

## **Choice Hotels Reports 2nd Quarter Recurring Diluted EPS Increases 19%; Revenues Up 10% for 2nd Quarter Company Comfortable With Consensus EPS Estimates For Full Years 2001 and 2002**

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SILVER SPRING, Md.

Choice Hotels International, Inc. , the world's second largest hotel franchisor, today reported second quarter 2001 recurring net income of \$14.4 million, or \$0.32 recurring diluted earnings per share (EPS), compared to the \$14.3 million in recurring net income and \$0.27 recurring diluted EPS reported for second quarter 2000.

"We are pleased that our second quarter results exceeded analysts' expectations, particularly in an economic environment that has challenged us and our strongest competitors," said Charles A. Ledsinger, Jr., president and chief executive officer. "Our franchising business continues to generate strong cash flow and the predictability of our long-term contracts makes Choice much less susceptible to economic cycles than owner-operator competitors."

He continued, "Total revenues grew 10% in the second quarter and have grown 8% so far this year, despite slow industry growth. Our continued emphasis on technology, brand improvement and operational efficiencies has translated into solid financial performance."

The company also announced that it is comfortable with the consensus estimate for 2001 diluted recurring EPS of \$1.28, excluding potential equity or impairment losses on its investment in Friendly Hotels plc. Choice also anticipates that third quarter 2001 diluted EPS should reach the consensus estimate of \$0.43.

In addition, the company expressed its comfort with the consensus of diluted recurring EPS of \$1.44 for 2002, given the current number of shares outstanding.

Ledsinger concluded, "As a service business providing value to our franchisees, we continue to use our size and scale to improve business performance while evaluating other opportunities. We remain keenly focused on generating system growth and driving shareholder value with the goal of leveraging our position as a services company with well-known consumer brands."

### **Second Quarter Results**

Recurring earnings before interest, taxes, depreciation and amortization (EBITDA) increased to \$29.4 million for the second quarter and \$49.7 million for the first six months of 2001, respective increases of 8.5% and 6.9% over the \$27.1 million for second quarter 2001 and \$46.5 million for the first half of 2000. EBITDA margins remain consistent at 65% for the second quarter and 63% for the year-to-date through June 30.

The company reported royalty revenues of \$36.0 million for second quarter 2001, compared to \$34.3 million for second quarter 2000, an increase of 5.0%. The system-wide domestic effective royalty rate increased from 3.79% in second quarter 2000 to 3.94% for the second quarter of 2001. Domestic revenue per available room (RevPAR) was \$37.10 for the second quarter of 2001, compared to \$37.28 for the same period a year ago.

For the first six months of 2001, Choice reported recurring net income of \$23.2 million or \$0.51 recurring diluted EPS versus recurring net income of \$24.2 million and \$0.45 recurring diluted EPS for the first six months of 2000.

Royalty revenues for the first half of 2001 increased 6.4% to \$63.0 million from the \$59.2 million for the same period of a year ago. The system- wide domestic effective royalty rate increased 10 basis points for the first six months of 2001 to 3.91% from 3.81% for the same period a year ago. Domestic RevPAR also was up 2.0% from \$32.17 for the first half of 2000 to \$32.82 for the first six months of 2001.

During the three months ended June 30, 2001, the company recorded an equity loss of \$0.8 million related to changes in its equity investment in Friendly Hotels plc. The equity loss is excluded from the company's recurring net income and recurring diluted EPS. In the event that Friendly has future liquidity issues, the company does not intend to fund future losses.

#### Internet Growth

Choice continues to emphasize cost-effective electronic distribution channels for its reservations activity. Total net revenue sold over the Internet was \$62.3 million for second quarter 2001, an increase of 53.5% over the \$40.6 million sold in second quarter 2000. Choice Hotels' proprietary web site, <http://www.choicehotels.com/> , generated more than 53% of the total Internet volume for the quarter.

Internet reservations represented 7.2% of total system sales for second quarter 2001, up from 4.7% for the same period a year ago.

For the year-to-date through June 30, total net revenue sold over the Internet was \$111.6 million, an increase of 66% over the \$67.2 million for the same period a year ago. Internet reservations year-to-date represent 7.4% of total system sales, up from the 4.6% reported for the same period in 2000. Of this year's total revenues, 4.0% was generated through Choice's proprietary Web site, <http://www.choicehotels.com/> .

