CHOICE HOTELS INTERNATIONAL INC /DE
Form 10-Q
November 07, 2012
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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, 2012
OR
o 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	52-1209792
(State or other jurisdiction of incorporation or organization)	(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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months. Yes x No o

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	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o

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

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CLASS	SHARES OUSTANDING AT SEPTEMBER 30, 2012
Common Stock, Par Value $0.01 per share	58,053,476

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CHOICE HOTELS INTERNATIONAL, INC. AND SUBSIDIARIES
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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,	
	2012	2011	2012	2011
REVENUES:				
Royalty fees	$80,845	$77,090	$194,762	$182,504
Initial franchise and relicensing fees	3,247	3,583	8,953	9,083
Procurement services	3,839	4,103	13,990	14,037
Marketing and reservation	119,062	104,393	284,624	258,192
Hotel operations	1,238	1,236	3,440	3,173
Other	2,182	1,916	7,434	5,914
Total revenues	210,413	192,321	513,203	472,903
OPERATING EXPENSES:				
Selling, general and administrative	23,170	22,555	72,073	72,941
Depreciation and amortization	1,995	2,073	5,989	5,976
Marketing and reservation	119,062	104,393	284,624	258,192
Hotel operations	933	900	2,609	2,593
Total operating expenses	145,160	129,921	365,295	339,702
Operating income	65,253	62,400	147,908	133,201
OTHER INCOME AND EXPENSES, NET:				
Interest expense	10,166	3,228	16,823	9,719
Interest income	(425)	(506)	(1,156)	(937)
Loss on extinguishment of debt	526	—	526	—
Other (gains) and losses	(511)	2,673	(2,137)	3,678
Equity in net (income) loss of affiliates	(171)	39	12	(262)
Total other income and expenses, net	9,585	5,434	14,068	12,198
Income before income taxes	55,668	56,966	133,840	121,003
Income taxes	11,291	14,664	37,604	35,393
Net income	$44,377	$42,302	$96,236	$85,610
Basic earnings per share	$0.77	$0.71	$1.66	$1.43
Diluted earnings per share	$0.76	$0.71	$1.65	$1.43

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

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CHOICE HOTELS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED, IN THOUSANDS)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	$44,377	$42,302	$96,236	$85,610
Other comprehensive income (loss), net of tax:				
Amortization of loss on cash flow hedge	215	215	646	646
Foreign currency translation adjustment, net	211	(1,167)	191	(164)
Amortization of pension related costs, net of tax:				
Actuarial loss (net of income tax of $12 and $36 for the three and nine months ended September 30, 2012, respectively)	20	—	60	—
Actuarial pension loss (net of income tax of $6 for the nine months ended September 30, 2011)	—	—	—	(10)
Other comprehensive income (loss), net of tax	446	(952)	897	472
Comprehensive income	$44,823	$41,350	$97,133	$86,082

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

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CHOICE HOTELS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED, IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	September 30, 2012	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	$115,064	$107,057
Receivables (net of allowance for doubtful accounts of $10,885 and $9,979, respectively)	66,196	53,012
Investments, employee benefit plans, at fair value	3,668	12,094
Other current assets	29,749	22,633
Total current assets	214,677	194,796
Property and equipment, at cost, net	52,822	51,992
Goodwill	66,006	66,005
Franchise rights and other identifiable intangibles, net	14,554	17,255
Receivable – marketing and reservation fees	46,249	54,014
Investments, employee benefit plans, at fair value	12,530	11,678
Deferred income taxes	22,962	22,665
Other assets	53,271	29,284
Total assets	$483,071	$447,689
LIABILITIES AND SHAREHOLDERS’ DEFICIT		
Current liabilities		
Accounts payable	$44,245	$38,389
Accrued expenses	43,539	53,851
Deferred revenue	76,949	68,825
Deferred compensation and retirement plan obligations	17,870	18,935
Current portion of long-term debt	10,065	673
Deferred income taxes	2,820	2,784
Income taxes payable	11,686	1,108
Total current liabilities	207,174	184,565
Long-term debt	808,911	252,032
Deferred compensation and retirement plan obligations	19,992	20,593
Other liabilities	16,391	16,060
Total liabilities	1,052,468	473,250
Commitments and Contingencies		
SHAREHOLDERS’ DEFICIT		
Common stock, $0.01 par value, 160,000,000 shares authorized; 95,345,362 shares issued at September 30, 2012 and December 31, 2011 and 58,053,476 and 58,277,646 shares outstanding at September 30, 2012 and December 31, 2011, respectively	581	583
Additional paid-in capital	107,939	102,665
Accumulated other comprehensive loss	(5,904)	(6,801)
Treasury stock (37,291,886 and 37,067,716 shares at September 30, 2012 and December 31, 2011, respectively), at cost	(930,487)	(916,955)
Retained earnings	258,474	794,947
Total shareholders’ deficit	(569,397)	(25,561)
Total liabilities and shareholders’ deficit	$483,071	$447,689

