic, political and other risks than those affecting United States operations. In certain countries, these risks include the risk of war or civil unrest, political instability, expropriation and nationalization.

Moreover, our international operations are subject to compliance with anti-corruption and anti-bribery laws and other foreign laws and regulations. While we have policies in place to enforce and monitor internal and external compliance with these laws, we cannot guarantee that our policies will always protect us from reckless or criminal acts committed by our employees, franchisees or third-parties with whom we work. The United States also imposes sanctions that restrict U.S. companies from engaging in business activities with certain persons or entities, foreign countries, or foreign governments that it determines are adverse to U.S. foreign policy interests. If we are found liable for violations of anti-corruption or sanctions laws, we could incur criminal or civil liabilities which could have a material and adverse effect on our results of operations, our financial condition and our reputation. Furthermore, the creation of new restrictions in these areas could increase our cost of operations, reduce our profits or cause us to forgo development opportunities that would otherwise contribute to our profitability.

Additional factors may also impact our international operations. The laws of some international jurisdictions do not adequately protect our intellectual property and restrict the repatriation of non-United States earnings. Various international jurisdictions also have laws limiting the right and ability of non-United States entities to pay dividends and remit earnings to affiliated companies unless specified conditions have been met. In addition, revenues from international jurisdictions typically are earned in local currencies, which subjects us to risks associated with currency fluctuations. Currency devaluations and unfavorable changes in international monetary and tax policies could have a material adverse effect on our profitability and financing plans, as could other changes in the international regulatory climate. Our future performance could be adversely affected by weak economic conditions in any region where we operate, and uncertainty regarding the pace of economic growth in different regions of the world makes it difficult to predict future profitability levels. We intend to continue to expand internationally, which would make the risks related to our international operations more significant over time.

We may have disputes with the owners of our franchised hotels or their representative franchisee associations.

Our responsibilities under our franchise agreements may be subject to interpretation and may give rise to disagreements in some instances. Such disagreements may be more likely when hotel returns are depressed as a result of economic conditions. We seek to resolve any disagreements in order to develop and maintain positive relations with current and potential hotel owners as well as their representative franchisee associations. However, failure to resolve such disagreements could result in litigation with outcomes that may be adverse to our economic interests.

Development activities that involve our co-investment or financing and guaranty support for third parties or self-development of hotels may result in losses.

As a result of our program to make financial support available to developers in the form of loans, credit support, such as guaranties, and equity investments, or if we elect in the future to self-develop hotels, we are subject to investment and credit risks that we would not otherwise be exposed to as a franchisor. In particular, when we make loans to franchisees, agree to provide loan guaranties for the benefit of franchisees, self-develop hotels or make equity investments in franchisees, we are subject to all generally applicable credit and investment risks, such as:

- construction delays, cost overruns, or acts of God such as earthquakes, hurricanes, floods or fires that may increase overall project costs or result in project cancellations;
- the possibility that the parties with which we have entered into a co-investment, hotel development, financing or guaranty relationships could become bankrupt or otherwise lack the financial resources to meet their obligations, or could have or develop business interests, policies or objectives that are inconsistent with ours; and

•that conditions within credit or capital markets may limit the ability of franchisees or us to raise additional debt or equity that may be required for completion of projects.

In addition to general credit and capital markets risks, we face specific risks stemming from our ability to assess the existing and future financial strength of the franchisee and its principals, the development/construction abilities of the franchisee or third-party parties hired by us to develop hotels, the expected performance of the hotel in light of the forecasted general, regional and market-specific economic climate, and the ability to negotiate for, value, and if necessary collect security for our loans or obligations. If we do not accurately assess these risks, our assumptions used to make these estimates prove inaccurate,

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or situations in the credit market or hospitality industry change in a manner we did not anticipate, our loans and investments may become impaired and/or we may be required to make payment under guaranties we have issued. In such instances, there is no assurance that we will be able to recover any or all of such impaired or paid amounts, in which case we will experience losses which could be material.

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

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

Investing through joint ventures decreases our ability to manage risk.

We have invested and expect to continue to invest in real estate and other hospitality related joint ventures. Joint venture members often have shared control over the operation of the joint venture assets and therefore these investments may involve risks such as the possibility that the member in an investment might become bankrupt or not have the financial resources to meet its obligations or have economic or business interests or goals that are inconsistent with our business interests or goals. Consequently, actions by a member might subject us to additional risk, require greater financial support from the Company than initially forecasted or result in actions that are inconsistent with our business interests or goals.

Under certain circumstances our franchisees may terminate our franchise contracts.

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

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

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

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

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

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We may not be able to recover advances for system services that we may at certain times provide to our franchisees.
The Company is obligated to use the system fees it collects from the current franchisees comprising its various hotel brands to provide system services, such as marketing and reservations services, appropriate to fulfill our obligations under the Company's franchise agreements. In discharging our obligation to provide sufficient and appropriate system services, the Company has the right to expend funds in an amount reasonably necessary to ensure the provision of such services, regardless of whether or not such amount is currently available to the Company for reimbursement. Under the terms of its franchise agreements, the Company has the contractually enforceable right to assess and collect from its current franchisees fees sufficient to pay for the system services the Company has provided or procured for the benefit of its franchisees, including fees to reimburse the Company for past services rendered. The Company's current franchisees are contractually obligated to pay any assessment the Company imposes on them to obtain reimbursement of any systems services advances regardless of whether the franchisees continue to generate gross room revenue and whether or not they joined the system following the deficit's occurrence. However, our ability to recover these 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. An extended period of occupancy or room rate declines or a decline in the number of hotel rooms in our franchise system could result in the generation of insufficient funds to recover system services advances as well as meet the ongoing system service needs of our franchisees.

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

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

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

We are dependent upon our ability to attract and retain key officers and other highly qualified personnel.

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

We are subject to certain risks related to our indebtedness.

We cannot assure you that our business will generate sufficient cash flow from operations to enable us to pay our indebtedness or to fund our other liquidity needs. If we fail to generate sufficient cash flow from future operations to meet our debt service obligations, we may need to refinance all or a portion of our debt on or before maturity. We cannot assure you that we will be able to refinance any of our debt on attractive terms, commercially reasonable terms or at all. Our future operating performance and our ability to service, extend or refinance our indebtedness will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control. Our present indebtedness and future borrowings could have important adverse consequences to us, such as:

- making it more difficult for us to satisfy our obligations with respect to our existing indebtedness;
- limiting our ability to obtain additional financing;
- requiring a substantial portion of our cash flow to be used for principal and interest payments on the debt, thereby reducing our ability to use cash flow to fund working capital, capital expenditures, pay dividends and/or repurchase our common stock;
-

limiting our ability to respond to changing business, industry and economic conditions and to withstand competitive pressures, which may affect our financial condition;

- causing us to incur higher interest expense in the event of increases in interest rates on our borrowings that have variable interest rates or in the event of refinancing existing debt at higher interest rates;
- limiting our ability to make investments or acquisitions;

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- increasing our vulnerability to downturns in our business, our industry or the general economy and restricting us from making improvements or acquisitions or exploring business opportunities;
- placing us at a competitive disadvantage to competitors with less debt or greater resources; and
- subjecting us to financial and other restrictive covenants in our indebtedness the non-compliance with which could result in an event of default.

A portion of our borrowings are at variable rates of interest, and to the extent not protected with interest rate hedges, could expose us to market risk from adverse changes in interest rates. Unless we enter into interest rate hedges, if interest rates increase, our debt service obligations on the variable-rate indebtedness could increase significantly even though the amount borrowed would remain the same.

Anti-takeover provisions may prevent a change in control.

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

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

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

Government franchise and tax regulation could impact our business.

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

The determination of our worldwide provision for income taxes and other tax liabilities requires estimation and significant judgment and there are many transactions and calculations where the ultimate tax determination is uncertain. Like many other multinational corporations, we are subject to tax in multiple United States and foreign tax jurisdictions and have structured our operations to reduce our effective tax rate. Our determination of our tax liability is always subject to audit and review by applicable domestic and foreign tax authorities. Any adverse outcome of any such audit or review could have a negative effect on our business, operating results and financial condition, and the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

In addition, recently enacted tax legislation in the United States has made significant changes to the taxation of United States corporations. Although the legislation generally provides for a decrease in federal corporate tax rates, the legislation is highly complex and will require interpretations and implementing regulations by the Internal Revenue Service and state tax authorities. Additionally, the legislation could be subject to potential challenges, future amendments and technical corrections, any of which could increase or decrease the impact of the legislation on us. Moreover, past economic downturns reduced tax revenues for United States federal and state governments and as a result proposals to increase taxes from corporate entities have been considered at various levels of government. At this time, while we expect the decrease in the federal corporate tax rates to provide increased cash flow compared to prior years, we cannot predict the ultimate impact of the tax legislation on our business or results of operations.

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

We cannot predict with certainty the cost of defense, the cost of prosecution or the ultimate outcome of litigation filed by or against us, including, remedies or damage awards. This litigation may involve, but is not limited to, actions or negligence by franchisees outside of our control. Our franchise agreements provide that we are not liable for the actions of our franchisees; however, there is no guarantee that we would be insulated from liability in all cases. Moreover, we may be involved in matters such as class actions, administrative proceedings, employment and personal injury claims, and litigation with or involving our relationship with franchisees and the legal distinction between our franchisees and us for employment law or general liability purposes, for which the cost and other effects of defense, settlements or judgments may require us to make disclosures or take other actions that may affect perceptions of our brand and products and adversely affect our business results.

Failure to protect our trademarks and other intellectual property could impact our business.

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

We depend on the skill, ability and decisions of third party operators.

The Company utilizes third party operators to provide significant franchise services, such as providing general reservation call center services, providing loyalty member call center support, providing data center co-location services, inspecting its franchisees and providing support, hardware and data for the use of its property management and central reservation services systems. In addition, the Company relies on third party providers to provide market and competitor information that is utilized in the Company's strategic decision making process. The failure of any third-party operator or provider to make decisions, perform their services, discharge their obligations, deal with regulatory agencies, provide accurate information and comply with laws, rules and regulations could result in material adverse consequences to our business.

We may identify material weaknesses in our internal control over financial reporting which could, if not remediated, result in a material misstatement of our financial statements.

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act. The Company’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. However, our management does not expect that our disclosure controls or our internal control over financial reporting will prevent all errors and 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. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

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

Our financial and operating performance may be adversely affected by sudden or unexpected events such as acts of God, including natural disasters and/or pandemics, epidemics, the spread of contagious diseases, terrorist activities, political instability, civil unrest and acts of war affecting locations where we have a high concentration of franchisees and areas of the world from which our franchisees draw a large number of guests.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our principal executive offices are located at 1 Choice Hotels Circle, Suite 400, Rockville, Maryland 20850 and are leased from a third party.

We lease two office buildings and own a third office building in Phoenix, AZ, which houses our reservation and property systems' information technology operations and our domestic SaaS technology solutions division. The Company also rents

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office space for regional offices in Australia, the United Kingdom, Canada, Germany, Italy, France, the Netherlands, India, Mexico, Dallas, TX, and Chevy Chase, MD.

Management believes that the Company’s existing properties are sufficient to meet its present needs and does not anticipate any difficulty in securing additional or alternative space, as needed, on terms acceptable to the Company. In addition, we believe that all properties owned and leased are in generally good physical condition with the need for only routine repairs and maintenance and periodic capital improvements.

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

None.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common shares are traded on the New York Stock Exchange under the symbol "CHH".

As of February 15, 2019, there were 1,234 holders of record of the Company's common stock.

ISSUER PURCHASES OF EQUITY SECURITIES

The following table sets forth purchases and redemptions of the Company's common stock made by the Company during the year ended December 31, 2018.

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, 2018	22,168	$ 71.90	—	4,016,795
February 28, 2018	44,347	80.43	—	4,016,795
March 31, 2018	451,324	81.44	432,165	3,584,630
April 30, 2018	189,696	79.71	188,284	3,396,346
May 31, 2018	10,076	79.41	10,076	3,386,270
June 30, 2018	159,918	79.65	158,815	3,227,455
July 31, 2018	234,479	76.88	233,847	2,993,608
August 31, 2018	174,613	77.53	174,149	2,819,459
September 30, 2018	89,521	79.60	87,934	2,731,525
October 31, 2018	242,909	73.49	242,780	2,488,745
November 30, 2018	56,015	75.58	56,015	2,432,730
December 31, 2018	244,092	71.00	242,727	2,190,003
Total	1,919,158	$ 77.47	1,826,792	2,190,003

(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 December 31, 2018, the Company repurchased $50.5 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 $1.4 billion. Considering the effect of the two-for-one stock split, the Company repurchased 83.5 million shares at an average price of $16.74 per share.

(2) During the year ended December 31, 2018, the Company redeemed 92,366 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 performance vested restricted stock units and restricted stock grants. These redemptions were not part of the board repurchase authorization.

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STOCKHOLDER RETURN PERFORMANCE

The graph below matches Choice Hotels International, Inc.'s cumulative 5-Year total shareholder return on common stock with the cumulative total returns of the NYSE Composite index and the S&P Hotels, Resorts & Cruise Lines index. The graph tracks the performance of a $100 investment in our common stock and in each index (with the reinvestment of all dividends) from 12/31/2013 to 12/31/2018.

	12/13	6/14	12/14	6/15	12/15	6/16	12/16	6/17	12/17	6/18	12/18
Choice Hotels International, Inc.	$100.00	$96.69	$115.79	$112.87	$105.74	$100.70	$119.53	$137.95	$167.63	$164.21	$156.36
NYSE Composite	100.00	106.91	106.75	107.76	102.38	107.40	114.61	123.53	136.07	134.56	123.89
S&P Hotels, Resorts & Cruise Lines	100.00	106.55	124.06	125.15	128.85	114.76	138.54	175.49	206.55	189.38	169.24

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

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Item 6. Selected Financial Data.

Effective January 1, 2018, the Company adopted Accounting Standards Update No. 2014-09, Revenue From Contracts with Customers (Topic 606) and subsequent amendments to the initial guidance ("Topic 606"). The Company adopted Topic 606 under the full retrospective method with an effective date of January 1, 2016. Refer to Note 1 to our consolidated financial statements for additional information.

We derived the selected consolidated statements of income data for the years ended December 31, 2018, 2017 and 2016 and the selected consolidated balance sheet data as of December 31, 2018 and 2017 from our audited consolidated financial statements included in this annual report.

We derived the selected consolidated balance sheet data for the year ended December 31, 2016 from our previously issued consolidated financial statements which are not included in this annual report, as adjusted for certain items impacted by the adoption of Topic 606. We derived the selected consolidated statements of income and selected consolidated balance sheet data for the years ended and as of December 31, 2015 and 2014 from our previously issued consolidated financial statements which are not included in this annual report and have not been modified for the adoption of Topic 606.

You should read the selected historical financial data together with the consolidated financial statements and related notes appearing in this annual report, as well as Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and the other financial information included elsewhere in this annual report. Our historical results are not necessarily indicative of the results expected for any future period.

Company results (in millions, except per share data)

	2014	2015	2016	2017	2018
Total Revenues	$758.0	$859.9	$807.9	$941.3	$1,041.3
Operating Income	$214.6	$225.3	$187.1	$289.7	$318.5
Income from continuing operations, net of income taxes	$121.5	$128.0	$106.7	$122.3	$216.4
Income from discontinued operations, net of income taxes	$1.7	$—	$—	$—	$—
Basic earnings per share:					
Continuing operations	$2.08	$2.24	$1.90	$2.16	$3.83
Discontinued operations	$0.03	$—	$—	$—	$—
Diluted earnings per share:					
Continuing operations	$2.07	$2.22	$1.89	$2.15	$3.80
Discontinued operations	$0.03	$—	$—	$—	$—
Total Assets	$637.9	$717.0	$908.5	$995.2	$1,138.4
Long-Term Debt	$772.7	$812.9	$839.4	$725.3	$753.5
Cash Dividends Declared Per Common Share	$0.75	$0.79	$0.83	$0.86	$0.86

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

- Operating and net income in 2014 reflect a full year of operations for the Company's SkyTouch business line that provides property management systems to hotels not affiliated with the Choice brands which was launched in March 2013 as well as an increased investment in the sales and marketing capabilities of the division. As a result, the net operating loss of the division increased by approximately $7.1 million. Discontinued operations for 2014 reflect the sale of the Company's three company-owned MainStay Suites hotels which resulted in a $2.8 million pre-tax gain.
- Total revenues and operating income were impacted by the acquisition of the SaaS for vacation rentals business line in August 2015. The acquisition resulted in approximately $2.2 million of additional revenue and a $3.2 million negative impact on operating income in 2015. In addition, in December 2014 the Company acquired, through legal settlement of a past due note receivable, an office building in Columbus, Ohio with existing tenants and operations - 2015 includes a full year of revenues and expenses related to its operations. The office building provided $1.0 million in additional revenue and $0.6 million in operating income for the year ended December 31, 2015.

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- Effective January 1, 2016, the Company adopted Topic 606 which impacted the Company's pattern of revenue recognition. In addition, resulting from the adoption of Topic 606, the Company now records surpluses and deficits generated from the marketing and reservation system activities within the consolidated statements of income. As a result, total revenues, operating, and net income were impacted by temporary spending in excess of fees related to marketing and reservation activities resulting in the Company incurring $50.6 million in expenses in excess of revenues. The deficit spending on marketing and reservation system activities for the year ended December 31, 2016 primarily reflects a change in the Company's expiration policy for the Choice Privileges membership program, resulting in an increase to the corresponding liabilities and charge to marketing and reservation system revenues. Operations were also impacted by the recordation of a full-year of operations for the SaaS for vacation rentals business line acquired in 2015, resulting in a $3.7 million increase in total revenues compared to the prior year. In addition, in 2016, operating and net income were reduced by termination benefits of $2.2 million related to the departure of the Company's chief financial officer. Net income was also favorably impacted by $3.4 million due to the adoption of Accounting Standards Update ("ASU") 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which requires that excess benefits and tax deficiencies be recognized as income tax expense or benefit to the income statement.
- Operating and net income in 2017 reflect $12.0 million in compensation expenses related to the acceleration of the Company's chief executive officer succession plan. Selling, general and administrative ("SG&A") expenses were reduced by a $1.2 million impairment of below market lease acquisition costs associated with an office building owned by the Company. The Company’s marketing and reservation system activities recognized revenue that exceeded the related expenses by $20.2 million resulting in incremental operating income. Net income was further impacted by comprehensive tax legislation enacted on December 22, 2017. The impact of the tax legislation on net income for the year ended December 31, 2017 was a reduction of approximately $48.5 million. Refer to Note 16 of the consolidated financial statements.
- On February 1, 2018, the Company acquired WoodSpring Hotels Franchise Services LLC ("WSFS") which contributed to the increase in franchising revenues totaling $29.5 million, operating income of $8.1 million and income before income taxes of $1.1 million. Operating income and income before income taxes in 2018 also reflect an impairment of non-franchising goodwill of $4.3 million and a loan valuation allowance charge of $2.8 million.

Item 7. 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 Choice Hotels International, Inc. and its subsidiaries (together the "Company"). MD&A is provided as a supplement to—and should be read in conjunction with—our consolidated financial statements and the accompanying notes.

Effective January 1, 2018, the Company adopted Topic 606 under the full retrospective method. As a result, the Company’s results from operations for the years ended 2017 and 2016 have been revised to reflect the adoption of Topic 606.