The average room rate booked through the company's Internet site was up 2.9% for second quarter 2001 to \$77.56 from \$75.41 for the same period a year ago. This result compares to system-average daily rates of \$62.21 for the second quarter 2001 and \$60.56 for the same period a year ago. In addition, the Internet is a less expensive channel for booking reservations.

#### System Growth

Choice signed 68 hotel franchise contracts in second quarter 2001, compared to the 67 contracts signed in the same period a year ago. Through June 30, 2001, the company has signed 125 new contracts, representing 10,781 rooms. The company has signed 72 contracts to convert existing hotels to a Choice brand in the first half of 2001, up from 65 conversions from the same period a year ago.

As of June 30, 2001, the total number of Choice hotels worldwide on-line grew 3.0% to 4,433 from 4,303 as of the same date a year ago. As of the same date, the total number of rooms worldwide increased 3.3% to 354,761 from 343,511 as of the same date a year ago.

The company had 662 franchised hotels with 55,972 rooms either in design or under construction in its worldwide hotel system as of June 30, 2001.

## Notable Events

Among the notable company events occurring since the previous earnings report:

- \* The company announced on July 17 that it has been authorized by its Board of Directors to repurchase up to an additional five million shares of common stock. Since Choice announced its stock repurchase program on June 25, 1998, the company has purchased 19.7 million shares of common stock at an average price of \$14.50 and a total cost of \$285.9 million, as of July 20, 2001. Since January 1, 2001, the company has purchased 10.6 million shares of common stock. Total shares outstanding as of July 20, 2001 are 43.0 million.
- \* Moody's Investor Service confirmed its investment grade debt ratings for Choice and upgraded its rating outlook from negative to stable. The company completed refinancing of its credit facility in the amount of \$260 million, with a feature allowing Choice to obtain additional commitments up to \$325 million.
- \* The company has launched a re-imaging campaign for three of its brands: Quality, Comfort Suites and Sleep Inn. Under the program, almost 1,400 existing hotels worldwide will adopt new logos and signage for these brands.
- \* Choice's Board of Directors was honored by HVS Executive Search as the industry's top performing board at the 23rd Annual New York University International Hospitality Industry Investment Conference in June.

Choice Hotels International is the second-largest hotel franchisor in the world with 4,433 hotels open worldwide, representing 354,761 rooms, and another 455 hotels under development in the United States, representing 34,948 rooms. An additional 207 hotels, representing 21,024 rooms, are under development in 42 other countries as of June 30, 2001. Its Comfort, Quality, Clarion, Sleep Inn, Econo Lodge, Rodeway Inn and MainStay Suites brands serve guests worldwide.

Certain matters discussed in this press release may constitute forward- looking statements within the meaning of the federal securities law. Such statements are based on management's beliefs, assumptions and expectations, which in turn are based on information currently available to management. Actual performance and results could differ from those expressed in or contemplated by the forward-looking statements due to a number of risks, uncertainties and other factors, many of which are beyond Choice's ability to predict or control. For further information on factors that could impact Choice and the statements contained therein, we refer you to the filings made by Choice with the Securities and Exchange Commission, including its registration statement on Form S-4 and report on Form 10-Q for the period ended June 30, 1999.

Additional corporate information may be found on the Choice Hotels' internet site, which may be accessed at <http://www.choicehotels.com/> .

Comfort, Quality, Clarion, Sleep Inn, Econo Lodge, Rodeway Inn, MainStay Suites, Guest Privileges and ChoiceBuys.com are registered trademarks, service marks and trade names of Choice Hotels International, Inc. Choice Hotels also owns and uses common law marks, including Profit Manager.