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

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

	Nine Months Ended September 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$96,236	$85,610
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,989	5,976
Provision for bad debts, net	1,802	845
Non-cash stock compensation and other charges	7,306	10,262
Non-cash interest and other (income) loss	(633)	3,079
Loss on extinguishment of debt	526	—
Dividends received from equity method investments	855	316
Equity in net (income) loss of affiliates	12	(262)
Changes in assets and liabilities:		
Receivables	(17,405)	(15,494)
Receivable – marketing and reservation fees, net	20,811	(1,474)
Accounts payable	5,980	4,468
Accrued expenses	(10,309)	(10,584)
Income taxes payable/receivable	12,786	14,354
Deferred income taxes	(1,627)	2,839
Deferred revenue	8,018	9,375
Other assets	(7,458)	(556)
Other liabilities	(1,613)	(2,861)
Net cash provided by operating activities	121,276	105,893
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in property and equipment	(12,525)	(8,129)
Equity method investments	(9,454)	(3,600)
Issuance of notes receivable	(7,305)	(4,320)
Collections of notes receivable	326	15
Purchases of investments, employee benefit plans	(1,191)	(1,051)
Proceeds from sales of investments, employee benefit plans	10,909	566
Other items, net	(322)	(312)
Net cash used in investing activities	(19,562)	(16,831)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (repayments) pursuant to revolving credit facilities	16,725	(200)
Proceeds from issuance of long-term debt	543,500	75
Repayments of long-term debt	(502)	(74)
Purchase of treasury stock	(22,227)	(24,796)
Dividends paid	(632,751)	(32,923)
Excess tax benefits from stock-based compensation	793	1,108
Debt issuance costs	(4,753)	(2,356)
Proceeds from exercise of stock options	4,695	3,726
Net cash used by financing activities	(94,520)	(55,440)
Net change in cash and cash equivalents	7,194	33,622
Effect of foreign exchange rate changes on cash and cash equivalents	813	(147)
Cash and cash equivalents at beginning of period	107,057	91,259

Cash and cash equivalents at end of period	$115,064	$124,734
Supplemental disclosure of cash flow information:		
Cash payments during the period for:		
Income taxes, net of refunds	$25,700	$17,222
Interest	$15,666	$15,098
Non-cash investing and financing activities:		
Declaration of dividends	$632,710	$32,846
Capital lease obligation	$—	$1,053
Issuance of restricted shares of common stock	$9,517	$9,604
Issuance of treasury stock to employee stock purchase plan	$—	$550
Debt issuance costs	$6,500	$—

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

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CHOICE HOTELS INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Company Information and Significant Accounting Policies

The accompanying unaudited consolidated financial statements of Choice Hotels International, Inc. and subsidiaries (together the "Company") have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). These unaudited consolidated financial statements include all adjustments that are necessary, in the opinion of management, to fairly present our financial position and results of operations. Except as otherwise disclosed, all adjustments are of a normal recurring nature.

Certain information and footnote disclosures normally included in financial statements presented in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted. The year-end balance sheet information was derived from audited financial statements, but does not include all disclosures required by GAAP. The Company believes the disclosures made are adequate to make the information presented not misleading.

The consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2011 and notes thereto included in the Company's Form 10-K, filed with the SEC on February 29, 2012 (the "10-K"). Interim results are not necessarily indicative of the entire year results because of seasonal variations. All inter-company transactions and balances between Choice Hotels International, Inc. and its subsidiaries have been eliminated in consolidation.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation with no effect on previously reported net income, cash flows or shareholders' deficit.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less at the date of purchase to be cash equivalents. As of September 30, 2012 and December 31, 2011, $2.6 million and $4.4 million respectively, of book overdrafts representing outstanding checks in excess of funds on deposit are included in accounts payable in the accompanying consolidated balance sheets.