Overview

We are primarily a hotel franchisor with franchise agreements representing 7,021 hotels open and 1,082 hotels under construction, awaiting conversion or approved for development as of December 31, 2018, with 569,108 rooms and 87,061 rooms, respectively, in 50 states, the District of Columbia and more than 40 countries and territories outside the United States. Our brand names include Comfort Inn®, Comfort Suites®, Quality®, Clarion®, Clarion Pointe ™, Ascend Hotel Collection®, Sleep Inn®, Econo Lodge®, Rodeway Inn®, MainStay Suites®, Suburban Extended Stay Hotel®, WoodSpring Suites®, and Cambria® Hotels (collectively, the "Choice brands").

On February 1, 2018, the Company acquired all of the issued and outstanding equity interests of WSFS. WSFS is the franchisor of WoodSpring Suites and at acquisition had 239 units (28,680 rooms) operating in the economy extended stay segment in 35 states in the United States. The transaction has been accounted for as a business combination and accordingly, assets acquired and liabilities assumed were recorded at their fair values of the acquisition date. The acquisition allowed the Company to accelerate its growth in the economy extended stay segment. The results of WSFS have been consolidated within the Company’s hotel franchising segment since February 1, 2018.

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.

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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 in November through February than during the remainder of the year. Our principal source of revenues is franchise fees based on the gross room revenues or number of rooms of our franchised properties. The Company's franchise fee revenues reflect the industry's seasonality and historically have been lower in the first and fourth quarters than in the second and 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 and relicensing fee revenue; ongoing royalty fees and procurement services revenues. In addition, our operating results can also be improved through our company-wide efforts related to improving property level performance. The Company currently estimates, based on its current domestic portfolio of hotels under franchise, that a 1% change in revenue per available room ("RevPAR") or rooms under franchise would increase or decrease royalty revenues by approximately $3.6 million and a 1 basis point change in the Company's effective royalty rate would increase or decrease annual domestic royalties by approximately $0.8 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 services, 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 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. We maintain a capital structure that generates high financial returns and use our excess cash flow to provide returns to our shareholders primarily through share repurchases, dividends or investing in growth opportunities.

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 December 31, 2018, we have repurchased 50.5 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 $1.4 billion. Considering the effect of the two-for-one stock split, the Company has repurchased 83.5 million shares at an average price of $16.74 per share. The Company purchased 1.8 million shares of common stock under the share repurchase program at a total cost of $141.2 million for the year ended December 31, 2018. At December 31, 2018, we had approximately 2.2 million shares remaining under the current share repurchase authorization. We currently believe that our cash flows from operations will support our ability to complete the current repurchase authorization. Upon completion of the current authorization, our board of directors will evaluate the advisability of additional share repurchases.

The Company commenced paying quarterly dividends in 2004 and in 2012 the Company elected to pay a special cash dividend totaling approximately $600 million. The Company currently maintains the payment of a quarterly dividend on its common shares outstanding, however the declaration of future dividends is subject to the discretion of the board of directors. During the year ended December 31, 2018, we paid cash dividends totaling approximately $48.7 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 outstanding share count and annual dividend rate of $0.86 per common share outstanding, we expect that aggregate annual regular dividends for 2019 would be approximately $47.9 million.

The Company also allocates capital to financing, investment and guaranty support to incent franchise development for certain brands in strategic markets and to exploring growth opportunities in business areas that are adjacent or complementary to our core hotel franchising business, which leverage our core competencies and are additive to our franchising business model. The timing and amount of these investments are subject to market and other conditions. Notwithstanding investments in these 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 our growth investments and strategic priorities, when properly implemented, will enhance our profitability, maximize our financial returns and continue to generate value for our shareholders. The ultimate measure of our success will be reflected in the items below.

Results of Operations: Royalty fees, operating income, net income and diluted earnings per share ("EPS") represent key measurements of 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.

Our discussion of the hotel franchising activities also excludes the Company’s marketing and reservation system revenues and expenses. The Company's franchise agreements require the payment of marketing and reservation system fees to be used exclusively by the Company for expenses associated with providing franchise services such as central reservation systems, national marketing and media advertising. The Company is obligated to expend the marketing and reservation system fees it collects from franchisees in accordance with the franchise agreements. Furthermore, franchisees are required to reimburse the Company for any deficits generated by these marketing and reservation system activities. Over time, the Company expects cumulative revenues and expenses to break even and therefore no income or loss will be generated from marketing and reservation system activities. As a result, the Company generally excludes the financial impacts of this program from the analysis of its operations.

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Due to the seasonal nature of the Company’s hotel franchising business or multi-year investments that are required to support franchise operations, quarterly or annual deficits and surpluses may be generated. During the years ended 2018 and 2017, marketing and reservation system revenues exceeded expenses by $9.4 million and $20.2 million, respectively. During the year ended 2016, marketing and reservation system expenses exceeded revenues by $50.6 million.

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

Liquidity and Capital Resources: Historically, the Company has generated significant cash flows from operations. Since our business has not historically required significant reinvestment of capital, we typically utilize cash in ways that management believes provide the greatest returns to our shareholders which include share repurchases and dividends. However, 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.

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

Non-GAAP Financial Statement Measurements

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

Hotel Franchising Revenues: The Company utilizes franchising revenues, which exclude revenues from marketing and reservation system activities, SaaS technology solutions divisions, vacation rental activities, 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 utilize the fees collected specifically for franchisee marketing and reservation activities. Our SaaS technology solutions divisions and 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

	Year Ended December 31, (in thousands)		
	2018	2017	2016
Total Revenues	$1,041,304	$941,297	$807,909
Adjustments:			
Marketing and reservation system revenues	(543,677)	(499,625)	(409,120)
Non-hotel franchising activities	(14,257)	(10,818)	(8,816)
Hotel Franchising Revenues	$483,370	$430,854	$389,973

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Operations Review

Comparison of 2018 and 2017 Operating Results

Summarized financial results for the years ended December 31, 2018 and 2017 are as follows:

	December 31,	
	2018	2017
	(in thousands)	
REVENUES:		
Royalty fees	$376,676	$341,745
Initial franchise and relicensing fees	26,072	23,038
Procurement services	52,088	40,451
Marketing and reservation system	543,677	499,625
Other	42,791	36,438
Total revenues	1,041,304	941,297
OPERATING EXPENSES:		
Selling, general and administrative	170,027	165,821
Depreciation and amortization	14,330	6,680
Marketing and reservation system	534,266	479,400
Total operating expenses	718,623	651,901
Impairment of goodwill	(4,289)	—
Gain on sale of assets, net	82	257
Operating income	318,474	289,653
OTHER INCOME AND EXPENSES, NET:		
Interest expense	45,908	45,039
Interest income	(7,452)	(5,920)
Other (gain) loss	1,437	(3,229)
Equity in net (income) loss of affiliates	5,323	4,546
Total other income and expenses, net	45,216	40,436
Income before income taxes	273,258	249,217
Income taxes	56,903	126,890
Net income	$216,355	$122,327

Results of Operations

The Company recorded income before income taxes of $273.3 million for the year ended December 31, 2018, a $24.0 million or 10% increase from the same period of the prior year. The increase in income before income taxes primarily reflects a $28.8 million increase in operating income and a $1.5 million increase in interest income, partially offset by a $4.7 million decrease in other (gain) loss, a $0.9 million increase in interest expense, and a $0.8 million increase in equity in net loss of affiliates.

Operating income increased $28.8 million primarily due to a $52.5 million or 12% increase in the Company’s hotel franchising revenues partially offset by a $10.8 million change in the net surplus/ deficit generated from marketing and reservation system activities, a $7.7 million increase in depreciation and amortization, a $4.2 million increase in SG&A expenses, and recognition of a $4.3 million impairment of goodwill. The primary reasons for these fluctuations are described in more detail below.

Hotel Franchising Revenues

Hotel franchising revenues were $483.4 million for the year ended December 31, 2018 compared to $430.9 million for the year ended December 31, 2017, a $52.5 million or 12% increase. The increase in franchising revenues is primarily due to a $34.9 million or 10% increase in royalty revenues, a $11.6 million or 29% increase in procurement services revenues, a $3.0 million increase in initial franchise and relicensing fees, and a $2.9 million increase in non-compliance, contract termination fees and other franchise revenues.

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Royalty Fees

Domestic royalty fees for the year ended December 31, 2018 increased $34.5 million to $354.7 million from $320.2 million for the year ended December 31, 2017, an increase of 11%. The increase in domestic royalties reflect a 9.0% increase in the number of domestic franchised hotel rooms, a 1.2% increase in domestic RevPAR, and an increase in the effective royalty rate. System-wide RevPAR increased due to a 1.5% increase in average daily rates partially offset by a 10 basis point decrease in occupancy rates. The slight decline in occupancy rates for the full year ended December 31, 2018 primarily relate to weather-related events such as hurricanes that drove higher occupancy rates in the third quarter of 2017 resulting in lower demand in the current year, as comparable weather-related events did not occur in 2018. In addition, lobby and room renovations at over 1,000 of the Company’s Comfort brand franchises have negatively impacted occupancy rates in 2018. The Company expects the lower occupancy rates due to these renovations to be temporary in nature and will result in increased future demand. The Company's effective royalty rate of the domestic hotel system increased from 4.61% for the year ended December 31, 2017 to 4.75% for the year ended December 31, 2018. The increase in the effective royalty rate is attributable to improved royalty rate pricing on recently executed domestic franchise agreements, annual contractual royalty rate increases contained in existing franchise agreements and the acquisition of WSFS. Overall, the acquisition of WSFS on February 1, 2018 increased domestic royalties for the year ended December 31, 2018 by $18.9 million.

A summary of the Company’s domestic franchised hotels operating information for the years ending December 31, 2018 and 2017 is as follows:

	2018			2017			Change		
	Average Daily Rate	Occupancy	RevPAR	Average Daily Rate	Occupancy	RevPAR	Average Daily Rate	Occupancy	RevPAR
Comfort Inn	$94.73	65.2 %	$ 61.72	$94.23	66.0 %	$ 62.23	0.5 %	(80) bps	(0.8)%
Comfort Suites	97.64	69.7 %	68.04	97.01	70.1 %	67.96	0.6 %	(40) bps	0.1 %
Sleep	84.71	65.2 %	55.20	82.96	65.5 %	54.35	2.1 %	(30) bps	1.6 %
Quality	80.15	60.1 %	48.20	79.25	59.8 %	47.41	1.1 %	30 bps	1.7 %
Clarion	84.45	57.9 %	48.90	84.62	59.3 %	50.14	(0.2)%	(140) bps	(2.5)%
Econo Lodge	63.44	54.7 %	34.68	62.95	54.5 %	34.29	0.8 %	20 bps	1.1 %
Rodeway	64.26	56.4 %	36.21	64.51	56.0 %	36.09	(0.4)%	40 bps	0.3 %
WoodSpring Suites*	45.92	80.1 %	36.77	42.44	80.5 %	34.16	8.2 %	(40) bps	7.6 %
MainStay	83.08	69.7 %	57.89	76.70	68.4 %	52.47	8.3 %	130 bps	10.3 %
Suburban	55.81	75.5 %	42.16	51.76	76.0 %	39.31	7.8 %	(50) bps	7.3 %
Cambria Hotels	146.71	71.5 %	104.84	137.86	73.8 %	101.70	6.4 %	(230) bps	3.1 %
Ascend Hotel Collection	126.86	58.0 %	73.62	127.96	55.5 %	71.05	(0.9)%	250 bps	3.6 %
Total*	$81.64	63.3 %	$ 51.65	$80.44	63.4 %	$ 51.02	1.5 %	(10) bps	1.2 %

* WSFS was acquired on February 1, 2018; however Average Daily Rate, Occupancy, and RevPAR reflect operating performance for the years ended December 31, 2018 and 2017, as if the brand had been acquired on January 1, 2017.

The number of total domestic rooms on-line increased by 9.0% to 450,028 rooms as of December 31, 2018 from 413,015 as of December 31, 2017. The total number of domestic hotels on-line increased by 6.6% to 5,863 as of December 31, 2018 from 5,501 as of December 31, 2017. The increase in units and rooms is primarily attributable to the acquisition of WSFS, which added 239 hotels and 28,680 rooms on the date of acquisition, and the growth of the Quality brand, which added 94 hotels and 6,306 rooms on-line compared to December 31, 2017.

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A summary of domestic hotels and rooms on-line at December 31, 2018 and 2017 by brand is as follows:

	December 31, 2018		December 31, 2017		Variance			
	Hotels	Rooms	Hotels	Rooms	Hotels	%	Rooms	%
Comfort Inn	1,056	82,901	1,083	84,626	(27)	(2.5)%	(1,725)	(2.0)%
Comfort Suites	571	44,381	567	44,029	4	0.7%	352	0.8%
Sleep	393	27,962	384	27,410	9	2.3%	552	2.0%
Quality	1,636	126,533	1,542	120,227	94	6.1%	6,306	5.2%
Clarion	174	22,179	166	22,138	8	4.8%	41	0.2%
Econo Lodge	839	50,692	840	51,233	(1)	(0.1)%	(541)	(1.1)%
Rodeway	612	35,124	600	34,488	12	2.0%	636	1.8%
WoodSpring Suites	249	29,911	—	—	249	NM	29,911	NM
MainStay	63	4,268	60	4,249	3	5.0%	19	0.4%
Suburban	54	5,699	61	6,698	(7)	(11.5)%	(999)	(14.9)%
Cambria Hotels	40	5,685	36	4,917	4	11.1%	768	15.6%
Ascend Hotel Collection	176	14,693	162	13,000	14	8.6%	1,693	13.0%
Total Domestic Franchises	5,863	450,028	5,501	413,015	362	6.6%	37,013	9.0%

International royalty fees for the year ended December 31, 2018 increased $0.4 million to $22.0 million, an increase of 1.9% compared to the year ended December 31, 2017. The increase in international royalty fees resulted primarily from an increase in the number of international rooms on-line. International rooms on-line increased by 6,522 from 112,558 as of December 31, 2017 to 119,080 as of December 31, 2018. International hotels on-line increased by 32 from 1,126 as of December 31, 2017 to 1,158 as of December 31, 2018. International rooms grew at a faster pace than the number of hotels 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

Initial franchise fees are fees paid to the Company when a franchisee executes a franchise agreement; relicensing fees include fees charged to new owners of a franchised property whenever an ownership change occurs and the property remains in the franchise system, as well as fees required to renew existing franchise agreements.

During the year ended December 31, 2018, the Company awarded 756 franchise agreements representing 60,161 rooms compared to 704 franchise agreements representing 53,042 rooms for the year ended December 31, 2017. The acquisition of WSFS resulted in 74 new construction franchise agreements, including 19 with WoodSpring's largest franchisee, and 1 conversion franchise agreement during the year ended December 31, 2018.

Domestic franchise agreements executed for new construction hotels totaled 322 representing 26,694 rooms during the year ended December 31, 2018 compared to 247 contracts representing 18,014 rooms for the year ended December 31, 2017. Conversion hotel executed franchise agreements totaled 434 representing 33,467 rooms for the year ended December 31, 2018 compared to 457 agreements representing 35,028 rooms for the year ended December 31, 2017. The Company executed 426 domestic relicensing contracts during the year ended December 31, 2018 compared to 439 executed during the year ended December 31, 2017. The Company executed 31 domestic renewal agreements during the year ended December 31, 2018 compared to 26 during the year ended December 31, 2017.

Initial franchise and relicensing fees are generally collected at the time the franchise agreement is executed. However, the recognition of revenue is deferred until the hotel is open or the franchise agreement is terminated. Upon hotel opening, revenue is recognized ratably as services are provided over the enforceable period of the franchise license agreement. Upon the termination of a franchise agreement, previously deferred initial and relicensing fees are recognized immediately in the period the agreement is terminated. Initial franchise and relicensing fee revenue increased $3.0 million or 13% from $23.0 million to $26.1 million during the years ended December 31, 2017 and 2018, respectively.

As of December 31, 2018, the Company had 1,026 franchised hotels with 81,662 rooms under construction, awaiting conversion or approved for development in its domestic system as compared to 853 hotels and 65,764 rooms at December 31,

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2017. The number of new construction franchised hotels in the Company's domestic pipeline increased 27% to 773 at December 31, 2018 from 607 at December 31, 2017. The growth in the number of new construction hotels in the domestic pipeline reflects the increase in new construction franchise agreements executed over the last several years and the acquisition of WSFS on February 1, 2018. 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 7 hotels or 3% from December 31, 2017 to 253 hotels at December 31, 2018, primarily due to the timing of hotel openings and the timing of signing new conversion franchise agreements. Conversion hotels typically open three to six months after the execution of a franchise agreement. The Company had an additional 56 franchised hotels with 5,399 rooms under construction, awaiting conversion or approved for development in its international system as of December 31, 2018 compared to 70 hotels and 7,153 rooms at December 31, 2017. 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 $11.6 million or 29% from $40.5 million for the year ended December 31, 2017 to $52.1 million for the year ended December 31, 2018. 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 Revenue: Revenue increased $6.4 million from the year ended December 31, 2017 to $42.8 million for the year ended December 31, 2018. The increase in other revenue reflects a $8.2 million increase in non-compliance, contract termination, and other franchising revenues and a $3.4 million increase in revenues from the Company's non-hotel franchising lines of business, partially offset by a $5.2 million decrease in the sale of chip-enabled credit card readers to our franchisees as the program nears completion.

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 $170.0 million for the year ended December 31, 2018, an increase of $4.2 million from the December 31, 2017 total of $165.8 million.

SG&A expenses for the years end December 31, 2018 and 2017 include approximately $19.8 million and $16.1 million, respectively, related to the Company's alternative growth initiatives and expenses related to the operations of an office building leased to a third party. The $3.7 million increase in SG&A expenses related to non-hotel franchising activities primarily reflect a $1.2 million impairment of a below market lease acquisition cost associated with the office building that reduced SG&A costs recorded in the year ended December 31, 2017 and increased investment in vacation rental activities.

SG&A expenses also reflect transaction and transition costs of $6.9 million and $4.0 million for the years ended December 31, 2018 and 2017, respectively. These costs were incurred in conjunction with the acquisition of WSFS on February 1, 2018, as well as other contemplated but not consummated transactions.

In the fourth quarter of 2018, the Company restructured the terms of a notes receivable from a franchisee resulting in the establishment of a $2.8 million loan valuation allowance with a charge to SG&A. Refer to Note 4 to our consolidated financial statements for additional information. Additionally, SG&A expenses for the year ended December 31, 2017 included $12.0 million of compensation expenses related to the acceleration of the Company's chief executive officer succession plan.

Excluding the SG&A for non-hotel franchising activities, the impact of acquisition transaction and transition costs, the impairment of notes receivable, the impairment of below market lease acquisition costs, and expenses related to the chief executive succession plan, SG&A for the year end December 31, 2018 increased $6.9 million or 5.2% from $133.6 million in the prior year to $140.6 million in the current year primarily due to general cost increases to support the hotel franchising business.

Depreciation and Amortization: Depreciation and amortization expense for the year ended December 31, 2018 increased $7.7 million to $14.3 million for the same period of the prior year primarily due to the acquisition of WSFS on February 1, 2018. Amortization totaling $7.0 million was recorded related to the portion of the purchase price allocated to the contract asset acquisition costs.

Impairment of Goodwill: The Company recorded a $4.3 million goodwill impairment in the fourth quarter of 2018 related to the SaaS for vacation rentals reporting unit. Refer to Item 7. Critical Accounting Policies and Note 6 to our consolidated financial statements for additional information.

