GENWORTH FINANCIAL INC
Form 10-Q
May 03, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2017

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 001-32195

GENWORTH FINANCIAL, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware **(State or Other Jurisdiction of** **Incorporation or Organization)**	**80-0873306** **(I.R.S. Employer** **Identification Number)**
6620 West Broad Street **Richmond, Virginia** **(Address of Principal Executive Offices)**	**23230** **(Zip Code)**

(804) 281-6000

(Registrant s Telephone Number, Including Area Code)

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 No

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 (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definition 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	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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 Exchange Act). Yes No

As of April 27, 2017, 498,948,884 shares of Class A Common Stock, par value $0.001 per share, were outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except per share amounts)

	March 31, 2017 (Unaudited)	December 31, 2016
Assets		
Investments:		
Fixed maturity securities available-for-sale, at fair value	$ 60,597	$ 60,572
Equity securities available-for-sale, at fair value	709	632
Commercial mortgage loans	6,107	6,111
Restricted commercial mortgage loans related to securitization entities	122	129
Policy loans	1,761	1,742
Other invested assets	2,272	2,071
Restricted other invested assets related to securitization entities, at fair value	84	312
Total investments	71,652	71,569
Cash and cash equivalents	3,018	2,784
Accrued investment income	717	659
Deferred acquisition costs	3,207	3,571
Intangible assets and goodwill	381	348
Reinsurance recoverable	17,681	17,755
Other assets	703	673
Separate account assets	7,327	7,299
Total assets	$ 104,686	$ 104,658
Liabilities and equity		
Liabilities:		
Future policy benefits	$ 37,291	$ 37,063
Policyholder account balances	25,383	25,662
Liability for policy and contract claims	9,295	9,256
Unearned premiums	3,370	3,378
Other liabilities ($3 and $1 of other liabilities are related to securitization entities)	2,657	2,916
Borrowings related to securitization entities ($13 and $12 are carried at fair value)	68	74
Non-recourse funding obligations	310	310

Long-term borrowings	4,194	4,180
Deferred tax liability	75	53
Separate account liabilities	7,327	7,299
Total liabilities	89,970	90,191
Commitments and contingencies		
Equity:		
Class A common stock, $0.001 par value; 1.5 billion shares authorized; 587 million shares issued as of March 31, 2017 and December 31, 2016; 499 million and 498 million shares outstanding as of March 31, 2017 and December 31, 2016, respectively	1	1
Additional paid-in capital	11,964	11,962
Accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses):		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	1,233	1,253
Net unrealized gains (losses) on other-than-temporarily impaired securities	10	9
Net unrealized investment gains (losses)	1,243	1,262
Derivatives qualifying as hedges	2,036	2,085
Foreign currency translation and other adjustments	(183)	(253)
Total accumulated other comprehensive income (loss)	3,096	3,094
Retained earnings	451	287
Treasury stock, at cost (88 million shares as of March 31, 2017 and December 31, 2016)	(2,700)	(2,700)
Total Genworth Financial, Inc. s stockholders equity	12,812	12,644
Noncontrolling interests	1,904	1,823
Total equity	14,716	14,467
Total liabilities and equity	$ 104,686	$ 104,658

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in millions, except per share amounts)

(Unaudited)

	Three months ended March 31, 2017	Three months ended March 31, 2016
Revenues:		
Premiums	$ 1,136	$ 794
Net investment income	790	789
Net investment gains (losses)	34	(19)
Policy fees and other income	211	221
Total revenues	2,171	1,785
Benefits and expenses:		
Benefits and other changes in policy reserves	1,246	860
Interest credited	167	177
Acquisition and operating expenses, net of deferrals	270	394
Amortization of deferred acquisition costs and intangibles	94	99
Interest expense	62	105
Total benefits and expenses	1,839	1,635
Income from continuing operations before income taxes	332	150
Provision for income taxes	116	23
Income from continuing operations	216	127
Loss from discontinued operations, net of taxes		(19)
Net income	216	108
Less: net income attributable to noncontrolling interests	61	55
Net income available to Genworth Financial, Inc. s common stockholders	$ 155	$ 53
Income from continuing operations available to Genworth Financial, Inc. s common stockholders per share:		
Basic	$ 0.31	$ 0.14
Diluted	$ 0.31	$ 0.14
Net income available to Genworth Financial, Inc. s common stockholders per share:		