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

Recently Adopted Accounting Guidance

The Company adopted Accounting Standards Update ("ASU") No. 2011-08, "Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment" ("ASU No. 2011-08") in the first quarter of 2012. The guidance, which was issued in September 2011, reduces the complexity and costs by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. The amendment improves previous guidance by expanding upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Furthermore, the amendment improves the examples of events and circumstances that an entity having a reporting unit with a zero or negative carrying amount should consider in determining whether to measure an impairment loss, if any, under the second step of the goodwill impairment test. The Company performs its annual goodwill impairment test in the fourth quarter and does not expect the adoption of this ASU to significantly impact its consolidated financial statements.

The Company adopted ASU No. 2011-05 "Comprehensive Income (Topic 220): Presentation of Comprehensive Income" ("ASU No. 2011-05") in the first quarter of 2012. ASU No. 2011-05, which was issued in June 2011, amends existing guidance by allowing only two options for presenting the components of net income and other comprehensive income: (1) in a single continuous financial statement, statement of comprehensive income or (2) in two separate but consecutive financial statements, consisting of an income statement followed by a separate statement of other comprehensive income.

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Additionally, the Company adopted ASU No. 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05” ("ASU 2011-12"), which was issued in December 2011. ASU 2011-12 defers until further notice ASU No. 2011-05's requirement that items that are reclassified from other comprehensive income to net income be presented on the face of the financial statements. ASU No. 2011-05 required retrospective application. The Company has elected to present other comprehensive income in a separate statement following the consolidated statements of income.

The Company adopted ASU No. 2011-04 “Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs” (“ASU No. 2011-04”) in the first quarter of 2012. ASU No. 2011-04 generally provides a uniform framework for fair value measurements and related disclosures between U.S. GAAP and International Financial Reporting Standards (“IFRS”). Additional disclosure requirements in the update include: (1) for Level 3 fair value measurements, quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements to changes in the unobservable inputs; (2) for an entity’s use of a non-financial asset that is different from the asset’s highest and best use, the reason for the difference; (3) for financial instruments not measured at fair value but for which disclosure of fair value is required, the fair value hierarchy level in which the fair value measurements were determined; and (4) the disclosure of all transfers between Level 1 and Level 2 of the fair value hierarchy. The adoption of this update did not have a material impact on our financial statements.

The Company adopted ASU 2012-02, “Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment” ("ASU No. 2012-02") in the third quarter of 2012. The guidance, which was issued in July 2012, amends the indefinite-lived intangible asset impairment guidance by providing an option for companies to use a qualitative approach to test indefinite-lived intangible assets for impairment if certain conditions are met. The amendments are effective for annual and interim indefinite-lived intangible asset impairment tests performed for fiscal years beginning after September 15, 2012 (early adoption is permitted). The Company performs its annual indefinite-lived intangible asset impairment tests in the fourth quarter and does not expect the adoption of this ASU to significantly impact its consolidated financial statements.

2. Other Current Assets

Other current assets consist of the following:

	September 30, 2012	December 31, 2011
	(In thousands)	
Land held for sale	$10,203	$10,141
Prepaid expenses	10,191	8,202
Notes receivable (See Note 3)	6,527	3,104
Other current assets	2,828	1,186
Total	$29,749	$22,633

Land held for sale represents the Company’s purchase of various parcels of real estate as part of its program to incent franchise development in strategic markets for certain brands. The Company has acquired this real estate with the intent to resell it to third-party developers for the construction of hotels operated under the Company’s brands. The real estate is accounted for as assets held for sale and therefore is carried at the lower of its carrying value or its estimated fair value (based on comparable sales), less estimated costs to sell.

3. Notes Receivable and Allowance for Losses

The Company segregates its notes receivable for the purposes of evaluating allowances for credit losses between two categories: Mezzanine and Other Notes Receivable and Forgivable Notes Receivable. The Company utilizes the level of security it has in the various notes receivable as its primary credit quality indicator (i.e. senior, subordinated or unsecured) when determining the appropriate allowances for uncollectible loans within these categories.