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Interest Income: Interest income increased $1.5 million from $5.9 million for the year ended December 31, 2017 to $7.5 million in the current year. The increase in interest income primarily reflects the issuance of additional notes receivable related to the Company's program to incent development of its Cambria Hotels brand in strategic markets.
Other (Gain) Loss: Other (gain) loss decreased from a gain of $3.2 million for the year ended December 31, 2017 to a loss of $1.4 million for the year ended December 31, 2018 due to 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 $5.3 million from its unconsolidated joint ventures during the year ended December 31, 2018 compared to net losses of $4.5 million for the year ended December 31, 2017. The fluctuation in net loss from affiliates is primarily attributable to operational ramp-up 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 Hotels in strategic markets.
Income Tax Expense: The Tax Cuts and Jobs Act (the "Tax Act"), enacted on December 22, 2017, reduced the U.S. federal corporate income tax rate from 35.0% to 21.0%, required companies to pay a one-time transition tax on earnings of foreign subsidiaries that were previously tax deferred, and created new taxes on certain foreign-sourced earnings.
The Company's effective income tax rates were 20.8% and 50.9%, for the years ended December 31, 2018 and 2017, respectively. The effective income tax rate for the year ended December 31, 2018 was lower than the U.S. federal income tax rate of 21.0% due to excess tax benefits from share-based compensation and the impact of foreign operations, partially offset by the impact of state income taxes. The effective income tax rate for the year ended December 31, 2017 was higher than the U.S. federal income tax rate of 35.0% primarily due to the transition tax of $35.3 million and the $13.2 million impairment of our net domestic deferred tax assets resulting from the reduction of the U.S. federal corporate income tax rate to 21.0% based on enactment of the Tax Act. The increase from these items was partially offset by the recurring impact of foreign operations and excess tax benefits from share-based compensation.

Due to the recent changes resulting from the Tax Act, the Company has implemented a new foreign dividend policy effective during the quarter ended September 30, 2018. As a result of the new policy, the Company intends to limit any future foreign distributions to income which has been previously subject to U.S. taxation, for which relevant taxes have been recorded. Nonetheless, the Company will continue to assert that any other outside basis difference of the foreign subsidiaries will be permanently (or indefinitely) reinvested outside of the U.S. Consequently, the Company will not record any additional deferred taxes for this item in 2018.

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Operations Review

Comparison of 2017 and 2016 Operating Results

Summarized financial results for the years ended December 31, 2017 and 2016 are as follows:

	December 31, 2017	2016
	(in thousands)	
REVENUES:		
Royalty fees	$341,745	$317,699
Initial franchise and relicensing fees	23,038	19,720
Procurement services	40,451	35,844
Marketing and reservation system	499,625	409,120
Other	36,438	25,526
Total revenues	941,297	807,909
OPERATING EXPENSES:		
Selling, general and administrative	165,821	154,720
Depreciation and amortization	6,680	6,996
Marketing and reservation system	479,400	459,765
Total operating expenses	651,901	621,481
Gain on sale of assets, net	257	627
Operating income	289,653	187,055
OTHER INCOME AND EXPENSES, NET:		
Interest expense	45,039	44,446
Interest income	(5,920)	(3,535)
Other (gain) loss	(3,229)	(1,504)
Equity in net (income) loss of affiliates	4,546	(492)
Total other income and expenses, net	40,436	38,915
Income before income taxes	249,217	148,140
Income taxes	126,890	41,428
Net income	$122,327	$106,712

Results of Operations

The Company recorded income before income taxes of $249.2 million for the year ended December 31, 2017, a $101.1 million or 68% increase from the same period of the prior year. The increase in income before income taxes primarily reflects a $102.6 million increase in operating income, a $2.4 million increase in interest income, a $1.7 million increase in other gains, partially offset by a $5.0 million decrease in equity in net (income) loss of affiliates.

Operating income increased $102.6 million primarily due to a $40.9 million or 10% increase in the Company’s hotel franchising revenues, a $70.9 million change in the net surplus/ deficit generated from marketing and reservation system activities, and a $2.0 million increase in non-hotel franchising revenues, partially offset by a $11.1 million increase in SG&A expenses. The change in the net surplus/ deficit generated from marketing and reservation system activities results from a change in the Company's expiration policy for points outstanding under the Choice Privileges loyalty membership program, resulting in an increase to the corresponding liabilities and charge to the marketing and reservation system revenues.

Hotel Franchising Revenues

Hotel franchising revenues were $430.9 million for the year ended December 31, 2017 compared to $390.0 million for the year ended December 31, 2016, a $40.9 million or 10% increase. The increase in hotel franchising revenues is primarily due to a $24.0 million or 8% increase in royalty revenues, a $4.6 million or 13% increase in procurement services revenues, $3.3 million or 17% increase in initial franchise and relicensing fees, and a $8.9 million or 53% increase in non-compliance, contract termination fees and other franchise revenues.

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Royalty Fees

Domestic royalty fees for the year ended December 31, 2017 increased $22.5 million to $320.2 million from $297.7 million in 2016, an increase of 8%. The increase in domestic royalties reflect a 2.5% increase in domestic RevPAR, a 2.1% 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 50 basis point increase in occupancy rates. The Company's effective royalty rate of the domestic hotel system increased from 4.41% for the year ended December 31, 2016 to 4.60% for the year ended December 31, 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 for the years ending December 31, 2017 and 2016 is as follows:

	2017			2016			Change		
	Average Daily Rate	Occupancy	RevPAR	Average Daily Rate	Occupancy	RevPAR	Average Daily Rate	Occupancy	RevPAR
Comfort Inn	$94.23	66.0 %	$ 62.23	$92.56	65.6 %	$ 60.70	1.8 %	40 bps	2.5 %
Comfort Suites	97.01	70.1 %	67.96	96.32	69.3 %	66.74	0.7 %	80 bps	1.8 %
Sleep	82.96	65.5 %	54.35	82.08	65.1 %	53.47	1.1 %	40 bps	1.6 %
Quality	79.25	59.8 %	47.41	77.80	59.1 %	45.99	1.9 %	70 bps	3.1 %
Clarion	84.62	59.3 %	50.14	82.35	58.3 %	48.01	2.8 %	100 bps	4.4 %
Econo Lodge	62.95	54.5 %	34.29	61.41	54.1 %	33.22	2.5 %	40 bps	3.2 %
Rodeway	64.51	56.0 %	36.09	63.04	55.7 %	35.08	2.3 %	30 bps	2.9 %
MainStay	76.70	68.4 %	52.47	76.29	65.2 %	49.70	0.5 %	320 bps	5.6 %
Suburban	51.76	76.0 %	39.31	49.96	75.5 %	37.72	3.6 %	50 bps	4.2 %
Cambria Hotels	137.86	73.8 %	101.70	131.73	76.3 %	100.46	4.7 %	(250) bps	1.2 %
Ascend Hotel Collection	127.96	55.5 %	71.05	129.97	58.1 %	75.52	(1.5)%	(260) bps	(5.9)%
Total	$84.02	62.2 %	$ 52.25	$82.64	61.7 %	$ 51.00	1.7 %	50 bps	2.5 %

The number of total domestic rooms on-line increased by 2.1% to 413,015 rooms as of December 31, 2017 from 404,498 as of December 31, 2016. The total number of domestic hotels on-line increased by 2.6% to 5,501 as of December 31, 2017, from 5,362 as of December 31, 2016. 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.

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A summary of the domestic hotels and available rooms at December 31, 2017 and 2016 by brand is as follows:

	December 31, 2017		December 31, 2016		Variance			
	Hotels	Rooms	Hotels	Rooms	Hotels	%	Rooms	%
Comfort Inn	1,083	84,626	1,113	86,310	(30)	(2.7)%	(1,684)	(2.0)%
Comfort Suites	567	44,029	565	43,610	2	0.4 %	419	1.0 %
Sleep	384	27,410	379	27,097	5	1.3 %	313	1.2 %
Quality	1,542	120,227	1,447	114,582	95	6.6 %	5,645	4.9 %
Clarion	166	22,138	167	22,941	(1)	(0.6)%	(803)	(3.5)%
Econo Lodge	840	51,233	857	52,791	(17)	(2.0)%	(1,558)	(3.0)%
Rodeway	600	34,488	565	32,515	35	6.2 %	1,973	6.1 %
MainStay	60	4,249	56	4,108	4	7.1 %	141	3.4 %
Suburban	61	6,698	59	6,561	2	3.4 %	137	2.1 %
Cambria Hotels	36	4,917	27	3,503	9	33.3 %	1,414	40.4 %
Ascend Hotel Collection	162	13,000	127	10,480	35	27.6 %	2,520	24.0 %
Total Domestic Franchises	5,501	413,015	5,362	404,498	139	2.6 %	8,517	2.1 %

International royalty fees increased $1.6 million from $20.0 million in the year ended December 31, 2016 to $21.6 million for the same period in 2017 primarily due to an increase in the number of rooms franchised and improvements in RevPAR and effective royalty rates. International rooms increased by 934 to 112,558 as of December 31, 2017 from 111,624 as of December 31, 2016. The total number of hotels decreased from 1,152 at December 31, 2016 to 1,126 at December 31, 2017. International rooms grew at a faster pace than the number of hotels due to a focus on new entrants with higher per room counts than currently in the Company's international franchised hotel portfolio and the termination of hotels with lower room counts.

Initial Franchise and Relicensing Fees

Initial franchise fees are fees paid to the Company when a franchisee executes a franchise agreement; relicensing fees include fees charged to new owners of a franchised property whenever an ownership change occurs and the property remains in the franchise system, as well as fees required to renew existing franchise agreements.

During 2017, the Company awarded 704 domestic franchise agreements representing 53,042 rooms compared to 645 franchising agreements representing 50,336 rooms for 2016. Domestic franchise agreements executed for new construction hotels totaled 247 representing 18,014 rooms during the year ended December 31, 2017 compared to 201 contracts representing 15,566 rooms for the year ended December 31, 2016. Conversion hotel executed franchise agreements totaled 457 representing 35,028 rooms for the year ended December 31, 2017 compared to 444 agreements representing 34,770 rooms for the year ended December 31, 2016.

The Company executed 439 domestic relicensing contracts during the year ended December 31, 2017 compared to 412 executed during the year ended December 31, 2016. The Company executed 26 domestic renewals agreements during the year ended December 31, 2017 compared to 42 executed during the year ended December 31, 2016.

Initial franchise and relicensing fees are generally collected at the time the franchise agreement is executed. However, the recognition of revenue is deferred until the hotel is open or the franchise agreement is terminated. Upon hotel opening, revenue is recognized ratably as services are provided over the enforceable period of the franchise license agreement. Upon the termination of a franchise agreement, previously deferred initial and relicensing fees are recognized immediately in the period the agreement is terminated. Initial franchise and relicensing fee revenue increased $3.3 million or 17% from $19.7 million to $23.0 million during the years ended December 31, 2016 and 2017, respectively.

As of December 31, 2017, the Company had 853 franchised hotels with 65,764 rooms under construction, awaiting conversion or approved for development in its domestic system compared to 721 hotels and 56,396 rooms at December 31, 2016. The number of new construction franchised hotels in the Company’s domestic pipeline increased

23% to 607 at December 31, 2017 from 492 at December 31, 2016. The growth in the number of new construction hotels in the domestic pipeline reflects the 23%, 16%, and 9% increase in new construction franchise agreements executed in 2017, 2016, and 2015, respectively. 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 17 units or 7% from December 31, 2016 to 246 hotels at December 31, 2017 primarily due to the timing of hotel openings and the timing of signing new conversion franchise agreements. Conversion hotels typically open within three to six months after the execution of the franchise agreement. The Company had an additional 70 franchised hotels with 7,153 rooms under construction, awaiting conversion or approved for development in its international system as of December 31, 2017 compared to 54 hotels and 6,151 rooms at December 31, 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 $4.6 million or 13% from $35.8 million for the year ended December 31, 2016 to $40.5 million for the year ended December 31, 2017. The increase in procurement services revenue primarily reflects the implementation of new brand programs as well as an increased volume of business transacted with existing and new qualified vendors and strategic alliance partners.

Other Revenue: Revenue increased $10.9 million from the year ended December 31, 2016 to $36.4 million for the year ended December 31, 2017. The increase in other revenue reflects an increase of $6.3 million related to the sale of chip-enabled credit card readers to our franchisees, $2.0 million increase in revenues related to the Company's non-hotel franchising lines of business, and a $2.6 million increase in non-compliance, contract termination, and other franchising revenues.

Selling, General and Administrative Expenses: The cost to operate the franchising business is reflected in SG&A on the consolidated statements of income. SG&A expenses were $165.8 million for December 31, 2017, an increase of $11.1 million from the year ended December 31, 2016 total of $154.7 million.

SG&A expenses for the years end December 31, 2017 and 2016 include approximately $16.1 million and $28.1 million, respectively, related to the Company's alternative growth initiatives and expenses related to the operations of an office building leased to a third party. The decline in SG&A expenses related to non-hotel franchising activities resulted primarily from lower SaaS technology solutions divisions related costs primarily due to the completion of a multi-year product development plan in 2016. In addition, the Company recorded a $1.2 million impairment of a below market lease acquisition costs associated with the office building that reduced 2017 SG&A costs.

SG&A expenses also reflect $4.0 million and $3.3 million of acquisition related transition and transaction costs during the years ended December 31, 2017 and 2016, respectively. In addition, SG&A expenses for the year ended December 31, 2017 include $12.0 million of compensation expenses related to the acceleration of the Company's chief executive officer succession plan and expenses for the year ended December 31, 2016 include $2.2 million of executive termination benefits related to the departure of the Company's chief financial officer.

Excluding the SG&A expenses for non-hotel franchising activities, the impact of transaction and transition costs, the impairment of below market lease acquisition costs, expenses related to the chief executive officer succession plan, and expenses related to the chief financial officer executive termination benefits, SG&A for the year end December 31, 2017 increased $12.5 million or 10% to $133.6 million from $121.1 million for the year ended December 31, 2016. This increase is primarily due to $4.5 million of increased costs related to the distribution of chip-enabled card readers to our franchisees, a $1.7 million increase in expenses related to the fluctuation of the fair market value in the Company's non-qualified deferred compensation plans, and general cost increases to support the hotel franchising business.

Gain on Sale of Assets, Net: The Company purchases real estate as part of a program to incent franchise development in strategic markets or to pursue hotel development through joint ventures. For the years ended December 31, 2017 and 2016, the Company recorded a net gain of $0.3 million and $0.6 million, respectively, pursuant to this program.

Interest Income: Interest income increased $2.4 million from $3.5 million for the year ended December 31, 2016 to $5.9 million in 2017. The increase in interest income primarily reflects the issuance of additional notes receivable related to the Company's program to incent development of its Cambria Hotels in strategic markets.

Other (Gain) Loss: Other gain increased from a gain of $1.5 million for the year ended December 31, 2016 to a gain of $3.2 million. The increase is primarily due to a $1.7 million increase in gains resulting from the fluctuation in the fair value of the investments held in the Company's non-qualified employee benefit plans.

Equity in Net (Income) Loss of Affiliates: The Company recorded net losses of $4.5 million from its unconsolidated joint ventures during the year ended December 31, 2017 compared to net income of $0.5 million for the year ended

December 31, 2016. The fluctuations in net income and loss from affiliates is primarily attributable to the operational ramp-up for several

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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 Hotels in strategic markets.
Income Tax Expense: The Tax Act was enacted on December 22, 2017, which reduced the U.S. federal corporate income tax rate from 35.0% to 21.0%, requires companies to pay a one-time transition tax on earnings of foreign subsidiaries that were previously tax deferred, and creates new taxes on certain foreign-sourced earnings.
The Company's effective income tax rates for continuing operations were 50.9% and 28.0%, for the years ended December 31, 2017 and 2016, respectively. The effective income tax rate for the year ended December 31, 2017 was higher than the U.S. federal statutory rate of 35.0% primarily due to the Transition Tax of $35.3 million and the $13.2 million impairment of our net domestic deferred tax assets resulting from the reduction of the U.S. federal corporate income tax rate to 21.0% based on enactment of the Tax Act. The increase from these items was partially offset by the recurring impact of foreign operations and excess tax benefits related to share-based compensation. The effective income tax rate for the year ended December 31, 2016 was lower than the U.S. federal statutory rate of 35.0% primarily due to excess tax benefits from shared-based compensation and the recurring impact of foreign operations, partially offset by state income taxes.

Liquidity and Capital Resources
Operating Activities
Net cash flows provided by operating activities were $242.9 million for the year ended December 31, 2018 compared to $257.4 million for the same period of 2017, a decrease of $14.5 million. Operating cash flows decreased primarily due to an increase in cash outflows related to franchise agreement acquisition costs partially offset by an increase in operating income, excluding certain non-cash charges.
In conjunction with brand and development programs, we make certain payments to franchisees as an incentive to enter into new franchise agreements or perform designated improvements to properties under existing franchise agreements. We recognize such payments as an adjustment to transaction price and capitalize as an intangible asset. These intangibles are amortized on a straight-line basis over the estimated benefit period of the arrangement as an offset to revenues. If the franchisee remains in the system in good standing over the term specified in the incentive agreement, the Company forgives the incentive ratably. If the franchisee exits our franchise system or is not operating their franchise in accordance with our quality or credit standards, the franchisee must repay the unamortized incentive payment plus interest. During the years ended December 31, 2018, 2017 and 2016, the Company's net advances for these purposes totaled $52.9 million, $30.6 million, and $17.4 million, respectively. The timing and amount of these cash flows are 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 December 31, 2018, the Company had commitments to extend an additional $257.3 million for these purposes provided certain conditions are met by its franchisees.
The Company’s franchise agreements require the payment of marketing and reservation system fees. In accordance with the terms of our franchise agreements, the Company is obligated to use these marketing and reservation system fees to provide marketing and reservation services such as advertising, providing a centralized reservation and property management system, providing reservation and revenue management services, and performing certain franchise services to support the operation of the overall franchise system.

Marketing and reservation system expenses are those expenses incurred to facilitate the delivery of marketing and reservation system services, including direct expenses and an allocation of costs for certain administrative activities required to carry out marketing and reservation services. Marketing and reservation system expenses are recognized as services are incurred or goods are received, and as such may not equal marketing and reservation system revenues in a specific period but are expected to equal revenues earned from franchisees over time. To the extent revenues collected exceed expenditures incurred, the Company has a commitment to the franchisee system to make expenditures in future years. Conversely, to the extent expenditures incurred exceed revenues collected, the Company has the contractual enforceable right to recover such advances in future periods through additional fee assessments or reduced spending.
Investing Activities

Cash utilized in investing activities totaled $321.3 million, $90.1 million, and $98.5 million for the years ended December 31, 2018, 2017 and 2016, respectively. The increase in cash utilized for investing activities from 2017 to 2018 primarily reflects the following items:

During the year ended December 31, 2018, the Company completed the acquisition of the brand and franchise business of WoodSpring Suites. The acquisition closed on February 1, 2018 and added 239 new extended-stay hotels in 35 states to the

Company's portfolio. The acquisition was funded with cash on hand and available borrowings. The total cash consideration was $231.3 million, which consisted of cash paid, net of cash acquired.

During the year ended December 31, 2018, 2017 and 2016, the Company invested $9.6 million, $50.6 million, and $34.7 million in joint ventures accounted for under the equity method of accounting. In addition, the Company received distributions from these joint ventures totaling $1.4 million, $4.6 million, and $3.7 million for the years ended December 31, 2018, 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 Cambria Hotels brand. The Company expects to make additional capital contributions totaling $12.2 million to existing unconsolidated and consolidated joint ventures supporting these efforts.

