

Choice Hotels Enhances Franchisee Support Services And Streamlines Operations

Choice to Receive Approximately \$102 Million in Cash From Sunburst

PRNewswire

Company to Take Charges Totaling \$17.0 Million
Resulting in Reduction of \$0.19 in Fourth Quarter Diluted EPS

SILVER SPRING, Md., Dec. 21 /PRNewswire/ -- Choice Hotels International, Inc., the world's second largest hotel franchiser, today announced a corporate wide reorganization designed to provide more consistent service for franchisees and create a more competitive overhead structure. Choice will take a charge of up to \$6.0 million related to this restructuring in the fourth quarter.

The Company also announced that Sunburst Hospitality Corporation intends to monetize \$25 million of the remaining \$60 million note receivable from Sunburst. This monetization would lead to a charge in the fourth quarter of approximately \$4.0 million. As a result, the aggregate cash proceeds Choice will receive from Sunburst will total approximately \$102 million. These cash proceeds will be available in January 2001 and will be used principally to pay down debt, pursue strategic investments and repurchase shares. The Company will also take an equity loss of approximately \$7.0 million related to its investment in Friendly Hotels plc, a U.K. based hotel operator. The equity loss reflects the impact of Friendly's recently announced restructuring and asset disposition plan.

These charges could result in a reduction in diluted earnings per share for the fourth quarter of up to \$0.19.

"We are taking actions to make Choice a more focused and competitive organization," said Charles A. Ledsinger, Jr., president and chief executive officer of Choice Hotels. "Taken together, these initiatives will improve our operations, strengthen our balance sheet and better position us for growth, allowing us to generate strong financial performance and deliver enhanced value to our shareholders."

Reorganization

The reorganization of U.S. operations has two fundamental objectives: to improve service and support to Choice's franchisees and to create a focused, more competitive overhead structure. The reorganization will improve communication between teams providing initial training and support for new hotels and the teams that work with franchisees on an ongoing basis. In addition, the number of regional offices will be reduced from five to three, franchise sales activities will be centralized in Silver Spring, MD, and marketing operations will be realigned to focus on developing new ways to drive business to hotels. The level of property systems installation support was also significantly decreased as the Company neared completion of the deployment of its property management system. Brand management will be consolidated into four segments: Emerging Brands (Sleep and MainStay); Economy Brands (Econo Lodge and Rodeway Inn), and two core brands, one for Quality and Clarion, the other for Comfort Inn and Comfort Suites. Several overseas offices will be closed as a part of the Company's program to streamline operations. The reorganization is expected to result in a net reduction of nearly 140 positions. The reorganization charge also included the costs related to the termination of an in-room internet initiative, which the Company launched earlier in the year.

Ledsinger added: "We looked across our company with an eye toward creating a more value-added approach to serving franchisees and delivering business to their hotels. We also examined how we can increase our development of new hotels and improve our franchise sales operations. We believe the reorganization will improve our operations while reducing operating costs."

Sunburst Note

On September 16, 2000, Choice announced it would receive approximately \$76 million in cash plus accrued interest and a seven-year, 11-3/8% senior subordinated note in the amount of \$60 million from Sunburst Hospitality Corporation. Sunburst has recently informed the Company of its intention to monetize a portion of this subordinated debt, which will result in the Company receiving in early January a total of approximately \$102 million in cash and an approximately \$35 million senior subordinated note.

"The monetizing of the note receivable will provide Choice with additional resources to pay down debt, invest selectively in strategic initiatives, and repurchase shares," said Ledsinger.

Friendly Hotels

In Europe, Friendly Hotels plc has announced a comprehensive restructuring program to strengthen its balance sheet and improve its operations. Elements of the restructuring program includes a revaluation of its real estate portfolio, disposal of non-core assets, renegotiation of certain commercial arrangements with Choice, and a future strategy focused on growth of its franchising business. To improve Friendly's competitive position in Europe, Choice has agreed to forgive certain royalty fees due over the next five years and to provide Friendly with a letter of credit in an amount up to #7.8 million (approximately US \$11.5 million) to guarantee additional credit facilities from Friendly's banks. The Choice letter of credit will be secured by substantially all of Friendly's assets in France and Germany, valued in excess of #8 million (approximately US \$11.8 million). In consideration for this support, Friendly will increase the conversion rate from 0.67 ordinary shares for each of Choice's convertible preferred shares to 1.67 ordinary shares for each convertible preferred share. The effect of this change in conversion price is to increase Choice's fully diluted ownership in Friendly from the current level of 44% to approximately 69%. As a result of this restructuring initiative, Choice will record an equity loss of approximately \$7.0 million.

About Choice Hotels

Choice Hotels International is the second largest hotel franchiser in the world with 4,371 hotels open, representing 349,392 rooms, and another 694 hotels under development, representing 61,244 rooms, in 41 countries as of September 30, 2000. Its Comfort, Quality, Clarion, Sleep Inn, Econo Lodge, Rodeway Inn and MainStay Suites brands serve guests worldwide. 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 and ChoiceBuys.com are registered trademarks and service marks of Choice Hotels International, Inc.

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 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.

SOURCE: Choice Hotels International, Inc.

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