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The following table shows the composition of our notes receivable balances:

Credit Quality Indicator	September 30, 2012 ($ in thousands) Forgivable Notes Receivable	Mezzanine & Other Notes Receivable	Total	December 31, 2011 ($ in thousands) Forgivable Notes Receivable	Mezzanine & Other Notes Receivable	Total
Senior	$—	$11,191	$11,191	$—	$7,900	$7,900
Subordinated	—	14,984	14,984	—	13,992	13,992
Unsecured	8,561	631	9,192	7,948	—	7,948
Total notes receivable	8,561	26,806	35,367	7,948	21,892	29,840
Allowance for losses on non-impaired loans	856	309	1,165	795	225	1,020
Allowance for losses on receivables specifically evaluated for impairment	—	8,289	8,289	—	8,208	8,208
Total loan reserves	856	8,598	9,454	795	8,433	9,228
Net carrying value	$7,705	$18,208	$25,913	$7,153	$13,459	$20,612
Current portion, net	$150	$6,377	$6,527	$102	$3,002	$3,104
Long-term portion, net	7,555	11,831	19,386	7,051	10,457	17,508
Total	$7,705	$18,208	$25,913	$7,153	$13,459	$20,612

The Company classifies notes receivable due within one year as other current assets and notes receivable with a maturity greater than one year as other assets in the Company’s consolidated balance sheets.
The following table summarizes the activity related to the Company’s Forgivable Notes Receivable and Mezzanine and Other Notes Receivable allowance for losses from December 31, 2011 through September 30, 2012:

	Forgivable Notes Receivable (In thousands)	Mezzanine & Other Notes Receivable
Balance, December 31, 2011	$795	$8,433
Provisions	292	262
Recoveries	(33)	(97)
Write-offs	(214)	—
Other[(1)]	16	—
Balance, September 30, 2012	$856	$8,598

(1) Consists of default rate assumption changes

Forgivable Notes Receivable

As of September 30, 2012 and December 31, 2011, the unamortized balance of the Company's forgivable notes receivable totaled $8.6 million and $7.9 million, respectively. The Company recorded an allowance for credit losses on these forgivable notes receivable of $0.9 million and $0.8 million at September 30, 2012 and December 31, 2011, respectively. At September 30, 2012 and December 31, 2011, the Company did not have any forgivable unsecured notes that were past due. Amortization expense included in the accompanying consolidated statements of income related to the notes was $0.7 million and $2.0 million for the three and nine months ended September 30, 2012, respectively. Amortization expense for the three and nine months ended September 30, 2011 was $0.6 million and $1.7 million, respectively.

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Mezzanine and Other Notes Receivable

The Company has determined that approximately $12.7 million and $11.2 million of its mezzanine and other notes receivable were impaired at September 30, 2012 and December 31, 2011, respectively. The Company has recorded allowance for credit losses on these impaired loans at September 30, 2012 and December 31, 2011 totaling $8.3 million and $8.2 million resulting in a carrying value of impaired loans of $4.4 million and $3.0 million, respectively for which we had no related allowance for credit losses. The Company recognized approximately $38 thousand and $100 thousand of interest income on impaired loans during the three and nine months ended September 30, 2012, respectively, on the cash basis. The Company did not recognize any interest on an accrual or cash basis on its impaired loans during the three and nine months ended September 30, 2011. The Company had provided loan reserves on non-impaired loans totaling $0.3 million and $0.2 million at September 30, 2012 and December 31, 2011, respectively.

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

	30-89 days Past Due ($ in thousands)	> 90 days Past Due	Total Past Due	Current	Total Receivables
As of September 30, 2012					
Senior	$—	$—	$—	$11,191	$11,191
Subordinated	—	9,629	9,629	5,355	14,984
Unsecured	—	$47	$47	$584	$631
	$—	$9,676	$9,676	$17,130	$26,806
As of December 31, 2011					
Senior	$—	$—	$—	$7,900	$7,900
Subordinated	—	9,773	9,773	4,219	13,992
	$—	$9,773	$9,773	$12,119	$21,892

Loans Acquired with Deteriorated Credit Quality

On December 2, 2011, the Company acquired an $11.5 million mortgage, held on a franchisee hotel asset, from a financial institution for $7.9 million. At both September 30, 2012 and December 31, 2011, the carrying amount of this loan, which is reported under senior mezzanine and other notes receivables, was $7.9 million and there was no allowance for uncollectable amounts. The Company's accretable yield at acquisition was $1.8 million or 7.36% and a reconciliation of the accretable yield for the nine months ended September 30, 2012 is as follows:

	Accretable Yield ($ in thousands)
Balance, December 31, 2011	$1,793
Additions	—
Accretion	(388)
Disposals	—
Reclassifications from nonaccretable yield	—
Balance, September 30, 2012	$1,405

4. Receivable – Marketing and Reservation Fees

The marketing fees receivable from cumulative marketing expenses incurred in excess of cumulative marketing fees earned at September 30, 2012 and December 31, 2011 was $14.3 million and $18.5 million, respectively. As of September 30, 2012 and December 31, 2011, the reservation fees receivable related to cumulative reservation expenses incurred in excess of cumulative reservation fees earned was $31.9 million and $35.5 million, respectively. Depreciation and amortization expense attributable to marketing and reservation activities for the three months ended September 30, 2012 and 2011 was $3.7 million and $3.4 million, respectively. Depreciation and amortization expense attributable to marketing and reservation activities for the nine months ended September 30, 2012 and 2011 was $10.7 million and $10.0 million, respectively. Interest expense attributable to marketing and reservation activities was $0.9

million and $1.0 million for the three month periods ended September 30, 2012 and 2011. Interest expense attributable to marketing and reservation activities was $3.0 million for both the nine months ended September 30, 2012 and 2011, respectively.

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The Company evaluates the receivable for marketing and reservation costs in excess of cumulative marketing and reservation system revenues earned on a periodic basis for collectibility. The Company will record an allowance when, based on current information and events, it is probable that it will be unable to collect all amounts due for marketing and reservation activities according to the contractual terms of the franchise agreements. The receivables are considered to be uncollectible if the expected net, undiscounted cash flows from marketing and reservation activities are less than the carrying amount of the asset. Based on the Company's analysis of projected net cash flows from marketing and reservation activities for all periods presented, the Company concluded that the receivable for marketing and reservation activities was fully collectible and as a result no allowance for possible losses was recorded.

5. Other Assets

Other assets consist of the following:

	September 30, 2012	December 31, 2011
	(In thousands)	
Notes receivable (see Note 3)	$19,386	$17,508
Equity method investments	12,959	4,338
Deferred financing fees	11,729	3,351
Land held for sale	1,300	1,300
Other	7,897	2,787
Total	$53,271	$29,284

During the three months ended March 31, 2011, the Company determined that one parcel of land no longer met the criteria to be classified as a current asset held for sale. As a result, the Company reclassified this land to other long-term assets on the Company's consolidated balance sheets at the lower of its carrying amount or fair value. The Company determined that the carrying amount of the land exceeded its estimated fair value by approximately $1.8 million based on comparable sales. As a result, in the first quarter of 2011, the Company reduced the carrying amount of the land to its estimated fair value and recognized a $1.8 million loss in other gains and losses in the consolidated statements of income.

	Fair Value Measurements Using ($ in millions)				
Description	September 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Land held for sale	$1.3	$ —	$1.3	$—	$(1.8)

6. Deferred Revenue

Deferred revenue consists of the following:

	September 30, 2012	December 31, 2011
	(In thousands)	
Loyalty programs	$71,030	$64,636
Initial, relicensing and franchise fees	4,269	3,198
Procurement service fees	1,146	957
Other	504	34
Total	$76,949	$68,825

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7. Debt

Debt consists of the following at:

	September 30, 2012 (In thousands)	December 31, 2011
$400 million senior unsecured notes with an effective interest rate of 5.94% at September 30, 2012	$400,000	$—
$250 million senior unsecured notes with an effective interest rate of 6.19% less discount of $0.5 million and $0.6 million at September 30, 2012 and December 31, 2011, respectively	249,491	249,444
$350 million senior secured credit facility with an effective interest rate of 2.82% at September 30, 2012	166,725	—
Capital lease obligations due 2016 with an effective interest rate of 3.18% at both September 30, 2012 and December 31, 2011, respectively	2,684	3,172
Other notes payable	76	89
Total debt	$818,976	$252,705
Less current portion	10,065	673
Total long-term debt	$808,911	$252,032