During the third quarter of 2018, a partner in a variable interest entity ("VIE") previously accounted for under the equity method of accounting exercised a put option to the Company for its membership interest. As a result, the Company paid $3.2 million for the remaining interest and the purchase was accounted for as an asset acquisition. The financial results of the 100% owned entity have been consolidated in the Company's financial statements since August 9, 2018. There were no asset acquisitions during the year ended December 31, 2017. During the year ended December 31, 2016, the Company completed four acquisitions of real estate as part of its program to incent franchise development in strategic markets for our Cambria Hotels brand. The aggregate purchase price for these acquisitions was $29.0 million consisting of $28.7 million cash with an additional $0.3 million of current liabilities assumed. In addition, the Company incurred $0.5 million in acquisition related costs, which were expensed in the period.

During the years ended December 31, 2018, 2017 and 2016, the Company realized proceeds of $3.1 million, $1.0 million, and $11.5 million from the sale of parcels of land. The decrease in proceeds primarily reflects the sale of three parcels of land and an interest in an unconsolidated joint venture in 2016, compared to one parcel of land in 2017 and 2018.

During the years ended December 31, 2018, 2017 and 2016, capital expenditures in property and equipment totaled $47.7 million, $23.4 million, and $25.2 million, respectively. The increase in capital expenditures during 2018 compared to the prior years primarily reflects the Company's acquisition of an aircraft, including avionics and interior upgrades, as well as improvements to an office building that is converting to a Cambria Hotel.

The Company provides financing to franchisees for hotel development efforts and other purposes in the form of notes receivable. These loans bear interest and are expected to be repaid in accordance with the terms of the loan agreements. During the years ended December 31, 2018, 2017 and 2016, the Company advanced $36.0 million, $19.7 million, and $32.6 million for these purposes, respectively. In addition, the Company advanced and received repayments totaling $5.0 million, $0.7 million, and $11.1 million for these purposes, respectively. At December 31, 2018, the Company had commitments to extend an additional $33.6 million for these purposes 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 guaranties and similar credit support to qualified franchisees, as well as to acquire, develop 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 Hotels brand, primarily in strategic markets and locations. Over the next three to five years, depending on market and other conditions, we expect to continue to deploy capital in support of this brand and expect our investment to total approximately $725 million over that time period. The annual pace of future financial support activities will depend upon market and other conditions including among others, our franchise sales results, the environment for new construction hotel development and the hotel lending environment. Our support of the Cambria Hotels brand’s growth is expected to be primarily in the form of joint venture investments, franchise agreement acquisition costs, 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 December 31, 2018, the Company had approximately $342.0 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, acquisitions 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 stockholders on August 23, 2012.

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

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 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 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.

Restated Senior Unsecured Credit Facility

On August 20, 2018, the Company entered into the Amended and Restated Senior Unsecured Credit Agreement (the "Restated Credit Agreement"), which amended and restated the Company’s existing senior unsecured revolving credit agreement, dated July 21, 2015 (the “Former Credit Agreement”). The Former Credit Agreement provided for a $450 million unsecured revolving credit facility (the “Revolver”) with a final maturity date of July 21, 2021.

The Restated Credit Agreement increases the commitments under the Revolver to $600 million and extends the final maturity date of the Revolver to August 20, 2023, subject to optional one-year extensions that can be requested by the Company prior to each of the first, second and third anniversaries of the closing date of the Restated Credit Agreement. The effectiveness of such extensions are subject to the consent of the lenders under the Restated Credit Agreement and certain customary conditions. The Restated Credit Agreement also provides that up to $35 million of borrowings under the Revolver may be used for alternative currency loans and up to $25 million of borrowings under the Revolver may be used for swingline loans. The Company may from time to time designate one or more wholly owned subsidiaries of the Company as additional borrowers under the Restated Credit Agreement, subject to the consent of the lenders and certain customary conditions.

Pursuant to the Restated Credit Agreement, the previous guarantee by certain of the Company’s subsidiaries of its obligations under the Revolver (as increased by the Restated Credit Agreement) was released. As a result, as of August 20, 2018, there are no subsidiary guarantors under the Revolver. However, if certain subsidiaries of the Company subsequently incur certain recourse debt or become obligors in respect of certain recourse debt of the Company or certain of its other subsidiaries, the Restated Credit Agreement requires such obligated subsidiaries to guarantee the Company’s obligations under the Revolver. In the event that these subsidiary guarantees are triggered under the Revolver, the same subsidiary guarantees would be required under the Company’s 2010 and 2012 Senior Notes and certain hedging and bank product arrangements, if any, with lenders that are parties to the Restated Credit Agreement.

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

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

A total of $3.2 million in debt issuance costs were capitalized as part of the Restated Credit Facility, including $1.7 million in costs incurred on the Restated Credit Facility and remaining unamortized costs of $1.5 million attributable to the Former Credit Facility. The capitalized debt issuance costs are amortized on a straight-line basis, which is not materially different than the effective interest method, through the maturity. Amortization of these costs is included in interest expense in the consolidated statements of income. Additionally, the Restated Credit Agreement requires the Company 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 0.075% to 0.25% (depending on the Company's senior unsecured long-term debt rating or under circumstances as set forth in the Restated Credit Agreement, the Company's total leverage ratio in the event that such total leverage ratio is less than 2.5 to 1.0).

The Restated Credit Agreement requires that the Company and its restricted subsidiaries comply with various covenants, including with respect to restrictions on liens, incurring indebtedness, making investments and effecting mergers and/or asset sales. With respect to dividends, the Company may not declare or make any payment if there is an existing event of default or if the payment would create an event of default.

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

The Restated Credit Agreement includes customary events of default, the occurrence of which, following any applicable cure period, would permit the lenders to, among other things, declare the principal, accrued interest and other obligations of the Company under the Restated Credit Agreement to be immediately due and payable. At December 31, 2018, the Company maintained a total leverage ratio of 1.97x and was in compliance with all financial covenants under the Restated 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 Restated Credit Agreement.

Fixed Rate Collateralized Mortgage

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

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 December 31, 2018, the Company had been advanced approximately $4.2 million pursuant to these agreements and expects to receive the remaining $0.2 million in 2019, 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 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 December 31, 2018.

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Construction Loan

In March 2018, the Company entered into a construction loan agreement for the rehabilitation and development of a former office building into a hotel through a consolidating joint venture with a commercial lender, which is secured by the building. The construction loan can be drawn up to $34.9 million, bears an interest rate at LIBOR plus a margin of 435 basis points and has a maturity date of March, 28, 2022 with two one-year extension options. The Company has a carve-out guaranty and the unaffiliated joint venture partner has a completion guaranty in relation to the loan, in which both parties are required to meet certain financial covenants relating to liquidity and net worth. The rehabilitation of the building is considered a qualified asset that requires a significant amount of time to prepare for its intended use. Therefore, any interest costs incurred during the development period of the building is considered an element of the historical cost of the qualifying asset. At December 31, 2018, the Company has drawn on $8.5 million of the construction loan and recorded $69 thousand of capitalized interest costs.

Transfer of Interest

The Company has transferred $24.4 million of a $50.1 million outstanding note receivable with a maturity date of November 30, 2019 to a third party. The transaction did not qualify as a sale and therefore, the outstanding notes receivable was not derecognized on the balance sheet. The one-time cash proceeds were recorded as unrestricted cash and the future obligation to transfer principal and interest received under the note has been recorded within Other Long-Term Liabilities. In addition, the proceeds from the transfer of the interest in the note receivable have been reflected on the statement of cash flows as a financing activity. The Company retains responsibility for collecting and distributing cash received on the note and interest paid to the participant is reflected as interest expense in the Company’s consolidated statements of income. At December 31, 2018, Other Long-Term Liabilities includes $24.4 million pursuant to this transaction.

In February 2019 and in connection with the Company's restructuring negotiations with the borrower, the Company mutually agreed with the counter party to repurchase the $24.4 million previously transferred prior to the maturity date. Refer to Note 24 to our consolidated financial statements.

Regular Quarterly Dividends

The Company currently maintains the payment of a quarterly dividend on its common shares outstanding, however, the declaration of future dividends are subject to the discretion of our board of directors. During the year ended December 31, 2018, 2017 and 2016, the Company paid cash dividends at a quarterly rate of $0.215, $0.215, $0.205, respectively, per share.

During the year ended December 31, 2018, 2017 and 2016, the Company paid regular quarterly cash dividends totaling $48.7 million, $48.7 million, and $46.2 million, respectively. We expect that cash dividends will continue to be paid in the future, subject to declaration by our board of directors, future business performance, economic conditions, changes in tax regulations and other matters. Based on our present dividend rate and outstanding share count, aggregate annual regular dividends for 2019 are estimated to be approximately $47.9 million.

Share Repurchases

During the year ended December 31, 2018, the Company repurchased 1.8 million shares of its common stock under the repurchase program at a total cost of 141.2 million. Through December 31, 2018, the Company repurchased 50.5 million shares of its common stock (including 33.0 million prior to the two-for-one stock split effected in October 2005) under the share repurchase program at a total cost of $1.4 billion. As of December 31, 2018, the Company had 2.2 million shares remaining under the current share repurchase authorization. We currently believe that our cash flows from operations will support our ability to complete the current board of directors repurchase authorization and upon completion of the current authorization, our board of directors will evaluate the advisability of additional share repurchases.

Other items

In accordance with the provisions of the Tax Act, the Company recorded a mandatory one-time transition tax of approximately $35.3 million on certain unrepatriated earnings of foreign subsidiaries during the year ended December 31, 2017. The transition tax will be payable over eight years.

In 2018, the Company repatriated approximately $225.7 million of its foreign cash. Approximately $21.8 million of the Company's cash and cash equivalents at December 31, 2018 pertains to undistributed earnings of the Company's consolidated foreign subsidiaries. We do not anticipate additional tax impact if we elect to distribute the remaining $21.8 million of cash and cash equivalents.

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The following table summarizes our contractual obligations as of December 31, 2018:

Contractual Obligations:	Payment due by period Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in millions)				
Long-term debt [1]	$902.0	$ 43.0	$ 326.6	$ 532.4	$ —
Purchase obligations [2]	344.2	94.7	166.2	68.9	14.4
Operating lease obligations	44.9	12.6	19.9	12.4	—
Other long-term liabilities [3]	50.1	—	29.6	3.8	16.7
Total contractual obligations	$1,341.2	$ 150.3	$ 542.3	$ 617.5	$ 31.1

(1) Long-term debt includes principal as well as interest payments. Assumes forward estimates of LIBOR rates as of December 31, 2018 for our variable interest rate debt.

(2) Purchase obligations also include commitments to provide loan and joint venture financing under various Company programs.

(3) Other long-term liabilities primarily consist of deferred compensation plan liabilities.

The total amount of unrecognized tax positions and the related interest and penalties totaled $1.8 million at December 31, 2018. Due to the uncertainty with respect to the timing of payments in individual years in connection with these tax liabilities, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authorities. Therefore, we have not included these amounts in the contractual obligations table above. Refer to Note 16 to our consolidated financial statements.

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

The Company has entered into various limited payment guaranties with regards to the Company’s VIEs supporting the VIE’s efforts to develop and own hotels franchised under the Company’s brands. Under these limited payment guaranties, the Company has agreed to guaranty a portion of the outstanding debt until certain conditions are met, such as (a) the loan matures, (b) certain debt covenants are achieved, (c) the maximum amount guaranteed by the Company is paid in full or (d) the Company, through its affiliates, ceases to be a member of the VIE. The maximum exposure of principal incidental to these limited payment guaranties is $13.0 million, plus unpaid expenses and accrued unpaid interest. The Company believes the likelihood of having to perform under the aforementioned limited payment guaranties was remote as of December 31, 2018 and December 31, 2017. In the event of performance, the Company has recourse for two of the transactions in the form of a membership interest pledge as collateral for our guaranty. Refer to Note 24 to our consolidated financial statements for further discussion of our off-balance sheet arrangements.

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.

Revenue Recognition

Revenues are primarily derived from franchise agreements with third-party hotel owners. Franchise fees include the following:

- Royalty fees. Royalty fees are earned in exchange for a license to brand intellectual property typically based on a percentage of gross room revenues. These fees are billed and collected monthly and revenues are recognized in the same period that the underlying gross room revenues are earned by the Company’s franchisees.

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

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- Other revenue. Other revenue is a combination of miscellaneous non-marketing and reservation system fees, inclusive of quality assurance non-compliance and franchisee training fees, and is recognized in the period the designated transaction or event has occurred.

- Marketing and reservation system revenues. The Company's franchise agreements require the payment of marketing and reservation system fees. The Company is obligated to use these marketing and reservation system fees to provide marketing and reservation services such as advertising, providing a centralized reservation and property management system, providing reservation and revenue management services, and performing certain franchise services to support the operation of the overall franchise system. These services are comprised of multiple fees including the following:

Fees based on a percentage of gross room revenues are recognized in the period the gross room revenue was earned, based on the underlying hotel's sales or usage.
Fees based on the occurrence of a designated transaction or event are recognized in the period the transaction or event occurred.
System implementation fees charged to franchisees are deferred and recognized as revenue over the term of the franchise agreement.
Marketing and reservation system activities also include revenues generated from the Company's guest loyalty program. The revenue recognition of this program is discussed in Choice Privileges Loyalty Program below.

Marketing and reservation system expenses are those expenses incurred to facilitate the delivery of marketing and reservation system services, including direct expenses and an allocation of costs for certain administrative activities required to carry out marketing and reservation services. Marketing and reservation system expenses are recognized as services are incurred or goods are received, and as such may not equal marketing and reservation system revenues in a specific period but are expected to equal revenues earned from franchisees over time. The Company's 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 and recover such advances in future periods through additional fee assessments or reduced spending.
We make certain payments to customers as an incentive to enter into new franchise agreements ("Franchise agreement acquisition cost"). We capitalize such payments as intangible assets. These intangibles are amortized on a straight-line basis over the estimated benefit period of the arrangement as an offset to royalty fees and marketing and reservation system fees. Impairments from hotel terminations are recorded within the SG&A expenses and marketing and reservation system expenses.

The Company also earns revenues on contracts incidental to the support of operations for franchised hotels, including purchasing operations:

- Procurement services revenues. The Company generates procurement services revenues from qualified vendors. Procurement services revenues are generally based on marketing services provided by the Company on behalf of the qualified vendors to hotel owners and guests. The Company provides these services in exchange for either fixed consideration or a percentage of revenues earned by the qualified vendor pertaining to purchases by the Company's franchisees or guests. Fixed consideration is allocated and recognized ratably to each period over the term of the agreement. Variable consideration is recognized in the period when sales to franchisees or guests from vendors are known or cash payment has been remitted. Qualified vendor revenues are recognized within Procurement services revenue.

- Other revenues. The Company is party to other non-hotel franchising agreements that generate revenue primarily through SaaS arrangements. SaaS agreements typically include fixed consideration for installment and other initiation fees paid at contract onset, and variable consideration for recurring subscription revenue paid monthly. Fixed consideration is allocated and recognized ratably to each period over the term of the agreement. Variable consideration is determined at the conclusion of each period, and recognized in the current period.

Choice Privileges Loyalty Program

Choice Privileges is the Company's frequent guest loyalty program, which enables members to earn points based on their spending levels with the Company's franchises. The points, which the Company accumulates and tracks on the members' behalf, may be redeemed for free accommodations or other benefits (e.g., gift cards to participating retailers). The Company collects from franchisees a percentage of loyalty program members' gross room revenue from completed stays to operate the program. At such time points are redeemed for free accommodations or other benefits, the Company reimburses franchisees or third parties based on a rate derived in accordance with the franchise or vendor agreement. Loyalty point revenues are recognized at the point in time when the loyalty points are redeemed by members for benefits. The transaction price is variable and determined in the period when the loyalty points are earned and the underlying gross room revenues are known. No loyalty program revenues are recognized at the time the loyalty points are issued.

The Company is an agent in coordinating delivery of the services between the loyalty program member and franchisee or third party, and as a result, revenues are recognized net of the cost of redemptions. The estimated fair value of future redemptions is reflected in current and non-current Liability for guest loyalty program in our consolidated balance sheets. The liability for guest loyalty program is developed based on an estimate of the eventual redemption rates and point values using various actuarial methods. These significant judgments determine the required point liability attributable to outstanding points, which is relieved as redemption costs are processed. The amount of the loyalty program fees in excess of the point liability, represents current and non-current Deferred revenue, which is recognized to revenue as points are redeemed including an estimate of future forfeitures ("breakage"). The anticipated redemption pattern of the points is the basis for current and non-current designation of each liability. Loyalty program point redemption revenues are recognized within marketing and reservation system revenue in the consolidated statements of income. Changes in the estimates used in developing the breakage rate or other expected future program operations could result in material changes to the liability for guest loyalty program and deferred revenues.

The Company maintains various agreements with third-party partners, including the co-branding of the Choice Privileges credit card. The agreements typically provide for use of the Company's marks, limited access to the Company's distribution channels, and sale of Choice Privileges points, in exchange for fees primarily comprising variable consideration paid each month. Choice Privileges members can earn points through participation in the partner's program. Partner agreements include multiple performance obligations. The primary performance obligations are brand intellectual property and material rights for free or discounted goods or services to hotel guests. Allocation of fixed and variable consideration to the performance obligations is based on standalone selling price as estimated based on market and income methods, which represent significant judgments. The amounts allocated to brand intellectual property are recognized on a gross basis over time using the output measure of time elapsed, primarily within Procurement services revenue. The amounts allocated to material rights for free or discounted goods or services to hotel guests are recognized to revenue as points are redeemed including an estimate of breakage, primarily within Marketing and reservation system revenue.

Valuation of Long-Lived Assets, Intangibles, and Goodwill

The Company evaluates the potential impairment of property and equipment and other long-lived assets, including franchise rights and other definite-lived intangibles, annually or earlier upon the occurrence of an event or other circumstances that 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.

Goodwill is allocated to the Company's reporting units, which are determined by the availability of discrete financial information relied upon by segment management. Goodwill has been allocated to two reporting units: (1) Hotel Franchising and (2) SaaS for vacation rentals. Goodwill and indefinite lived intangibles are evaluated for impairment annually as of December 31 or earlier upon the occurrence of substantive unfavorable changes in economic conditions, industry trends, costs, cash flows, or ongoing declines in market capitalization that indicate that the Company may not be able to recover the carrying amount of the asset.

The impairment test requires judgment, including the identification of reporting units, the assignment of assets, liabilities and goodwill to reporting units, and the determination of fair value of each reporting unit if a quantitative test is performed. 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 Company believes that, as a result of its qualitative assessment, it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, a quantitative impairment test is not required. However, the Company may elect to forgo the qualitative assessment and move directly to the quantitative impairment test for goodwill and the fair value determination for indefinite-lived intangibles.

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In the fourth quarter of 2018, the Company early adopted ASU 2017-04, Intangibles - Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment, which eliminated step two from the goodwill impairment test. As such, if the Company forgoes the qualitative test, only step one of quantitative test is required, which requires a comparison of reporting unit fair value to carrying value. The Company determines the fair value of its reporting units and indefinite-lived intangibles using income and market methods.

The Company performed the qualitative goodwill impairment analysis for the Hotel Franchising reporting unit, concluding it is more likely than not that the fair value of the reporting unit is greater than its carrying amount. As such, no impairment was recorded, and a quantitative test was not required at December 31, 2018.