Choice Hotels International, Inc.  
Consolidated Balance Sheets

(In thousands)

June 30,      December 31,

2001      2000  
(Unaudited)

ASSETS

Cash and cash equivalents	\$6,998	\$19,701
Other current assets	32,862	32,385
Total current assets	39,860	52,086
Fixed assets and intangibles, net	173,388	174,772
Investment in Friendly Hotels plc	31,859	34,616
Note receivable from Sunburst Hospitality Corp.	36,957	137,492
Advances to marketing and reservation funds	52,819	57,824
Other assets	28,334	27,330
Total assets	363,217	484,120

LIABILITIES AND SHAREHOLDERS' (DEFICIT) EQUITY

Current portion of long-term debt	11,396	50,046
Other current liabilities	46,185	43,782
Total current liabilities	57,581	93,828
Long-term debt	276,400	247,179
Deferred income taxes and other	49,973	53,020
Total liabilities	383,954	394,027
Total shareholders' (deficit) equity	(20,737)	90,093
Total liabilities and shareholders' (deficit) equity	\$363,217	\$484,120

Choice Hotels International, Inc.  
Consolidated Statements of Income  
(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2001	2000	2001	2000

Revenues				
Royalty fees	\$36,048	\$34,328	\$63,003	\$59,213
Initial franchise fees and relicensing fees	3,331	3,435	5,649	6,782
Partner service revenue	3,964	2,088	5,902	4,386
Hotel operations	921	-	1,706	-
Other	943	1,314	2,297	2,429
Total revenues	45,207	41,165	78,557	72,810

Operating expenses

Selling, general and administrative	15,188	14,071	27,676	26,299
Hotel operations	661	-	1,181	-
Depreciation and amortization	3,002	3,053	5,892	5,555
Total operating expenses	18,851	17,124	34,749	31,854

Operating income	26,356	24,041	43,808	40,956
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Other

Interest and dividend income	(1,023)	(3,911)	(2,172)	(7,776)
Interest expense	3,770	4,609	8,082	9,225
Equity loss-Friendly Hotels plc	763	164	2,921	1,889
Gain on sale of investments	(42)	-	(42)	-
Write-off of deferred financing costs	650	-	650	-

Loss on early prepayment of note	-	4,100	-	4,100
Total other	4,118	4,962	9,439	7,438
Income before income taxes	22,238	19,079	34,369	33,518
Income taxes	8,673	7,441	13,404	13,072
Net income	\$13,565	\$11,638	\$20,965	\$20,446
Recurring net income (a)	\$14,421	\$14,297	\$23,167	\$24,182
Weighted average shares outstanding	44,349	53,092	44,759	53,038
Diluted shares outstanding	44,778	53,534	45,174	53,688
Diluted earnings per share	\$0.30	\$0.22	\$0.46	\$0.38
Diluted recurring earnings per share				
(a)	\$0.32	\$0.27	\$0.51	\$0.45

(a) Recurring net income and diluted recurring earnings per share exclude the impact of the equity loss-Friendly Hotels, gain on sale of investments and the loss on early prepayment of note, after the effect of income taxes.

Choice Hotels International, Inc.  
Consolidated Statements of Cash Flows  
(Unaudited)

(In thousands)	Six Months Ended	
	June 30, 2001	June 30, 2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$20,965	\$20,446
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	5,892	5,555
Deferred income taxes and other	(3,452)	7,779
Equity loss on Friendly Hotels plc	2,921	1,889
Non-cash interest and dividend income	(2,117)	(7,668)
Write-off of deferred financing costs	650	-
Provision for bad debts	124	(433)
Loss on early prepayment of note	-	4,100
Changes in assets and liabilities:		
Change in income taxes payable/receivable and other	6,994	(2,417)
Change in accounts payable and accrued expenses	(4,592)	(10,115)
Change in receivables	(260)	1,499
NET CASH PROVIDED BY OPERATING ACTIVITIES	27,125	20,635
CASH FLOW FROM INVESTING ACTIVITIES:		
Proceeds from Sunburst Hospitality Corp. note receivable	101,954	-
Repayments from/(advances to) marketing and reservation funds, net	10,795	(20,412)
Investment in property and equipment	(7,627)	(9,321)
Other items, net	33	1,370
NET CASH PROVIDED (UTILIZED) BY INVESTING ACTIVITIES	105,155	(28,363)

# CASH FLOW FROM FINANCING ACTIVITIES:

Principal payments of long-term borrowings	(356,461)	(31,585)
Proceeds from long-term borrowings, net of financing costs	344,392	60,300
Purchase of treasury stock	(134,552)	(16,465)
Proceeds from exercise of stock options	1,638	1,201

