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.

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 Privileges®. 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

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 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 e