The Company performed step one of the annual goodwill impairment test for the SaaS for vacation rentals reporting unit, which indicated that the fair value of the reporting unit was less than its carrying value. The Company acquired the SaaS for vacation rentals reporting unit on August 11, 2015 as a complementary adjacent business line to its Vacation Rentals initiative with the intention of leveraging the established SaaS based platform to acquire new customers and expand into new markets. During the period from acquisition through 2017, the performance of the reporting unit was in line with the assumptions at the time the acquisition was consummated. In the fourth quarter of 2018, the Company concluded the reporting unit did not achieve the annual revenue and customer acquisition targets. As part of the Company’s long range planning process, the Company assessed the long-term prospects for the reporting unit, determining certain investments are required to maintain the growth trajectory and achieve the customer acquisition assumed at the time of the acquisition. The Company is electing to not make these investments as there is no longer a strategic alignment with the Vacation Rentals initiative. In contemplation of this strategic shift in combination with lower than expected revenues and customer acquisition in 2018, the Company revised its future outlook for the reporting unit. As a result, the Company recognized a non-cash pre-tax impairment charge on the SaaS for vacation rentals reporting unit's goodwill in the amount by which the carrying amount exceeded fair value of $4.3 million.

In performing the step 1 test, the Company determined the fair value of the SaaS for vacation rentals reporting unit utilizing a combination of market and income approach valuation methods via quoted market prices, market multiples of comparable businesses, and performance of a discounted cash flow ("DCF") analysis. There are significant judgments and assumptions used in the DCF and market-based models including the amount and timing of expected future cash flows, long-term growth rates, discount rate, and our selection of guideline company revenue multiples. The cash flows employed in the DCF analysis for the SaaS for vacation rentals reporting unit reflect expectations based upon recent operating performance and projected future performance. Discount rate assumptions are based on an assessment of the risk inherent in the future cash flows of the respective reporting unit and market conditions. Given the inherent uncertainty in determining the assumptions underlying a DCF analysis, actual results may differ from those used in our valuations.

On January 29, 2019, the Company became aware that a key customer of the SaaS for vacation rentals reporting unit provided the unit’s management team with a letter purporting to terminate the customer’s contract. The unit’s management team asserts, and the Company currently believes, that the purported termination notice is not valid. The unit’s management team is exploring its contractual and other legal rights, remedies and options related to the customer’s purported termination of the contract. Because the customer is contemplated in the SaaS for vacation rentals reporting unit's projected revenues, the Company has determined that the unit’s receipt of the purported termination notice, even though the validity of the notice is being actively contested by the unit, represents a triggering event which will require the reevaluation of the reporting unit's long-lived asset group and goodwill in the first quarter of 2019. Dependent on further development of the situation involving the status of the customer contract, relationship between the customer and the unit, and other relevant factors, the impairment assessment may result in an impairment of goodwill and of certain long-lived intangible assets; however, the Company cannot estimate the amount or a reasonable range of amounts of such impairments, if any, at this time. As of December 31, 2018, the carrying value of the reporting unit's goodwill was $9.8 million.

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.

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Notes Receivable and Loan Loss Reserves

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 collectibility and records an allowance for loss on its notes receivable when recording the receivables in the Company's financial statements. These estimates are updated quarterly based on available information. The Company utilizes the level of security it has in the notes receivable as its primary credit quality indicator (i.e., senior, subordinated or unsecured) when determining the appropriate allowances for uncollectible loans.

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 or restructured loans that are provided a concession, 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 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. For restructured loans that are provided a concession, the Company recognizes interest as earned as long as the borrower is in compliance with the restructured loan terms. The Company assesses the adequacy of its loan reserves on a quarterly 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 establish a valuation allowance with a corresponding charge 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 collectibility 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 guaranties 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 guaranties 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.

The Company classifies notes receivable due within one year as current assets.

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. Historically, 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 consisted primarily of undistributed earnings that are considered permanently reinvested in operations outside the U.S. Due to the recent changes resulting from the Tax Act, the Company has implemented a new foreign dividend policy effective during the quarter ended September 30, 2018. As a result of the new policy, the Company intends to limit any future foreign distributions to income which has been previously subject to U.S. taxation, for which relevant taxes have been recorded. Nonetheless, the

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Company will continue to assert that any other outside basis difference of the foreign subsidiaries will be permanently (or indefinitely) reinvested outside of the U.S. Consequently, the Company did not record any additional deferred taxes for this item in 2018.

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. Additional information regarding the Company's unrecognized tax benefits is provided in Note 16 to our Consolidated Financial Statements.

New Accounting Standards

See Recently Adopted Accounting Standards section of Note 1 and Note 27 to our consolidated financial statements for information related to our adoption of new accounting standards in 2018 and anticipated adoption of recently issued accounting standards.

Item 7A. 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 $21.3 million at December 31, 2018 and 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 December 31, 2018, the Company had $99.1 million of variable interest rate debt instruments outstanding at an effective rate of 3.77%. A hypothetical change of 10% in the Company's effective interest rate from December 31, 2018 levels would increase or decrease annual interest expense by $0.4 million. The Company expects to refinance its fixed and variable long-term debt obligations prior to their scheduled maturities.

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Item 8. Financial Statements and Supplementary Data.

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Choice Hotels International, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Choice Hotels International, Inc. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, shareholders' deficit and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 26, 2019 expressed an unqualified opinion thereon.

Adoption of Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606)

As discussed in Note 1 to the consolidated financial statements, the Company changed its method for recognizing revenue from contracts with customers due to the adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), and the amendments in ASUs 2015-14, 2016-08, 2016-10 and 2016-12, on January 1, 2018 using the full retrospective adoption method.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2014.

Tysons, Virginia
February 26, 2019

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CONSOLIDATED FINANCIAL STATEMENTS

CHOICE HOTELS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2018	2017	2016
	(in thousands, except per share amounts)		
REVENUES:			
Royalty fees	$376,676	$341,745	$317,699
Initial franchise and relicensing fees	26,072	23,038	19,720
Procurement services	52,088	40,451	35,844
Marketing and reservation system	543,677	499,625	409,120
Other	42,791	36,438	25,526
Total revenues	1,041,304	941,297	807,909
OPERATING EXPENSES:			
Selling, general and administrative	170,027	165,821	154,720
Depreciation and amortization	14,330	6,680	6,996
Marketing and reservation system	534,266	479,400	459,765
Total operating expenses	718,623	651,901	621,481
Impairment of goodwill	(4,289)	—	—
Gain on sale of assets, net	82	257	627
Operating income	318,474	289,653	187,055
OTHER INCOME AND EXPENSES, NET:			
Interest expense	45,908	45,039	44,446
Interest income	(7,452)	(5,920)	(3,535)
Other (gain) loss	1,437	(3,229)	(1,504)
Equity in net (income) loss of affiliates	5,323	4,546	(492)
Total other income and expenses, net	45,216	40,436	38,915
Income before income taxes	273,258	249,217	148,140
Income taxes	56,903	126,890	41,428
Net income	$216,355	$122,327	$106,712
Basic earnings per share:	$3.83	$2.16	$1.90
Diluted earnings per share:	$3.80	$2.15	$1.89

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

	Years Ended December 31,		
	2018	2017	2016
	(in thousands)		
Net income	$216,355	$122,327	$106,712
Other comprehensive income (loss), net of tax:			
Amortization of loss on cash flow hedge	862	862	862
Foreign currency translation adjustment	(1,609)	2,961	(606)
Other comprehensive income (loss), net of tax	(747)	3,823	256
Comprehensive income	$215,608	$126,150	$106,968

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

	December 31, 2018	December 31, 2017
	(in thousands, except share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	$26,642	$ 235,336
Receivables (net of allowance for doubtful accounts of $15,905 and $12,221, respectively)	138,018	125,870
Income taxes receivable	10,122	—
Notes receivable, net of allowances	36,759	13,256
Other current assets	32,243	25,967
Total current assets	243,784	400,429
Property and equipment, at cost, net	127,535	83,374
Goodwill	168,996	80,757
Intangible assets, net	271,188	100,492
Notes receivable, net of allowances	83,440	80,136
Investments, employee benefit plans, at fair value	19,398	20,838
Investments in unconsolidated entities	109,016	134,226
Deferred income taxes	30,613	27,224
Other assets	84,400	67,715
Total assets	$1,138,370	$ 995,191
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	$73,511	$ 67,839
Accrued expenses and other current liabilities	92,651	84,315
Deferred revenue	67,614	52,142
Liability for guest loyalty program	83,566	79,123
Current portion of long-term debt	1,097	1,232
Total current liabilities	318,439	284,651
Long-term debt	753,514	725,292
Long-term deferred revenue	110,278	98,459
Deferred compensation and retirement plan obligations	24,212	25,566
Income taxes payable	26,276	29,041
Deferred income taxes	—	39
Liability for guest loyalty program	52,327	48,701
Other liabilities	37,096	42,043
Total liabilities	1,322,142	1,253,792
Commitments and Contingencies		
Common stock, $0.01 par value; 160,000,000 shares authorized; 95,065,638 shares issued at December 31, 2018 and December 31, 2017; 55,679,207 and 56,679,968 shares outstanding at December 31, 2018 and December 31, 2017, respectively	951	951
Additional paid-in-capital	213,170	182,448
Accumulated other comprehensive loss	(5,446)	(4,699)
Treasury stock, at cost; 39,386,431 and 38,385,670 shares at December 31, 2018 and December 31, 2017, respectively	(1,187,625)	(1,064,573)
Retained earnings	795,178	627,272
Total shareholders' deficit	(183,772)	(258,601)

Total liabilities and shareholders' deficit	$1,138,370	$ 995,191

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

CHOICE HOTELS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2018	2017	2016
	(in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$216,355	$122,327	$106,712
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	14,330	6,680	6,996
Depreciation and amortization - marketing and reservation system	19,597	20,609	20,663
Franchise agreement acquisition cost amortization	9,239	7,191	6,423
Impairment of goodwill	4,289	—	—
Gain on disposal of assets, net	(56)	(237)	(571)
Provision for bad debts, net	10,542	5,514	3,365
Non-cash stock compensation and other charges	15,986	22,857	15,346
Non-cash interest and other investment (income) loss	3,695	(772)	1,059
Deferred income taxes	(3,510)	57,106	(29,723)
Equity in net losses from unconsolidated joint ventures, less distributions received	7,389	6,579	1,025
Franchise agreement acquisition cost, net of reimbursements	(52,929)	(30,638)	(17,410)
Change in working capital and other, net of acquisition	(2,031)	40,158	38,150
Net cash provided by operating activities	242,896	257,374	152,035
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in property and equipment	(47,673)	(23,437)	(25,191)
Investment in intangible assets	(1,803)	(2,517)	(2,580)
Proceeds from sales of assets	3,053	1,000	11,462
Asset acquisition, net of cash acquired	(3,179)	—	(28,583)
Business acquisition, net of cash acquired	(231,317)	—	(1,341)
Contributions to equity method investments	(9,604)	(50,554)	(34,661)
Distributions from equity method investments	1,429	4,569	3,700
Purchases of investments, employee benefit plans	(2,895)	(2,447)	(1,661)
Proceeds from sales of investments, employee benefit plans	2,825	2,245	1,911
Issuance of notes receivable	(36,045)	(19,738)	(32,604)
Collections of notes receivable	4,997	655	11,070
Other items, net	(1,040)	109	11
Net cash used in investing activities	(321,252)	(90,115)	(98,467)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of long term debt	9,037	—	—
Net (repayments) borrowings pursuant to revolving credit facilities	20,600	(115,003)	25,795
Principal payments on long-term debt	(603)	(660)	(988)
Proceeds from other debt agreements	—	—	550
Debt issuance costs	(2,590)	—	(284)
Purchases of treasury stock	(148,679)	(9,807)	(35,926)
Dividends paid	(48,715)	(48,651)	(46,182)
Proceeds from transfer of interest in notes receivable	173	24,237	—
Proceeds from exercise of stock options	41,360	14,107	12,951
Net cash used in financing activities	(129,417)	(135,777)	(44,084)
Net change in cash and cash equivalents	(207,773)	31,482	9,484
Effect of foreign exchange rate changes on cash and cash equivalents	(921)	1,391	(462)
Cash and cash equivalents at beginning of period	235,336	202,463	193,441

Cash and cash equivalents at end of period	$26,642	$235,336	$202,463

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Supplemental disclosure of cash flow information:			
Cash payments during the year for:			
Income taxes, net of refunds	$77,357	$39,181	$65,683
Interest, net of capitalized interest	$43,254	$42,405	$41,992
Non-cash investing and financing activities:			
Dividends declared but not paid	$11,977	$12,185	$12,112
Investment in property, equipment and intangibles acquired in accounts payable and accrued liabilities	$5,949	$1,099	$3,648
Sale of investment in unconsolidated joint venture	$—	$—	$2,350
Seller-financing to purchaser	$—	$2,000	$—

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

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CHOICE HOTELS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT
(in thousands, except share amounts)

	Common Stock - Shares Outstanding	Common Stock - Par Value	Additional Paid-in-Capital	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Retained Earnings	Total
Balance as of December 31, 2015	56,336,566	$ 951	$ 149,895	$ (8,778)	$ (1,052,864)	$ 514,897	$ (395,899)
ASC 606 transition adjustment	—	—	—	—	—	(21,274)	(21,274)
Net income	—	—	—	—	—	106,712	106,712
Other comprehensive income	—	—	—	256	—	—	256
Share based payment activity	732,735	—	9,150	—	18,407	—	27,557
Dividends declared	—	—	—	—	—	(46,708)	(46,708)
Treasury purchases	(769,352)	—	—	—	(35,926)	—	(35,926)
Balance as of December 31, 2016	56,299,949	951	159,045	(8,522)	(1,070,383)	553,627	(365,282)
Net income	—	—	—	—	—	122,327	122,327
Other comprehensive income	—	—	—	3,823	—	—	3,823
Share based payment activity	538,069	—	23,403	—	15,617	—	39,020
Dividends declared	—	—	—	—	—	(48,682)	(48,682)
Treasury purchases	(158,050)	—	—	—	(9,807)	—	(9,807)
Balance as of December 31, 2017	56,679,968	951	182,448	(4,699)	(1,064,573)	627,272	(258,601)
Net income	—	—	—	—	—	216,355	216,355
Other comprehensive income (loss)	—	—	—	(747)	—	—	(747)
Share based payment activity	918,397	—	30,722	—	25,627	—	56,349
Dividends declared	—	—	—	—	—	(48,449)	(48,449)
Treasury purchases	(1,919,158)	—	—	—	(148,679)	—	(148,679)
Balance as of December 31, 2018	55,679,207	$ 951	$ 213,170	$ (5,446)	$ (1,187,625)	$ 795,178	$ (183,772)

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

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements present the financial position, results of operations and cash flows of Choice Hotels International, Inc., a Delaware corporation and subsidiaries (the "Company"). The Company consolidates entities under its control, including variable interest entities where it is deemed to be the primary beneficiary. Investments in unconsolidated affiliates where the Company is not deemed to be the primary beneficiary but where the Company exercises significant influence over the operating and financial policies of the investee are accounted for by the equity method. All significant inter-company accounts and transactions have been eliminated in consolidation.

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and require management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, ultimate results could differ from those estimates. In the opinion of management, the accompanying consolidated financial statements include all normal and recurring adjustments that are necessary to fairly present the financial position, results of operations and cash flows of the Company.

On February 1, 2018, the Company acquired 100% of the issued and outstanding equity interest of WoodSpring Hotels Franchise Services ("WoodSpring"). The transaction has been accounted for using the acquisition method of accounting and accordingly, assets acquired and liabilities assumed were recorded at their fair values as of the acquisition date. The results of WoodSpring have been consolidated with the Company since February 1, 2018. See Note 25 for additional information.

On August 20, 2018, the Company entered into an Amended and Restated Senior Unsecured Credit Agreement (“Restated Credit Agreement”). In accordance with the Restated Credit Agreement, each of the entities that was a guarantor in accordance with the former credit agreement were released from their obligations and the guarantees were terminated. As a result, the Company is no longer required to prepare condensed consolidating statements of income, comprehensive income, balance sheets, and cash flows segregated by parent entity, guarantor entities, and non-guarantor entities. See Note 13 for additional information.

Revenue Recognition

Refer to the Recently Adopted Accounting Standards section below and Note 2.

Accounts Receivable and Credit Risk

Accounts receivable consist primarily of franchise and related fees due from hotel franchisees and are recorded at the invoiced amount. The allowance for doubtful accounts is the Company’s best estimate of the amount of probable credit losses in the existing accounts receivable. The Company determines the allowance considering historical write-off experience and a review of aged receivable balances. However, the Company considers its credit risk associated with trade receivables to be partially mitigated due to the dispersion of these receivables across a large number of geographically diverse franchisees.

The Company records bad debt expense in SG&A and marketing and reservation system expenses in the accompanying consolidated statements of income based on its assessment of the ultimate realizability of trade receivables considering historical collection experience and the economic environment. When the Company determines that an account is not collectible, the account is written-off to the associated allowance for doubtful accounts.

Advertising Costs

The Company expenses advertising costs as the advertising occurs. Advertising expense was $141.8 million, $114.1 million, and $102.7 million for the years ended December 31, 2018, 2017 and 2016, respectively. The Company includes advertising costs primarily in marketing and reservation system expenses on the accompanying consolidated statements of income.

Cash and Cash Equivalents

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

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

Capitalization Policies

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the lease term or their useful lives. Major renovations and replacements incurred during construction are capitalized. Additionally, the Company capitalizes any interest incurred during construction of property and equipment or the development of software. Upon sale or retirement of property, the cost and related accumulated depreciation are eliminated from the accounts and any related gain or loss is recognized in the accompanying consolidated statements of income. Maintenance, repairs and minor replacements are charged to expense as incurred.

Costs for computer software developed for internal use are capitalized during the application development stage and depreciated using the straight-line method over the estimated useful lives of the software. Software licenses pertaining to cloud computing arrangements that are capitalized are amortized using the straight-line method over the shorter of the cloud computing arrangement term or their useful lives.

Leased property meeting certain capital lease criteria is capitalized and the present value of the related lease payments is recorded as a liability. The present value of the minimum lease payments are calculated utilizing the lower of the Company’s incremental borrowing rate or the lessor’s interest rate implicit in the lease, if known by the Company. Amortization of capitalized leased assets is computed utilizing the straight-line method over either the shorter of the estimated useful life of the asset or the initial lease term and included in depreciation and amortization in the Company's consolidated statements of income. However, if the lease meets the bargain purchase or transfer of ownership criteria the asset shall be amortized in accordance with the Company’s normal depreciation policy for owned assets.

Assets Held for Sale

The Company considers assets to be held for sale when all of the following criteria are met:

- Management commits to a plan to sell an asset;
- It is unlikely that the disposal plan will be significantly modified or discontinued;
- The asset is available for immediate sale in its present condition;
- Actions required to complete the sale of the asset have been initiated;
- Sale of the asset is probable and the Company expects the completed sale will occur within one year; and
- The asset is actively being marketed for sale at a price that is reasonable given its current market value.

Upon designation as an asset held for sale, the Company records the carrying value of each asset at the lower of its carrying value or its estimated fair value, less estimated costs to sell, and ceases recording depreciation.

