

CHOICE HOTELS INTERNATIONAL INC /DE

Form 10-Q

November 10, 2008

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

COMMISSION FILE NO. 001-13393

CHOICE HOTELS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

52-1209792
(I.R.S. Employer
Identification No.)

10750 COLUMBIA PIKE
SILVER SPRING, MD. 20901
(Address of principal executive offices)

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

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

CLASS
Common Stock, Par Value \$0.01 per share

SHARES OUTSTANDING AT SEPTEMBER 30, 2008
62,865,034

Table of Contents

CHOICE HOTELS INTERNATIONAL, INC. AND SUBSIDIARIES

INDEX

	PAGE NO.
<u>PART I. FINANCIAL INFORMATION:</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	3
<u>Consolidated Statements of Income For the three and nine months ended September 30, 2008 and September 30, 2007</u>	3
<u>Consolidated Balance Sheets As of September 30, 2008 and December 31, 2007</u>	4
<u>Consolidated Statements of Cash Flows For the nine months ended September 30, 2008 and September 30, 2007</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	35
<u>Item 4. Controls and Procedures</u>	36
<u>PART II. OTHER INFORMATION:</u>	
<u>Item 1. Legal Proceedings</u>	36
<u>Item 1A. Risk Factors</u>	36
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
<u>Item 3. Defaults Upon Senior Securities</u>	37
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	37
<u>Item 5. Other Information</u>	37
<u>Item 6. Exhibits</u>	37
<u>SIGNATURE</u>	39

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CHOICE HOTELS INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(UNAUDITED, IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
REVENUES:				
Royalty fees	\$ 76,595	\$ 73,219	\$ 188,151	\$ 175,723
Initial franchise and relicensing fees	7,012	8,902	21,202	21,482
Procurement services (formerly brand solutions)	3,836	3,622	13,650	12,603
Marketing and reservation	100,811	85,485	254,573	226,864
Hotel operations	1,353	1,196	3,683	3,485
Other	1,604	2,675	5,927	6,362
Total revenues	191,211	175,099	487,186	446,519
OPERATING EXPENSES:				
Selling, general and administrative	25,579	24,230	83,409	73,735
Depreciation and amortization	2,038	2,158	6,165	6,410
Marketing and reservation	100,811	85,485	254,573	226,864
Hotel operations	914	867	2,540	2,402
Total operating expenses	129,342	112,740	346,687	309,411
Operating income	61,869	62,359	140,499	137,108
OTHER INCOME AND EXPENSES, NET:				
Interest expense	2,157	3,992	8,687	10,206
Interest and other investment (income) loss	2,402	(534)	3,329	(2,856)
Equity in net income of affiliates	(436)	(462)	(938)	(837)
Total other income and expenses, net	4,123	2,996	11,078	6,513
Income before income taxes	57,746	59,363	129,421	130,595
Income taxes	21,831	20,969	47,921	47,241
Net income	\$ 35,915	\$ 38,394	\$ 81,500	\$ 83,354
Weighted average shares outstanding-basic	62,316	63,556	62,084	64,929
Weighted average shares outstanding-diluted	62,887	64,602	62,778	66,077
Basic earnings per share	\$ 0.58	\$ 0.60	\$ 1.31	\$ 1.28

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Diluted earnings per share	\$ 0.57	\$ 0.59	\$ 1.30	\$ 1.26
Cash dividends declared per share	\$ 0.185	\$ 0.17	\$ 0.525	\$ 0.47

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

Table of Contents**CHOICE HOTELS INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(UNAUDITED, IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**

	September 30, 2008	December 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 62,527	\$ 46,377
Receivables (net of allowance for doubtful accounts of \$3,978 and \$4,213, respectively)	48,919	40,855
Deferred income taxes	6,673	2,387
Investments, employee benefit plans, at fair value	10,676	1,002
Income taxes receivable		1,698
Other current assets	16,693	13,632
Total current assets	145,488	105,951
Property and equipment, at cost, net	43,654	43,887
Goodwill	65,813	65,813
Franchise rights and other identifiable intangibles, net	29,069	31,979
Receivable marketing fees	12,256	6,782
Investments, employee benefit plans, at fair value	19,524	33,488
Deferred income taxes	24,059	29,205
Other assets	10,067	11,279
Total assets	\$ 349,930	\$ 328,384
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current liabilities		
Accounts payable	\$ 38,987	\$ 55,288
Accrued expenses	36,500	40,907
Deferred revenue	49,897	48,660
Income taxes payable	16,679	1,659
Deferred compensation and retirement plan obligations	11,033	1,002
Total current liabilities	153,096	147,516
Long-term debt	234,400	272,378
Deferred compensation and retirement plan obligations	34,373	43,132
Other liabilities	18,568	22,419
Total liabilities	440,437	485,445
Commitments and contingencies		
SHAREHOLDERS DEFICIT		
Common stock, \$0.01 par value, 160,000,000 shares authorized; 95,345,362 shares issued at September 30, 2008 and December 31, 2007 and 62,865,034 and 62,091,679 shares outstanding at September 30, 2008 and December 31, 2007,	629	621
Additional paid-in capital	88,036	86,243
Accumulated other comprehensive income	(1,253)	346
Treasury stock (32,480,328 and 33,253,683 shares at September 30, 2008 and December 31, 2007, respectively), at cost	(780,564)	(798,110)

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Retained earnings	602,645	553,839
Total shareholders deficit	(90,507)	(157,061)
Total liabilities and shareholders deficit	\$ 349,930	\$ 328,384

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

Table of Contents**CHOICE HOTELS INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED, IN THOUSANDS)**

	Nine Months Ended September 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 81,500	\$ 83,354
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,165	6,410
Provision for bad debts	870	133
Non-cash stock compensation and other charges	9,989	9,080
Non-cash interest and other (income) loss	4,489	(1,599)
Dividends received from equity method investments	673	495
Equity in net income of affiliates	(938)	(837)
Changes in assets and liabilities, net of acquisitions:		
Receivables	(8,646)	(11,680)
Receivable - marketing and reservation fees, net	(3,803)	17,248
Accounts payable	(16,061)	(952)
Accrued expenses	(5,416)	(9,507)
Income taxes payable/receivable	16,750	8,523
Deferred income taxes	782	(9,034)
Deferred revenue	1,292	(80)
Other assets	2,465	(432)
Other liabilities	2,280	9,040
Net cash provided by operating activities	92,391	100,162
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in property and equipment	(7,873)	(8,734)
Acquisitions, net of cash acquired		(343)
Issuance of notes receivable	(6,411)	(6,066)
Collections of notes receivable	368	1,675
Purchases of investments, employee benefit plans	(6,908)	(7,128)
Proceeds from sale of investments, employee benefit plans	6,857	2,703
Other items, net	(965)	(689)