NET CASH (UTILIZED) PROVIDED BY FINANCING ACTIVITIES	(144,983)	13,451
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Net change in cash and cash equivalents	(12,703)	5,723
Cash and cash equivalents, beginning of period	19,701	11,850

CASH AND CASH EQUIVALENTS, END OF PERIOD	\$6,998	\$17,573
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## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments during the period for:

Income taxes, net of refunds	\$10,250	\$7,989
Interest	10,095	11,446

Non-cash investing activities:

Property assumed through the restructuring of Sunburst Hospitality Corp. note receivable	1,475	-
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## Choice Hotels International Supplemental Operating Information By Brand Domestic Hotel System (Unaudited)

For the Quarter  
Ended Six Months Ended  
June 30, June 30,  
2001 2000 2001 2000

### COMFORT INN

Hotels	1,276	1,265	1,276	1,265
Rooms	100,029	99,124	100,029	99,124
Avg. Daily Rate (ADR)	\$62.87	\$60.51	\$61.36	\$58.89
Occupancy %	62.7%	65.0%	56.5%	57.6%
RevPAR	\$39.44	\$39.35	\$34.68	\$33.92

### COMFORT SUITES

Hotels	295	250	295	250
Rooms	23,267	20,141	23,267	20,141
Avg. Daily Rate (ADR)	\$73.54	\$71.49	\$72.45	\$70.29
Occupancy %	66.0%	68.3%	61.0%	62.1%
RevPAR	\$48.54	\$48.85	\$44.22	\$43.66

### QUALITY

Hotels	428	432	428	432
Rooms	48,400	48,990	48,400	48,990
Avg. Daily Rate (ADR)	\$65.76	\$63.60	\$63.69	\$61.21
Occupancy %	58.1%	59.3%	52.6%	52.4%
RevPAR	\$38.17	\$37.72	\$33.49	\$32.08

### CLARION

Hotels	113	113	113	113
Rooms	17,972	18,892	17,972	18,892
Avg. Daily Rate (ADR)	\$78.91	\$82.09	\$77.44	\$80.17
Occupancy %	57.1%	62.5%	52.0%	55.6%
RevPAR	\$45.03	\$51.32	\$40.28	\$44.54

### SLEEP

Hotels	274	247	274	247
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Rooms	21,171	18,825	21,171	18,825
Avg. Daily Rate (ADR)	\$57.54	\$55.42	\$55.78	\$53.87
Occupancy %	60.6%	62.3%	54.7%	55.0%
RevPAR	\$34.89	\$34.53	\$30.49	\$29.64

#### MAINSTAY

Hotels	38	32	38	32
Rooms	3,372	2,958	3,372	2,958
Avg. Daily Rate (ADR)	\$64.11	\$62.76	\$63.78	\$60.87
Occupancy %	67.3%	71.6%	63.2%	66.1%
RevPAR	\$43.13	\$44.93	\$40.28	\$40.21

#### ECONO LODGE

Hotels	680	682	680	682
Rooms	42,418	42,906	42,418	42,906
Avg. Daily Rate (ADR)	\$46.47	\$45.11	\$44.91	\$43.64
Occupancy %	52.6%	53.7%	47.7%	47.4%
RevPAR	\$24.45	\$24.24	\$21.41	\$20.70

#### RODEWAY

Hotels	145	155	145	155
Rooms	9,558	10,209	9,558	10,209
Avg. Daily Rate (ADR)	\$47.30	\$46.30	\$45.57	\$44.64
Occupancy %	48.6%	50.8%	44.7%	45.5%
RevPAR	\$23.00	\$23.53	\$20.36	\$20.31

#### TOTAL CHOICE - DOMESTIC

Hotels	3,249	3,176	3,249	3,176
Rooms	266,187	262,045	266,187	262,045
Avg. Daily Rate (ADR)	\$62.21	\$60.56	\$60.69	\$58.88
Occupancy %	59.6%	61.6%	54.1%	54.6%
RevPAR	\$37.10	\$37.28	\$32.82	\$32.17
Effective Royalty Rate	3.94%	3.79%	3.91%	3.81%

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SOURCE: Choice Hotels International

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