If at any time these criteria are no longer met, subject to certain exceptions, the assets previously classified as held for sale are reclassified as held and used and measured individually at the lower of the following:

a. the carrying amount before the asset was classified as held for sale, adjusted for any depreciation (amortization) expense that would have been recognized had the asset been continuously classified as held and used;
b. the fair value at the date of the subsequent decision not to sell.

Valuation of Long-Lived Assets, Intangibles, and Goodwill

The Company evaluates the potential impairment of property and equipment and other long-lived assets, including franchise rights and other definite-lived intangibles, annually or earlier upon the occurrence of an event or when other circumstances indicate 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. The fair value of intangibles and long lived assets are estimated primarily using undiscounted cash flow analyses. 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 recognized impairments on franchise sales commission assets and franchise agreement acquisition cost intangibles resulting from terminations of franchisees from the Choice system as discussed in Note 2. Other than franchise sales

commission assets and franchise agreement acquisition cost intangibles, the Company did not identify any indicators of impairment of long-lived assets during the years ended December 31, 2018, 2017 and 2016.
The Company evaluates the impairment of goodwill and intangible assets with indefinite lives annually as of December 31 or earlier upon the occurrence of substantive unfavorable changes in economic conditions, industry trends, costs, cash flows, or ongoing declines in market capitalization that indicate that the Company may not be able to recover the carrying amount of the asset. In evaluating these assets for impairment, the Company may elect to first assess qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit or the indefinite lived intangible asset is less than its carrying amount. If the conclusion is that it is not more likely than not that the fair value of the asset is less than its carrying value, then no further testing is required. If the conclusion is that it is more likely than not that the fair value of the asset is less than its carrying value, then a quantitative impairment test is performed for goodwill. For indefinite-lived intangibles, the carrying value is compared to the fair value of the asset and an impairment charge is recognized for any excess. The Company may elect to forgo the qualitative assessment and move directly to the quantitative impairment tests for goodwill and indefinite-lived intangibles. The Company determines the fair value of its reporting units and indefinite-lived intangibles using income and market methods.
Goodwill is allocated to the Company's reporting units, which are determined by the availability of discrete financial information relied upon by segment management. Goodwill has been allocated to two reporting units: (1) Hotel Franchising and (2) SaaS for vacation rentals. The Company performed the qualitative impairment analysis for the Hotel Franchising reporting unit, concluding that it is more likely than not that the fair value of the reporting unit is greater than its carrying amount. As such, no impairment was recorded and a quantitative test was not required. The Company performed the quantitative test for the SaaS for vacation rentals reporting unit. The carrying value of the SaaS for vacation rentals reporting unit exceeded its fair value, resulting in the Company recording an impairment of $4.3 million in the fourth quarter of 2018. The Company did not record any impairment of goodwill or intangible assets with indefinite lives during the years ended December 31, 2017 and 2016. Refer to Note 6.

Variable Interest Entities

In accordance with the guidance for the consolidation of variable interest entities ("VIE"), the Company analyzes its variable interests to determine if the entity in which the Company has a variable interest is a VIE. The Company's variable interests include equity investments, loans, and guaranties. The analysis includes both quantitative and qualitative consideration. For those entities determined to be VIEs, a further quantitative and qualitative analysis is performed to determine if the Company will be deemed the primary beneficiary. The primary beneficiary is the party who has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity. The Company consolidates those entities in which it is determined to be the primary beneficiary.

Valuation of Investments in Equity Method Investments

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

Foreign Operations

The United States dollar is the functional currency of the consolidated entities operating in the United States. The functional currency for the consolidated entities operating outside of the United States is generally the currency of the primary economic environment in which the entity primarily generates and expends cash. The Company translates the financial statements of consolidated entities whose functional currency is not the United States dollar into United States dollars. The Company translates assets and liabilities at the exchange rate in effect as of the financial statement date and translates income statement accounts using the weighted average exchange rate for the period. The Company includes translation adjustments from foreign exchange and the effect of exchange rate changes on inter-company transactions of a long-term investment nature as a separate component of shareholders' deficit. The Company reports foreign currency transaction gains and losses and the effect of inter-

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company transactions of a short-term or trading nature in SG&A expenses on the consolidated statements of income. Foreign currency transaction (gains) losses for the years ended December 31, 2018, 2017 and 2016 were $0.3 million, $(3.4) thousand, and $0.8 million, respectively.

Derivatives

The Company periodically uses derivative instruments as part of its overall strategy to manage exposure to market risks associated with fluctuations in interest rates. All outstanding derivative financial instruments are recognized at their fair values as assets or liabilities. The impact on earnings from recognizing the fair values of these instruments depends on their intended use, their hedge designation and their effectiveness in offsetting changes in the fair values of the exposures they are hedging. The Company does not use derivatives for trading purposes.

The effective portion of changes in fair value of derivatives designated as cash flow hedging instruments are recorded as a component of accumulated other comprehensive income (loss) and the ineffective portion is reported currently in earnings. The amounts included in accumulated other comprehensive income are reclassified into earnings in the same period during which the hedged item affects earnings. Amounts reported in earnings are classified consistent with the item being hedged.

The Company formally documents all relationships between its hedging instruments and hedged items at inception, including its risk management objective and strategy for establishing various hedge relationships. Cash flows from hedging instruments are classified in the consolidated statements of cash flows consistent with the items being hedged. Hedge accounting is discontinued prospectively when (i) the derivative instrument is no longer effective in offsetting changes in fair value or cash flows of the underlying hedged item, (ii) the derivative instrument expires, is sold, terminated or exercised, or (iii) designating the derivative instrument as a hedge is no longer appropriate. The effectiveness of derivative instruments is assessed at inception and on an ongoing basis.

At December 31, 2018 and 2017, there were no outstanding derivative positions.

Guaranties

The Company has historically issued certain guaranties to support the growth of its brands. A liability is recognized for the fair value of such guaranties upon inception of the guaranty and upon any subsequent modification, such as renewals, when the Company remains contingently liable. The fair value of a guaranty is the estimated amount at which the liability could be settled in a current transaction between willing unrelated parties. The Company evaluates these guaranties on a quarterly basis to determine if there is a probable loss requiring recognition.

Recently Adopted Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue From Contracts with Customers (Topic 606) and issued subsequent amendments to the initial guidance at various points of 2015 and 2016 within ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12, and ASU 2016-20 (these ASUs collectively referred to as "Topic 606"). The Company adopted Topic 606 as of January 1, 2018 using the full retrospective method of adoption. The provisions of Topic 606 impacted the Company’s revenue recognition as follows:

- Initial and relicensing fees earned upon execution of a franchise agreement are recognized as revenue ratably as services are provided over the enforceable period of the franchise license arrangement. This represents a change from prior practice, whereby the Company typically recognized revenue for initial and relicensing fees in full in the period of agreement execution.
- Sales commissions, which are paid upon the execution of a franchise agreement, are recognized ratably over the period a hotel is expected to remain in the Company's franchise system rather than expensed as incurred.
- Franchise agreement acquisition costs are capitalized as intangible assets, as opposed to notes receivable. Amortization of franchise agreement acquisition costs are recognized as a reduction of revenue rather than as a component of depreciation and amortization.
- Revenue related to the Choice Privileges program, which is reported as a component of marketing and reservation system fees, is deferred as points are awarded and recognized upon point redemption, net of reward reimbursements paid to a third-party. Previously, revenue was recognized on a gross basis at the time the points were issued with a

corresponding deferral of revenue equal to the expected future costs of the award. Deferred revenue was then recognized as actual points were redeemed and costs for those redemptions incurred.
- Topic 606 also impacted the Company's accounting for surpluses and deficits generated from marketing and reservation system activities. The Company has historically, consistent with its existing agreements, not earned a profit

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or generated a loss from marketing and reservation activities, and as a result, the Company recorded excess marketing and reservation system revenues or expenses as assets or liabilities on the Company's balance sheet prior to the adoption of Topic 606. However, as a result of the adoption of Topic 606, the Company will no longer defer revenues and expenses or record assets and liabilities when system revenues exceed expenses in the current period or vice versa. The Company intends to manage these activities to break-even over time but anticipates that net income or loss may be generated quarterly due to the seasonal nature of the hotel industry and annually based on the level of investments needed for new initiatives that benefit our franchisees.

All amounts and disclosures set forth in this Form 10-K reflect the necessary adjustments required for the adoption of Topic 606, including the reclassification of prior year balances to conform to current year presentation. Refer to Note 2 for further details on the adoption of Topic 606 and impact to the Company's significant accounting policies. In accordance with Topic 606 requirements, the disclosure of the impact of adoption on the Company's prior period consolidated statements of income and balance sheet is presented below. The adoption of Topic 606 had no impact to cash from or used in operating, financing, or investing activities, but resulted in certain reclassifications within cash flows from operating activities, on the prior period consolidated statement of cash flows.

	December 31, 2017		
	As Previously Reported	Adoption of Topic 606	As Adjusted
Statement of Income	(in thousands, except per share amounts)		
Total revenues	$1,007,356	$(66,059)	$941,297
Total operating expenses	742,891	(90,990)	651,901
Income before income taxes	223,997	25,220	249,217
Income taxes	109,104	17,786	126,890
Net income	114,893	7,434	122,327
Diluted earnings per share	2.02	0.13	2.15

	December 31, 2016		
	As Previously Reported	Adoption of Topic 606	As Adjusted
Statement of Income	(in thousands, except per share amounts)		
Total revenues	$924,641	$(116,732)	$807,909
Total operating expenses	686,149	(64,668)	621,481
Income before income taxes	199,980	(51,840)	148,140
Income taxes	60,609	(19,181)	41,428
Net income	139,371	(32,659)	106,712
Diluted earnings per share	2.46	(0.57)	1.89

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	December 31, 2017		
	As Previously Reported (1)(2)	Adoption of Topic 606	As Adjusted
Balance Sheet	(in thousands)		
Receivables (net of allowance for doubtful accounts)	$125,452	$ 418	$125,870
Current notes receivable, net of allowances	13,904	(648)	13,256
Other current assets	28,241	(2,274)	25,967
Intangible assets, net	14,672	85,820	100,492
Notes receivable, net of allowances	147,993	(67,857)	80,136
Deferred income tax asset	13,335	13,889	27,224
Other assets	29,479	38,236	67,715
Accounts payable(1)	67,839	—	67,839
Accrued expenses and other current liabilities(1)	84,315	—	84,315
Current deferred revenue(2)	13,190	38,952	52,142
Current liability for guest loyalty program(2)	79,183	(60)	79,123
Deferred revenue(1)(2)	18,335	80,124	98,459
Liability for guest loyalty program(2)	48,738	(37)	48,701
Other liabilities(1)(2)	46,939	(4,896)	42,043
Retained earnings	673,771	(46,499)	627,272

(1) The Company performed reclassifications of certain payroll taxes from Accrued expenses and other current liabilities to Accounts payable totaling $4.3 million, and the entirety of Income taxes payable to Accrued expenses and other current liabilities totaling $2.8 million. In addition, $4.3 million was reclassified from Other liabilities to Deferred revenue.
(2) As a result of the adoption of Topic 606 and in accordance with reporting requirements, the Company performed revisions to the presentation within Total liabilities in the consolidated balance sheet to add non-current Deferred revenue and current and non-current Liability for guest loyalty program line items. Amounts originally captured in current Deferred revenue and Other liabilities have been reclassified to the new line items in the table above.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15") and in November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) Restricted Cash ("ASU 2016-18"), which collectively provide additional guidance on nine specific cash flow issues. The Company adopted ASU 2016-15 and ASU 2016-18 on January 1, 2018, and it did not have an impact on the Company's consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory ("ASU 2016-16"). ASU 2016-16 provides guidance on recognition of current income tax consequences for inter-company asset transfers (other than inventory) at the time of transfer. The Company adopted this ASU on January 1, 2018, and it did not have an impact on the Company's consolidated financial statements.

In February 2017, the FASB issued ASU 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 2017-05"). ASU 2017-05 clarifies the scope and accounting of a financial asset that meets the definition of an “in-substance nonfinancial asset” and adds guidance for partial sales of nonfinancial assets. The Company adopted this ASU on January 1, 2018, and it did not have an impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation: Scope of Modification Accounting ("ASU 2017-09"), 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 Company adopted this ASU on January 1, 2018, and it did not have an impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). ASU 2017-04 eliminates the two-step process that required identification of potential impairment and a separate measure of the actual impairment. For reporting units where the quantitative test is performed, the annual assessment of goodwill impairment will be determined by using the difference between the carrying amount and the fair

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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, with early adoption permitted. The Company adopted this ASU in the fourth quarter of 2018. See Note 6 for a discussion of a goodwill impairment recognized during the year ended December 31, 2018.

In November 2018, the FASB issued ASU 2018-18, Collaborative Arrangements (Topic 808): Clarifying the Interaction Between Topic 808 and Topic 606 ("ASU 2018-18"). ASU 2018-18 provides guidance on how to assess whether certain transactions between collaborative arrangement participants should be accounted for within Topic 606. The guidance is effective for public business entities for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years, with early adoption permitted. The Company adopted this ASU effective in the fourth quarter of 2018, and it did not have an impact on the Company's consolidated financial statements.

2. Revenue

Revenue Recognition

Revenues are primarily derived from franchise agreements with third-party hotel owners. The majority of the Company’s performance obligations are a series of distinct services, as described in more detail below, for which the Company receives variable consideration through franchise fees. The Company enters into franchise agreements to provide franchisees with a limited non-exclusive license to utilize the Company’s registered brand trade names and trademarks, marketing and reservation services, and other miscellaneous franchise services. These agreements typically have an initial term from 10 to 30 years, with provisions permitting franchisees or the Company to terminate the franchise agreement upon designated anniversaries of the hotel opening before the end of the initial term. An up-front initial or relicensing fee is assessed to third-party hotel owners to affiliate with our brands, which is typically paid prior to agreement execution and is non-refundable. After hotel opening, fees are generated based on a percentage of gross room revenues or as designated transactions and events occur (such as when a reservation is delivered to the hotel through a specified channel) and are due to the Company in the following month.

The franchise agreements are comprised of multiple performance obligations, which may require significant judgment in identifying. The primary performance obligations are as follows:

- License of brand intellectual property and related services (“brand intellectual property”): Grants the right to access the Company’s intellectual property associated with brand trade names, trademarks, reservation systems, property management systems and related services.
- Material rights for free or discounted goods or services to hotel guests: Primarily consists of the points issued under the Company’s guest loyalty program, Choice Privileges.
- Point in time sale of goods: The Company administers the delivery of chip-enabled credit card readers to its franchisees to aid in compliance with industry standards in exchange for a fee. Revenue is recognized at the point in time shipment is made to the franchisee within Other revenue. The Company determined the standalone selling price is equal to the amount invoiced to the franchisee.

Brand intellectual property

Fees generated from the brand intellectual property are recognized to revenue over time as hotel owners pay for access to these services for the duration of the franchise agreement. Franchise fees are typically based on the sales or usage of the underlying hotel, with the exception of fixed up-front fees that usually represent an insignificant portion of the transaction price. The variable consideration is recognizable after the completion of a hotel stay. As a result, variable transaction price is determined for the period when the underlying gross room revenues and transactions or events which generate fees are known.

Franchise fees include the following:

- Royalty fees. Royalty fees are earned in exchange for a license to brand intellectual property typically based on a percentage of gross room revenues. These fees are billed and collected monthly and revenues are recognized in the same period that the underlying gross room revenues are earned by the Company’s franchisees.

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

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the franchise agreement is terminated and the hotel exits the franchise system whereby remaining deferred amounts will be recognized to revenue in the period of termination.

- Other revenue. Other revenue is a combination of miscellaneous non-marketing and reservation system fees, inclusive of quality assurance, non-compliance and franchisee training fees, and is recognized in the period the designated transaction or event has occurred.

The Company's franchise agreements require the payment of marketing and reservation system fees. The Company is obligated to use these marketing and reservation system fees to provide marketing and reservation services such as advertising, providing a centralized reservation and property management system, providing reservation and revenue management services, and performing certain franchise services to support the operation of the overall franchise system. These services are comprised of multiple fees including the following:

- Fees based on a percentage of gross room revenues are recognized in the period the gross room revenue was earned, based on the underlying hotel's sales or usage.
- Fees based on the occurrence of a designated transaction or event are recognized in the period the transaction or event occurred.
- System implementation fees charged to franchisees are deferred and recognized as revenue over the enforceable period of the franchise agreement.
- Marketing and reservation system activities also include revenues generated from the Company's guest loyalty program. The revenue recognition of this program is discussed in Material rights for free or discounted good or services to hotel guests below.

Marketing and reservation system expenses are those expenses incurred to facilitate the delivery of marketing and reservation system services, including direct expenses and an allocation of costs for certain administrative activities required to carry out marketing and reservation services. Marketing and reservation system expenses are recognized as services are incurred or goods are received, and as such may not equal marketing and reservation system revenues in a specific period but are expected to equal revenues earned from franchisees over time. The Company's 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 and recover such advances in future periods through additional fee assessments or reduced spending.

Material rights for free or discounted good or services to hotel guests

Choice Privileges is the Company's frequent guest loyalty program, which enables members to earn points based on their spending levels with the Company's franchisees. The points, which the Company accumulates and tracks on the members' behalf, may be redeemed for free accommodations or other benefits (e.g., gift cards to participating retailers). The Company collects from franchisees a percentage of loyalty program members' gross room revenue from completed stays to operate the program. At such time points are redeemed for free accommodations or other benefits, the Company reimburses franchisees or third parties based on a rate derived in accordance with the franchise or vendor agreement.

Loyalty points represent a performance obligation attributable to usage of the points, and thus revenues are recognized at the point in time when the loyalty points are redeemed by members for benefits. The transaction price is variable and determined in the period when the loyalty points are earned and the underlying gross room revenues are known. No loyalty program revenues are recognized at the time the loyalty points are issued.

The Company is an agent in coordinating delivery of the services between the loyalty program member and franchisee or third party, and as a result, revenues are recognized net of the cost of redemptions. The estimated fair value of future redemptions is reflected in current and non-current Liability for guest loyalty program in our consolidated balance sheets. The liability for guest loyalty program is developed based on an estimate of the eventual redemption rates and point values using various actuarial methods. These significant judgments determine the required point liability attributable to outstanding points, which is relieved as redemption costs are processed. The amount of the loyalty program fees in excess of the point liability represents current and non-current Deferred revenue, which is recognized to revenue as points are redeemed including an estimate of future forfeitures ("breakage"). The anticipated redemption pattern of the points is the basis for current and non-current designation of each liability. As of December 31, 2018, the current and non-current deferred revenue balances are $33.1 million and $20.7 million, respectively. Loyalty program point redemption revenues are recognized within marketing and reservation system revenue in the consolidated statements of income.

The Company also earns revenues on contracts incidental to the support of operations for franchised hotels, including purchasing operations.

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Partnerships

The Company maintains various agreements with third-party partners, including the co-branding of the Choice Privileges credit card. The agreements typically provide for use of the Company's marks, limited access to the Company's distribution channels, and sale of Choice Privileges points, in exchange for fees primarily comprising variable consideration paid each month. Choice Privileges members can earn points through participation in the partner's program.

Partnership agreements include multiple performance obligations. The primary performance obligations are brand intellectual property and material rights for free or discounted goods or services to hotel guests. Allocation of fixed and variable consideration to the performance obligations is based on standalone selling price as estimated based on market and income methods, which represent significant judgments. The amounts allocated to brand intellectual property are recognized on a gross basis over time using the output measure of time elapsed, primarily within Procurement services revenue. The amounts allocated to material rights for free or discounted goods or services to hotel guests are recognized to revenue as points are redeemed including an estimate of breakage, primarily within marketing and reservation system revenue.