Senior Unsecured Notes Due 2022

On June 27, 2012, the Company completed a $400 million unsecured note offering ("the 2012 Senior Notes") at par, bearing a coupon of 5.75% with an effective rate of 5.94%. The 2012 Senior Notes will mature on July 1, 2022, with interest to be paid semi-annually on January 1st and July 1st. The Company used the net proceeds of this offering, after deducting underwriting discounts and commissions and other offering expenses, together with a portion of the proceeds from a new credit facility, to pay the special cash dividend totaling approximately $600.7 million paid to shareholders on August 23, 2012. The Company's 2012 Senior Notes are guaranteed jointly, severally, fully and unconditionally, subject to certain customary limitations by eight 100%-owned domestic subsidiaries.

The Company incurred debt issuance costs in connection with the 2012 Senior Notes totaling approximately $7.5 million, which are included in other current assets and other assets on the Company's consolidated balance sheets. These debt issuance costs are amortized, on a straight-line basis, which is not materially different than the effective interest method, through the maturity of the 2012 Senior Notes. Amortization of these costs is included in interest expense in the consolidated statements of income.

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

Senior Unsecured Notes Due 2020

On August 25, 2010, the Company completed a $250 million senior unsecured note offering (“the 2010 Senior Notes”) at a discount of $0.6 million, bearing a coupon of 5.7% with an effective rate of 6.19%. The 2010 Senior Notes will mature on August 28, 2020, with interest to be paid semi-annually on February 28th and August 28th. The Company used the net proceeds from the offering, after deducting underwriting discounts and other offering expenses, to repay outstanding borrowings and for other general corporate purposes. The Company's 2010 Senior Notes are guaranteed jointly, severally, fully and unconditionally, subject to certain customary limitations by eight 100%-owned domestic subsidiaries.

Revolving Credit Facilities

On July 25, 2012, the Company entered into a $350 million senior secured credit facility, comprised of a $200 million revolving credit tranche (the "New Revolver") and a $150 million term loan tranche (the "Term Loan") with Deutsche Bank AG New York Branch, as administrative agent, Wells Fargo Bank, National Association, as administrative agent and a syndication of lenders (the "New Credit Facility"). The New Credit Facility has a final maturity date of July 25, 2016, subject to an optional one-year extension provided certain conditions are met. Up to $25 million of the borrowings under the New Revolver may be used for letters of credit, up to $10 million of borrowings under the New Revolver may be used for swing-line loans and up to $35 million of borrowings under the New Revolver may be used for alternative currency loans. The Term Loan

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requires quarterly amortization payments (a) during the first two years, in equal installments aggregating 5% of the original principal amount of the Term Loan per year, (b) during the second two years, in equal installments aggregating 7.5% of the original principal amount of the Term Loan per year, and (c) during the one-year extension period (if exercised), equal installments aggregating 10% of the original principal amount of the Term Loan.

The Company utilized the proceeds from the Term Loan and borrowings from the New Revolver, together with the net proceeds from the Company's recently issued senior notes offering, to pay during 2012 the special cash dividend of approximately $600.7 million in the aggregate to the Company's stockholders on August 23, 2012.

The New Credit Facility is unconditionally guaranteed, jointly and severally, by certain of the Company's domestic subsidiaries. The subsidiary guarantors currently include all subsidiaries that guarantee the obligations under the Company's Indenture governing the terms of its 2010 and 2012 Senior Notes.

The New Credit Facility is secured by first priority pledges of (i) 100% of the ownership interests in certain domestic subsidiaries owned by the Company and the guarantors, (ii) 65% of the ownership interests in (a) Choice Netherlands Antilles N.V. (“Choice NV”), the top-tier foreign holding company of Choice's foreign subsidiaries, and (b) the domestic subsidiary that owns Choice NV and (iii) all presently existing and future domestic franchise agreements (the “Franchise Agreements”) between the Company and individual franchisees, but only to the extent that the Franchise Agreements may be pledged without violating any law of the relevant jurisdiction or conflicting with any existing contractual obligation of the Company or the applicable franchisee. At the time that the maximum total leverage ratio is required to be no greater than 4.0 to 1.00 (beginning of year 4 of the New Credit Facility), the security interest in the Franchise Agreements will be released.

The Company may at any time prior to the final maturity date increase the amount of the New Credit Facility by up to an additional $100 million