Qualified Vendors

The Company generates procurement services revenues from qualified vendors. Procurement services revenues are generally based on marketing services provided by the Company on behalf of the qualified vendors to hotel owners and guests. The Company provides these services in exchange for either fixed consideration or a percentage of revenues earned by the qualified vendor pertaining to purchases by the Company's franchisees or guests. Fixed consideration is paid in installments based on a contractual schedule, with an initial payment typically due at contract execution. Variable consideration is typically paid quarterly after sales to franchisees or guests have occurred.

Qualified vendor agreements comprise a single performance obligation, which is satisfied over time based on the access afforded and services provided to the qualified vendor for the stated duration of the agreement. Fixed consideration is allocated and recognized ratably to each period over the term of the agreement. Variable consideration is determined and recognized in the period when sales to franchisees or guests from vendors are known or cash payment has been remitted. Qualified vendor revenues are recognized within Procurement services revenue.

Other

The Company is party to other non-franchising agreements that generate revenue within Other revenue in the consolidated statements of income which are primarily SaaS arrangements for non-franchised hoteliers and vacation rental management companies. SaaS agreements typically include fixed consideration for installment and other initiation fees paid at contract onset, and variable consideration for recurring subscription revenue paid monthly. SaaS agreements comprise a single performance obligation, which is satisfied over time based on the access to the software for the stated duration of the agreement. Fixed consideration is allocated and recognized ratably to each period over the term of the agreement. Variable consideration is determined at the conclusion of each period, and allocated to and recognized in the current period.

Contract Liabilities

Contract liabilities relate to (i) advance consideration received, such as initial franchise and relicensing fees paid when a franchise agreement is executed and system implementation fees paid at time of installation, for services considered to be part of the brand intellectual property performance obligation and (ii) amounts received when Choice Privileges points are issued but for which revenue is not yet recognized since the related points have not been redeemed. Initial and relicensing fees paid on WoodSpring franchise agreements executed after February 1, 2018 are included in the "Increases to the contract liability balance due to cash received" caption in the table below. WoodSpring amounts are not included in the "Revenue recognized in the period" caption, as WoodSpring balances were not included in the contract liability balance as of December 31, 2017. See Note 25 for additional information.

Significant changes in the contract liabilities balances during 2018 are as follows:

	(in thousands)
Balance as of December 31, 2017	$ 132,339
Increases to the contract liability balance due to cash received	89,754

Revenue recognized in the period	(68,913)
Balance as of December 31, 2018	$ 153,180

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Remaining Performance Obligations

The aggregate amount of transaction price allocated to unsatisfied or partially unsatisfied performance obligations is $153.2 million as of December 31, 2018. This amount represents fixed transaction price that will be recognized as revenue in future periods, which is primarily captured in the balance sheet as current and non-current deferred revenue.

Based on practical expedient elections permitted by Topic 606, the Company does not disclose the value of unsatisfied performance obligations for (i) variable consideration subject to the sales or usage-based royalty constraint or comprising a component of a series (including franchise, partnership, qualified vendor, and SaaS agreements), (ii) variable consideration for which we recognize revenue at the amount to which we have the right to invoice for services performed, or (iii) contracts with an expected original duration of one year or less. Additionally, as part of transition to Topic 606, the Company elected to not disclose the amount of the transaction price allocated to the remaining performance obligations as of December 31, 2017 or provide an explanation of when revenue is expected to be recognized.

Capitalized Franchise Agreement Costs

Sales commissions earned by Company personnel upon execution of a franchise agreement (“franchise sales commissions”) meet the requirement to be capitalized as an incremental cost of obtaining a contract with a customer. Capitalized franchise sales commission are amortized on a straight-line basis over the estimated benefit period of the arrangement, unless the franchise agreement is terminated and the hotel exits the system whereby remaining capitalized amounts will be expensed in the period of termination. The estimated benefit period is the Company's estimate of the duration a hotel will remain in the Choice system. Capitalized franchise sales commissions are $51.9 million and $46.0 million within Other assets as of December 31, 2018 and 2017, respectively. Amortization expense and impairment loss for the years ended December 31, 2018, 2017 and 2016 were $9.0 million, $7.8 million and $7.1 million, respectively, and is reflected within SG&A expenses.

The Company makes certain payments to customers as an incentive to enter in to new franchise agreements (“Franchise agreement acquisition cost”). These payments are recognized as an adjustment to transaction price and capitalized as an intangible asset. Franchise agreement acquisition cost intangibles are amortized on a straight-line basis over the estimated benefit period of the arrangement as an offset to royalty fees and marketing and reservation system fees. Impairments from hotel terminations for the years ended December 31, 2018, 2017 and 2016 were $0.3 million, $0.3 million and $0.5 million, respectively, and are recorded within SG&A expenses and marketing and reservation system expenses.

Sales Taxes

The Company presents taxes collected from customers and remitted to governmental authorities on a net basis and therefore they are excluded from revenues in the consolidated financial statements.

Disaggregation of Revenue

The following table presents our revenues by over time and point in time recognition:

	Year Ended December 31, 2018		
	Over time	Point in time	Total
Revenues:	(in thousands)		
Royalty fees	$376,676	$—	$376,676
Initial franchise and relicensing fees	26,072	—	26,072
Procurement services	49,496	2,592	52,088
Marketing and reservation system	490,025	53,652	543,677
Other	40,360	1,058	41,418

Total Topic 606 revenues	$982,629	$57,302	1,039,931
Non-Topic 606 revenues			1,373
			$1,041,304

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	Year Ended December 31, 2017		
	Over time	Point in time	Total
Revenues:	(in thousands)		
Royalty fees	$341,745	$—	$341,745
Initial franchise and relicensing fees	23,038	—	23,038
Procurement services	38,568	1,883	40,451
Marketing and reservation system	460,749	38,876	499,625
Other	28,744	6,298	35,042
Total Topic 606 revenues	$892,844	$47,057	939,901
Non-Topic 606 revenues			1,396
			$941,297

	Year Ended December 31, 2016		
	Over time	Point in time	Total
Revenues:	(in thousands)		
Royalty fees	$317,699	$—	$317,699
Initial franchise and relicensing fees	19,720	—	19,720
Procurement services	34,781	1,063	35,844
Marketing and reservation system	407,982	1,138	409,120
Other	24,484	—	24,484
Total Topic 606 revenues	$804,666	$2,201	806,867
Non-Topic 606 revenues			1,042
			$807,909

Marketing and reservation system point in time revenues represent loyalty points redeemed by members for benefits, net of the cost of redemptions. For the year ended December 31, 2016, these revenues reflect a change in the Company's expiration policy for the Choice Privileges membership program, resulting in an increase to the corresponding liabilities and charge to marketing and reservation system revenues.

Non-Topic 606 revenues represent revenue from operations of office buildings and parking lots and are presented in Other revenues in the consolidated statements of income.

As presented in Note 21, the Corporate & Other segment amounts represent $14.3 million, $10.8 million, and $8.8 million for the years ended December 31, 2018, 2017 and 2016, respectively, and are included in the Over time column of Other revenues and Non-Topic 606 revenues row. The remaining revenues relate to the Hotel Franchising segment.

3. Other Current Assets

Other current assets consist of the following at:

	December 31,	
	2018	2017
	(in thousands)	
Prepaid expenses	$18,412	$14,205
Other current assets	6,831	4,762
Land held for sale	7,000	7,000
Total	$32,243	$25,967

Land held for sale represents certain parcels of land previously acquired by the Company as part of its program to incent franchise development in strategic markets for the Company's Cambria Hotels brand. During the year ended December 31, 2018, the Company sold one parcel of land, classified as a long-term asset as of December 31, 2017, with a total book value of $3.0 million recognizing a gain on sale of $82 thousand. As of December 31, 2018, the Company has $7.0 million of Land held for sale, which represents one parcel of land that is expected to sell in the first quarter of 2019.

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4. Notes Receivable and Allowance for Losses

The Company has provided financing to franchisees in support of the development of properties in strategic markets. The Company utilizes the level of security it has in the notes receivable as its primary credit quality indicator (i.e., senior, subordinated or unsecured) when determining the appropriate allowances for uncollectible loans. 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. Interest income associated with these notes receivable is reflected in the accompanying consolidated statements of income under the caption interest income.

The Company assesses the collectibility 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 guaranties 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 guaranties that have been provided by the borrower.

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 or restructured loans that are provided a concession, 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 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. For restructured loans that are provided a concession, the Company recognizes interest as earned as long as the borrower is in compliance with the restructured loan terms. The Company assesses the adequacy of its loan reserves on a quarterly 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 establish a valuation allowance with a corresponding charge 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 following table shows the composition of the Company's notes receivable balances:

	December 31,	
	2018	2017
Credit Quality Indicator:	(in thousands)	
Senior	$94,349	$73,700
Subordinated	28,100	18,647
Unsecured	2,435	3,182
Total notes receivable	124,884	95,529
Allowance for losses on receivables specifically evaluated for impairment	4,426	1,647
Allowance for losses on non-impaired loans	259	490
Total loan reserves	4,685	2,137
Net carrying value	$120,199	$93,392

Current portion, net	$36,759	$13,256
Long-term portion, net	83,440	80,136
Total	$120,199	$93,392

The Company classifies notes receivable due within one year as current assets.

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On February 5, 2019, the Company restructured one of its loans with senior and subordinated tranches and provided a concession to the borrower. This event represents a recognized subsequent event, resulting in the establishment of a $2.8 million loan valuation allowance with a charge to SG&A expense in the fourth quarter of 2018. The total amount of the recorded investment in the restructured loan is $50.4 million, with total unpaid principal balance of $50.1 million. The Company continues accrual of interest for this loan as the borrower is in compliance with the restructured loan terms.

The Company determined that approximately $1.7 million and $1.8 million, respectively, of its unsecured notes receivable were impaired and recorded an allowance for credit losses of $1.6 million for both the years ended December 31, 2018 and 2017, respectively. For both the years ended December 31, 2018 and 2017, the average notes receivable on non-accrual status was approximately $1.8 million. The Company recognized approximately $44 thousand of interest income on impaired loans during both years ended December 31, 2018 and 2017, respectively, on the cash basis.

The Company provided loan reserves on non-impaired loans totaling $0.3 million and $0.5 million at December 31, 2018 and 2017, respectively.

The Company has identified loans totaling approximately $12.9 million and $2.1 million, respectively, with stated interest rates that are less than market rate, representing a total discount of $1.5 million and $0.1 million, respectively, at December 31, 2018 and 2017. These discounts are reflected as a reduction of the outstanding loan amounts and are amortized over the life of the related loan.

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

	30-89 days Past Due	> 90 days Past Due	Total Past Due	Current	Total Notes Receivable
As of December 31, 2018	(in thousands)				
Senior	$ —	$ —	$ —	$ 94,349	$ 94,349
Subordinated	—	—	—	28,100	28,100
Unsecured	—	—	—	2,435	2,435
	$ —	$ —	$ —	$ 124,884	$ 124,884
As of December 31, 2017					
Senior	$ —	$ —	$ —	$ 73,700	$ 73,700
Subordinated	—	—	—	18,647	18,647
Unsecured	—	—	—	3,182	3,182
	$ —	$ —	$ —	$ 95,529	$ 95,529

Variable Interest through Notes Issued

The Company has issued notes receivables to certain entities that have created variable interests in these borrowers totaling $114.3 million and $35.2 million at December 31, 2018 and 2017, respectively. 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 following table summarizes the activity related to the Company's Notes Receivable allowance for losses for the years ended December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
	(in thousands)	
Beginning balance	$2,137	$2,417
Provisions	2,779	—
Write-offs	(231)	(280)
Ending balance	$4,685	$2,137

Transfer of Interest

On September 12, 2017, the Company entered into an agreement to transfer $24.2 million of a $49.1 million outstanding note receivable with a maturity date of November 30, 2019 to a third party. In the first quarter of 2018, an additional $0.2 million was transferred for a total of $24.4 million of a $50.1 million outstanding note. The transaction did not qualify as a sale and

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therefore the outstanding note receivable was not derecognized on the balance sheet. The one-time cash proceeds were recorded as unrestricted cash and the future obligation to transfer principal and interest received under the note has been recorded within Other Long-Term Liabilities. In addition, the proceeds from the transfer of the interest in the note receivable have been reflected on the statement of cash flows as a financing activity. The Company retains responsibility for collecting and distributing cash received on the note and interest paid to the participant is reflected as interest expense in the Company's consolidated statements of income. At December 31, 2018 and 2017, Other Long-Term Liabilities includes $24.4 million and $24.2 million, pursuant to this transaction, respectively. Refer to Note 24 for additional information regarding the Company's repurchase in February 2019.

5. Property and Equipment

The components of property and equipment are:

	December 31,	
	2018	2017
	(in thousands)	
Land and land improvements	$2,197	$3,107
Construction in progress and software under development	49,920	13,243
Computer equipment and software	180,364	159,786
Buildings and leasehold improvements	30,019	37,764
Furniture, fixtures, vehicles and equipment	28,937	18,002
Assets under capital lease	4,827	4,827
	296,264	236,729
Less: Accumulated depreciation and amortization	(168,729)	(153,355)
Property and equipment, at cost, net	$127,535	$83,374

Construction in progress includes the rehabilitation and development of a former office building into a hotel through a consolidated joint venture. As construction in progress and software development are completed and placed in service, they are transferred to appropriate property and equipment categories and depreciation begins. Interest capitalized as a cost of property and equipment totaled $0.2 million and $0.4 million for the years ended December 31, 2018 and 2017, respectively.

Unamortized capitalized software development costs at December 31, 2018 and 2017 totaled $38.9 million and $40.7 million, respectively. Amortization of software development costs for the years ended December 31, 2018, 2017 and 2016 totaled $11.2 million, $11.7 million, and $11.8 million, respectively.

Depreciation has been computed for financial reporting purposes using the straight-line method. A summary of the ranges of estimated useful lives upon which depreciation rates are based follows:

Computer equipment and software	2-7 years
Buildings and leasehold improvements	10-40 years
Furniture, fixtures, vehicles and equipment	3-10 years
Assets under capital leases	3-8 years

Depreciation expense, excluding amounts attributable to marketing and reservation activities, for the years ended December 31, 2018, 2017 and 2016 was $5.5 million, $5.2 million and $5.6 million, respectively. Accumulated amortization of capital leases, included in accumulated depreciation and amortization above, at December 31, 2018 and 2017 totaled $4.8 million and $4.5 million, respectively.

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6. Goodwill

The following table details the carrying amount of our goodwill:

	December 31, 2018	December 31, 2017
	(in thousands)	
Goodwill	$173,477	$80,949
Accumulated impairment losses	(4,481)	(192)
Net carrying amount	$168,996	$80,757

The following is a summary of changes in the carrying amount of goodwill:

	December 31, 2017	Acquisitions	Foreign Exchange	Impairment	December 31, 2018
Hotel Franchising	$ 65,813	$ 93,384	$ —	$ —	$159,197
Other	14,944	—	(856)	(4,289)	9,799
Total	$ 80,757	$ 93,384	$ (856)	$ (4,289)	$168,996

	December 31, 2016	Acquisitions	Foreign Exchange	Impairment	December 31, 2017
Hotel Franchising	$ 65,813	$ —	$ —	$ —	$65,813
Other	13,092	—	1,852	—	14,944
Total	$ 78,905	$ —	$ 1,852	$ —	$80,757

WoodSpring acquisition

On February 1, 2018, the Company acquired 100% of the issued and outstanding equity interest of WoodSpring. The acquisition resulted in an additional $93.4 million in goodwill in the Hotel Franchising reporting unit. See Note 25 for additional information.

Impairment Analysis

Goodwill has been allocated to two reporting units: (1) Hotel Franchising and (2) SaaS for vacation rentals.

In the fourth quarter of 2018, the Company assessed the qualitative factors attributable to the Hotel Franchising reporting unit and determined it is not more likely than not that the fair value of the reporting unit is less than its carrying amount. The Hotel Franchising reporting unit is included in the Hotel Franchising reportable segment in Note 21.

The Company conducted step one of the annual goodwill impairment test for the SaaS for vacation rentals reporting unit, which indicated that the fair value of the reporting unit was less than its carrying value. The Company acquired the SaaS for vacation rentals reporting unit on August 11, 2015 as a complementary adjacent business line to its Vacation Rentals initiative with the intention of leveraging the established SaaS based platform to acquire new customers and expand into new markets. During the period from acquisition through 2017, the performance of the reporting unit was in line with the assumptions at the time the acquisition was consummated. In the fourth quarter of 2018, the Company concluded the reporting unit did not achieve the annual revenue and customer acquisition targets. As part of the Company’s long range planning process, the Company assessed the long-term prospects for the reporting unit, determining certain investments are required to maintain the growth trajectory and achieve the customer acquisition assumed at the time of the acquisition. The Company is electing to not make these investments as there is no longer a strategic alignment with the Vacation Rentals initiative. In contemplation of this strategic shift in combination with lower than expected revenues and customer acquisition in 2018, the Company revised its future outlook for the reporting unit. To estimate a fair value for the reporting unit, the Company utilized a combination of market and income approach valuation methods via quoted market prices, market multiples of comparable businesses, and performance of a discounted cash flow analysis.

As disclosed in Note 1, during 2018 the Company early adopted ASU 2017-04, which eliminated Step 2 from the goodwill impairment test. Based on the guidance in ASU 2017-04, the Company recognized a non-cash pre-tax impairment charge on the SaaS for vacation rentals reporting unit's goodwill in the amount by which the carrying amount exceeded fair value of $4.3 million.

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The goodwill impairment charge does not have an impact on the Company's liquidity or calculation of financial covenants under existing debt arrangements.

Prior to performing the goodwill impairment test, the Company assessed if any indicators of impairment were present in the long-lived assets related to the SaaS for vacation rentals reporting unit, including intangible assets. We concluded the reporting unit's long-lived assets were not impaired as of December 31, 2018. Refer to Note 7 for discussion of the reporting unit's intangible assets.

As of December 31, 2018, the $9.8 million of carrying value remaining in Other goodwill is fully attributable to the SaaS for vacation rentals reporting unit. The results of the reporting unit are included in Corporate & Other in Note 21.

There can be no assurance there will not be further impairments or charges incurred against the assets of the SaaS for vacation rentals reporting unit in future periods. See Note 28 Subsequent Events for additional information.

7. Intangible assets

The components of the Company's intangible assets are as follows:

	As of December 31, 2018			As of December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Unamortized Intangible Assets						
Trademarks (1)	$23,014	$ —	$23,014	$1,014	$ —	$1,014
Amortized Intangible Assets						
Franchise Rights (2)	190,663	82,632	108,031	75,728	75,658	70
Franchise Agreement Acquisition Costs (3)	164,174	34,986	129,188	115,031	29,211	85,820
Trademarks (4)	14,055	10,562	3,493	13,328	9,923	3,405
Capitalized SaaS Licenses (5)	5,468	2,903	2,565	5,468	1,529	3,939
Contract Acquisition Costs (6)	5,389	1,763	3,626	5,643	1,306	4,337
Acquired Lease Rights (7)	2,237	966	1,271	2,237	330	1,907
	381,986	133,812	248,174	217,435	117,957	99,478
Total	$405,000	$ 133,812	$271,188	$218,449	$ 117,957	$100,492

(1) Represents the purchase price assigned to the WoodSpring and Suburban trademarks at acquisition. The trademarks are expected to generate future cash flows for an indefinite period of time. Refer to Note 25.

(2) Represents the purchase price assigned to long-term franchise contracts. The unamortized balance relates primarily to the acquisition of the WoodSpring franchise rights. The franchise rights are being amortized over lives ranging from 12 to 20 years on a straight-line basis. Refer to Note 25.

(3) Represents certain payments to customers as an incentive to enter in to new franchise agreements amortized over lives ranging from 5 to 30 years on a straight-line basis commencing at hotel opening. Refer to Note 2.

(4) Represents definite-lived trademarks generally amortized on a straight-line basis over a period of 8 to 40 years.

(5) Represents software licenses capitalized under a SaaS agreement. Amortized over a period of 3 to 5 years.

(6) Represents non-franchise customer contracts acquired in a business combination. Amortized on a straight-line basis over a period of 5 to 12 years.

(7) Represents acquired lease rights recognized in conjunction with the acquisition of an office building. The costs are being amortized over the 39 month term of the lease in place.

Amortization expense for the years ended December 31, 2018, 2017 and 2016 amounted to $19.4 million, $9.9 million, and $8.2 million, respectively.

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The estimated annual amortization expense related to the Company's amortizable intangible assets for each of the years ending December 31, 2019 through 2023 is as follows:

Year:	(in millions)
2019	$ 20.1
2020	$ 18.5
2021	$ 16.8
2022	$ 16.2
2023	$ 15.6

8. Investments in Unconsolidated Entities

The Company maintains a portfolio of investments owned through noncontrolling interests in equity method investments with one or more partners. The Company has equity method investments in joint ventures that represent variable interest entities ("VIEs") totaling $103.0 million and $130.2 million on the consolidated balance sheets at December 31, 2018 and 2017, respectively. These investments relate to the Company's program to offer equity support to qualified franchisees to develop and operate Cambria Hotels in strategic markets. Based on an analysis of who has the power to direct the activities that most significantly impact these entities performance and who has an obligation to absorb losses of these entities or a right to receive benefits from these entities that could potentially be significant to the entity, the Company has determined that it is not the primary beneficiary of any of these VIEs. The Company based its qualitative analysis on its review of the design of the entity, its organizational structure including decision-making ability and the relevant development, operating management and financial agreements. Although the Company is not the primary beneficiary of these VIEs, it does exercise significant influence through its equity ownership and as a result the Company's investment in these entities is accounted for under the equity method. For the years ended December 31, 2018, 2017 and 2016, the Company recognized losses totaling $8.0 million, $7.1 million and $1.3 million from the investment in these entities, respectively. The Company's maximum exposure to losses related to its investments in VIEs is limited to its equity investments as well as certain guaranties as described in Note 24 of these financial statements.

Equity method investment ownership interests at December 31, 2018 and 2017 are as follows:

	Ownership Interest	
Equity Method Investment	December 31, 2018	December 31, 2017
Main Street WP Hotel Associates, LLC	50 %	50 %
FBC-CHI Hotels, LLC	40 %	40 %
CS Hotel 30W46th, LLC	25 %	25 %
CS Brickell, LLC	50 %	50 %
CS Maple Grove, LLC	50 %	50 %
CS Hotel West Orange, LLC	50 %	50 %
Hotel JV Services, LLC [(1)]	16 %	16 %
City Market Hotel Development, LLC	43 %	43 %
CS Woodlands, LLC	50 %	50 %
926 James M. Wood Boulevard, LLC	75 %	75 %
CS Dallas Elm, LLC	45 %	45 %
Choice Hotels Canada, Inc. [(1)]	50 %	50 %
CS 433 Mason LLC [(2)]	100 %	90 %
Pine Street Long Beach LLC	50 %	50 %
SY Valley Vineyard Resorts LLC	50 %	50 %

CS Lakeside Santa Clara LLC	50 %	— %
CS Main Pleasant Hill LLC	50 %	— %

(1) Non-variable interest entity investments

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(2) During the third quarter of 2018, a partner in a VIE previously accounted for under the equity method of accounting exercised a put option to the Company for its membership interest. As a result, the Company paid $3.2 million for the remaining interest and the purchase was accounted for as an asset acquisition. The financial results of the 100% owned entity have been consolidated in the Company's financial statements since August 9, 2018.

The following tables present summarized financial information for all unconsolidated ventures in which the Company holds an investment that is accounted for under the equity method.

	Year Ended December 31,		
	2018	2017(3)	2016
	(in thousands)		
Revenues	$118,324	$87,033	$72,393
Operating income	11,790	8,171	9,878
Income from continuing operations	1,658	2,140	4,603
Net income	$477	$940	$4,598

(3) Updated based on most recent data available

	As of December 31,	
	2018	2017
	(in thousands)	
Current assets	$75,453	$56,599
Non-current assets	465,361	491,388
Total assets	$540,814	$547,987
Current liabilities	$32,234	$31,191
Non-current liabilities	239,581	222,156
Total liabilities	$271,815	$253,347

9. Other Assets

Other assets consist of the following at:

	December 31,	
	2018	2017
	(in thousands)	
Land and buildings	$29,643	$19,284
Capitalized franchise sales commissions (refer to Note 2)	51,929	46,050
Other assets	2,828	2,381
Total	$84,400	$67,715

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 the Company's Cambria Hotel brand. The Company has acquired this real estate with the intent to develop the properties for the eventual construction of a Cambria Hotel or contribute the land into joint ventures for the same purpose.

During the third quarter of 2018, a partner in a VIE previously accounted for under the equity method of accounting exercised a put option to the Company for its membership interest. As a result, the Company paid $3.2 million for the remaining interest and the purchase was accounted for as an asset acquisition. The financial results of the 100% owned entity have been consolidated in the Company's financial statements since August 9, 2018. On the consolidated balance sheet, the assets are reflected in Other Assets.

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10. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	December 31,	
	2018	2017
	(in thousands)	
Accrued compensation and benefits	$42,518	$34,761
Accrued interest	16,640	16,539
Dividends payable	11,977	12,185
Deferred rent and unamortized lease incentives	2,772	2,620
Termination benefits	744	3,333
Income taxes payable	—	2,776
Other liabilities and contingencies	18,000	12,101
Total	$92,651	$84,315

11. Deferred Revenue

Deferred revenue consists of the following:

	December 31,	
	2018	2017
	(in thousands)	
Initial franchising and relicensing fees	$104,287	$94,058
Loyalty programs	53,749	39,102
System implementation fees	8,764	8,563
Procurement services fees	7,872	8,531
Other	3,220	347
Total	$177,892	$150,601
Current portion	$67,614	$52,142
Long-term portion	110,278	98,459
Total	$177,892	$150,601

Refer to Note 2 for revenue recognition policies resulting in the deferral of revenue, including loyalty programs and the relationship between the loyalty programs deferred revenue and the liability for the guest loyalty program.

12. Other Non-Current Liabilities

Other non-current liabilities consist of the following at:

	December 31,	
	2018	2017
	(in thousands)	
Deferred rent and unamortized lease incentives	$7,903	$9,897
Uncertain tax positions	1,788	2,903
Participating interest in notes receivable (refer to Note 4)	24,409	24,237
Other liabilities	2,996	5,006
Total	$37,096	$42,043

Uncertain tax positions have been recorded for potential exposures involving tax positions that could be challenged by taxing authorities.

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13. Debt

Debt consists of the following at:

	December 31, 2018	December 31, 2017
	(in thousands)	
$400 million senior unsecured notes with an effective interest rate of 6.0% less deferred issuance costs of $3.2 million and $3.9 million at December 31, 2018 and December 31, 2017, respectively	$396,844	$396,057
$250 million senior unsecured notes with an effective interest rate of 6.19% less a discount and deferred issuance costs of $0.5 million and $0.8 million at December 31, 2018 and December 31, 2017, respectively	249,489	249,182
$600 million senior unsecured credit facility with an effective interest rate of 3.50%, less deferred issuance costs of $3.0 million at December 31, 2018	87,582	—
$450 million senior unsecured credit facility with an effective interest rate of 2.84%, less deferred issuance costs of $2.1 million at December 31, 2017	—	67,936
Construction loan with an effective interest rate of 6.70%, less deferred issuance costs of $0.9 million at December 31, 2018	7,652	—
Fixed rate collateralized mortgage with an effective interest rate of 4.57%, plus a fair value adjustment of $0.4 million and $0.6 million at December 31, 2018 and December 31, 2017, respectively	8,197	8,853
Economic development loans with an effective interest rate of 3.0% at December 31, 2018 and December 31, 2017, respectively	4,240	3,712
Other notes payable	607	784
Total debt	$754,611	$726,524
Less current portion	1,097	1,232
Total long-term debt	$753,514	$725,292

Scheduled principal maturities of debt, net of unamortized discounts, premiums and deferred issuance costs, as of December 31, 2018 were as follows:

Year Ending:	Senior Notes	Revolving Credit Facility	Other Notes Payable	Total
	(in thousands)			
2019	$—	$ —	$ 1,097	$1,097
2020	249,489	—	7,707	257,196
2021	—	—	—	—
2022	396,844	—	7,652	404,496
2023	—	87,582	4,240	91,822
Thereafter	—	—		—
Total payments	$646,333	$ 87,582	$ 20,696	$754,611

Restated Senior Unsecured Credit Facility

On August 20, 2018, the Company entered into the Restated Credit Agreement, which amended and restated the Company's existing senior unsecured revolving credit agreement, dated July 21, 2015 (the "Former Credit Agreement"). The Former Credit Agreement provided for a $450 million unsecured revolving credit facility (the "Revolver") with a final maturity date of July 21, 2021.

The Restated Credit Agreement increases the commitments under the Revolver to $600 million and extends the final maturity date of the Revolver to August 20, 2023, subject to optional one-year extensions that can be requested by the Company prior to each of the first, second and third anniversaries of the closing date of the Restated Credit Agreement. The effectiveness of such extensions is subject to the consent of the lenders under the Restated Credit

Agreement and certain customary conditions. The Restated Credit Agreement also provides that up to $35 million of borrowings under the Revolver may be used for alternative currency loans and up to $25 million of borrowings under the Revolver may be used for swingline loans. The Company may from time to time designate one or more wholly owned subsidiaries of the Company as additional borrowers under the Restated Credit Agreement, subject to the consent of the lenders and certain customary conditions.

Pursuant to the Restated Credit Agreement, the previous guarantee by certain of the Company's subsidiaries of its obligations under the Revolver (as increased by the Restated Credit Agreement) was released. As a result, as of August 20, 2018, there are no subsidiary guarantors under the Revolver. However, if certain subsidiaries of the Company subsequently incur certain recourse debt or become obligors in respect of certain recourse debt of the Company or certain of its other subsidiaries, the Restated Credit Agreement requires such obligated subsidiaries to guarantee the Company's obligations under the Revolver. In the event that these subsidiary guarantees are triggered under the Revolver, the same subsidiary guarantees would be required under the 2010 and 2012 Senior Notes and certain hedging and bank product arrangements, if any, with lenders that are parties to the Restated Credit Agreement.

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

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

A total of $3.2 million in debt issuance costs were capitalized as part of the Restated Credit Facility, including $1.7 million in costs incurred on the Restated Credit Facility and remaining unamortized costs of $1.5 million attributable to the Former Credit Facility. The capitalized debt issuance costs are amortized on a straight-line basis, which is not materially different than the effective interest method, through the maturity. Amortization of these costs is included in interest expense in the consolidated statements of income. Additionally, the Restated Credit Agreement requires the Company 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 0.075% to 0.25% (depending on the Company's senior unsecured long-term debt rating or under circumstances as set forth in the Restated Credit Agreement, the Company's total leverage ratio in the event that such total leverage ratio is less than 2.5 to 1.0).

The Restated Credit Agreement requires that the Company and its restricted subsidiaries comply with various covenants, including with respect to restrictions on liens, incurring indebtedness, making investments and effecting mergers and/or asset sales. With respect to dividends, the Company may not declare or make any payment if there is an existing event of default or if the payment would create an event of default.

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

The Restated Credit Agreement includes customary events of default, the occurrence of which, following any applicable cure period, would permit the lenders to, among other things, declare the principal, accrued interest and other obligations of the Company under the Restated Credit Agreement to be immediately due and payable. At December 31, 2018, the Company was in compliance with all financial covenants under the Restated 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 Restated Credit Agreement.

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, 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 to stockholders on August 23, 2012.

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Debt issuance costs incurred in connection with the 2012 Senior Notes are amortized, utilizing the effective interest method through maturity. Amortization of these costs is included in interest expense in the consolidated statements of income.

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, or (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 in the principal amount of $250 million (the "2010 Senior Notes") at a discount of $0.6 million, bearing a coupon of 5.7% with an effective rate of 6.19%. The 2010 Senior Notes will mature on August 28, 2020, with interest to be paid semi-annually on February 28th and August 28th. The Company used the net proceeds from the offering, after deducting underwriting discounts and other offering expenses, to repay outstanding borrowings and for other general corporate purposes.

Bond discounts and debt issuance costs incurred in connection with the 2010 Senior Notes are amortized on a straight-line basis, which is not materially different than the effective interest method, through maturity. Amortization of these costs is included in interest expense in the consolidated statements of income.

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, or (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.

Construction Loan

In March 2018, the Company entered into a construction loan agreement for the rehabilitation and development of a former office building into a hotel through a consolidated joint venture with a commercial lender, which is secured by the building. The construction loan can be drawn up to $34.9 million, bears an interest rate at LIBOR plus a margin of 435 basis points and has a maturity date of March 28, 2022 with two one-year extension options. The Company has made certain guaranties on this construction loan, referred to in Note 24. At December 31, 2018, the Company recorded $69 thousand of capitalized interest costs. The Company incurred $0.9 million in debt issuance costs in connection with the construction loan which are amortized using the straight-line method, which is not materially different than the effective interest method, through the maturity date. Amortization of these costs is included in interest expense in the consolidated statements of income.

Fixed Rate Collateralized Mortgage

On December 30, 2014, a court awarded the Company title to an office building as settlement for a portion of an outstanding loan receivable for which the building was pledged as collateral. In conjunction with the court award, the Company also assumed the $9.5 million mortgage on the property with a fixed interest rate of 7.26%. The mortgage, which is collateralized by the office building, requires monthly payments of principal and interest and matures in December 2020 with a balloon payment due of $6.9 million. At the time of acquisition, the Company determined that the fixed interest rate of 7.26% exceeded market interest rates and therefore the Company increased the carrying value of the debt by $1.2 million to record the debt at fair value. The fair value adjustment 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 December 31, 2018, the Company had been advanced approximately $4.2 million pursuant to these agreements and expects to receive the remaining $0.2 million in 2019, 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 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 December 31, 2018.

14. 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 $26.1 million and $27.3 million at December 31, 2018 and 2017, respectively, related to these deferrals and credited investment return under these two deferred compensation plans. Compensation expense is recorded in SG&A expense on the Company’s consolidated statements of income based on the change in the deferred compensation obligation related to earnings credited to participants as well as changes in the fair value of diversified investments. The net increase (decrease) in compensation expense recorded in SG&A for the years ended December 31, 2018, 2017 and 2016 were $(0.7) million, $3.7 million, and $2.1 million, respectively.

Under the Deferred Compensation Plan, the Company has invested the employee salary deferrals in diversified long-term investments which are intended to provide investment returns that offset the earnings credited to the participants. The diversified investments held in the trusts totaled $21.3 million and $22.6 million as of December 31, 2018 and 2017, respectively, and are recorded at their fair value, based on quoted market prices. At December 31, 2018, the Company expects $1.9 million of the assets held in the trust to be distributed during the year ended December 31, 2019 to participants. These investments are considered trading securities and therefore the changes in the fair value of the diversified assets is included in other gains and losses in the accompanying consolidated statements of income. The Company recorded investment gains (losses) during the years ended December 31, 2018, 2017 and 2016 of $(1.3) million, $3.2 million, and $1.5 million, respectively. The Deferred Compensation Plan held no shares of the Company's common stock at December 31, 2018 and 2017.

15. Fair Value Measurements

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

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

Level 2: Observable inputs, other than quoted prices in active markets for identical assets and liabilities, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable. The Company’s Level 2 assets consist of money market funds held in the 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 years ended December 31, 2018 and 2017.

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As of December 31, 2018 and 2017, 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)			
December 31, 2018				
Mutual funds[1]	$19,378	$19,378	$—	$ —
Money market funds[1]	1,923	—	1,923	—
Total	$21,301	$19,378	$1,923	$ —
December 31, 2017				
Money market funds, included in cash and cash equivalents	$50,419	$—	$50,419	$ —
Mutual funds[1]	20,869	20,869	—	—
Money market funds[1]	1,702	—	1,702	—
Total	$72,990	$20,869	$52,121	$ —

(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 values 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 Restated Credit Agreement 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 receivable see Note 4.

The money market funds previously included in cash and cash equivalents were used to fund the WoodSpring acquisition on February 1, 2018. Refer to Note 25 for further information on the acquisition. The fair value of the Company's $250 million and $400 million senior notes are classified as Level 2 as the significant inputs are observable in an active market. At December 31, 2018 and 2017, the $250 million senior notes had an approximate fair value of $257.0 million and $269.2 million, respectively. At December 31, 2018 and 2017, the $400 million senior notes had an approximate fair value of $415.7 million and $440.1 million, respectively.

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

16. Income Taxes

Total income before income taxes, classified by source of income, was as follows:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
U.S.	$251,056	$217,725	$116,852
Outside the U.S.	22,202	31,492	31,288
Income before income taxes	$273,258	$249,217	$148,140

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The provision for income taxes, classified by the timing and location of payment, was as follows:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Current tax expense			
Federal	$48,941	$63,279	$62,216
State	8,966	5,183	8,163
Foreign	1,471	2,000	745
Deferred tax (benefit) expense			
Federal	(1,459)	55,007	(25,309)
State	(959)	1,676	(4,250)
Foreign	(57)	(255)	(137)
Income taxes	$56,903	$126,890	$41,428

Net deferred tax assets consisted of:

	December 31,	
	2018	2017
	(in thousands)	
Property, equipment and intangible assets	$(17,212)	$(8,026)
Accrued compensation	12,790	12,472
Accrued expenses	30,720	20,724
State Tax Credits	2,438	1,595
Foreign net operating losses	2,119	2,286
Valuation allowance on foreign net operating losses	(1,653)	(1,392)
Other	1,411	(474)
Net deferred tax assets	$30,613	$27,185

Balance sheet presentation:

	December 31,	
	2018	2017
	(in thousands)	
Non-current net deferred tax assets	$30,613	$27,224
Non-current net deferred tax assets (liabilities)	—	(39)
Net deferred tax assets	$30,613	$27,185

As of December 31, 2018, the Company had foreign net operating loss carryforwards of approximately $6.7 million before applying tax rates for the respective jurisdictions, subject to a valuation allowance of $5.0 million. Approximately $1.2 million of our foreign net operating losses may expire between 2020 and 2036. In addition, the Company has recorded a valuation allowance on approximately $0.5 million of foreign deferred tax assets before applying the tax rate of the respective jurisdiction.

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The statutory U.S. federal income tax rate reconciles to the effective income tax rates as follows:

	Year Ended December 31,		
	2018	2017	2016
Statutory U.S. federal income tax rate	21.0 %	35.0 %	35.0 %
State income taxes, net of federal tax benefit	2.9 %	1.8 %	1.5