Basic	$ 0.31	$ 0.11
Diluted	$ 0.31	$ 0.11
Weighted-average common shares outstanding:		
Basic	498.6	498.0
Diluted	501.0	499.4
Supplemental disclosures:		
Total other-than-temporary impairments	$ (1)	$ (11)
Portion of other-than-temporary impairments included in other comprehensive income (loss)		
Net other-than-temporary impairments	(1)	(11)
Other investments gains (losses)	35	(8)
Total net investment gains (losses)	$ 34	$ (19)

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in millions)

(Unaudited)

	Three months ended March 31,	
	2017	**2016**
Net income	$ 216	$ 108
Other comprehensive income (loss), net of taxes:		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	(12)	807
Net unrealized gains (losses) on other-than-temporarily impaired securities	1	(4)
Derivatives qualifying as hedges	(49)	257
Foreign currency translation and other adjustments	119	216
Total other comprehensive income	59	1,276
Total comprehensive income	275	1,384
Less: comprehensive income attributable to noncontrolling interests	118	156
Total comprehensive income available to Genworth Financial, Inc.'s common stockholders	$ 157	$ 1,228

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in millions)

(Unaudited)

	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury stock, at cost	Total Genworth Financial, Inc.'s stockholders' equity	Noncontrolling interests	Total equity
Balances as of December 31, 2016	$ 1	$ 11,962	$ 3,094	$ 287	$ (2,700)	$ 12,644	$ 1,823	$ 14,467
Cumulative effect of change in accounting, net of taxes				9		9		9
Comprehensive income:								
Net income				155		155	61	216
Other comprehensive income, net of taxes			2			2	57	59
Total comprehensive income						157	118	275
Dividends to noncontrolling interests							(39)	(39)
Stock-based compensation expense and exercises and other		2				2	2	4
Balances as of March 31, 2017	$ 1	$ 11,964	$ 3,096	$ 451	$ (2,700)	$ 12,812	$ 1,904	$ 14,716
Balances as of December 31, 2015	$ 1	$ 11,949	$ 3,010	$ 564	$ (2,700)	$ 12,824	$ 1,813	$ 14,637
Comprehensive income:								
Net income				53		53	55	108
Other comprehensive income, net of taxes			1,175			1,175	101	1,276
Total comprehensive income						1,228	156	1,384
Dividends to noncontrolling interests							(52)	(52)

Stock-based compensation expense and exercises and other		3				3	1	4
Balances as of March 31, 2016	$ 1	$ 11,952	$ 4,185	$ 617	$ (2,700)	$ 14,055	$ 1,918	$ 15,973

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

	Three months ended March 31, 2017	2016
Cash flows from operating activities:		
Net income	$ 216	$ 108
Less loss from discontinued operations, net of taxes		19
Adjustments to reconcile net income to net cash from operating activities:		
Gain on sale of business		(20)
Amortization of fixed maturity securities discounts and premiums and limited partnerships	(33)	(38)
Net investment (gains) losses	(34)	19
Charges assessed to policyholders	(183)	(191)
Acquisition costs deferred	(22)	(50)
Amortization of deferred acquisition costs and intangibles	94	99
Deferred income taxes	93	7
Trading securities, held-for-sale investments and derivative instruments	365	21
Stock-based compensation expense	10	7
Change in certain assets and liabilities:		
Accrued investment income and other assets	(79)	(159)
Insurance reserves	377	36
Current tax liabilities	(37)	(8)
Other liabilities, policy and contract claims and other policy-related balances	(112)	406
Net cash from operating activities	655	256
Cash flows used by investing activities:		
Proceeds from maturities and repayments of investments:		
Fixed maturity securities	1,060	840
Commercial mortgage loans	166	192
Restricted commercial mortgage loans related to securitization entities	6	6
Proceeds from sales of investments:		
Fixed maturity and equity securities	2,173	905
Purchases and originations of investments:		
Fixed maturity and equity securities	(2,710)	(2,042)
Commercial mortgage loans	(161)	(200)
Other invested assets, net	(676)	34
Policy loans, net		10

Net cash used by investing activities	(142)	(255)
Cash flows used by financing activities:		
Deposits to universal life and investment contracts	218	571
Withdrawals from universal life and investment contracts	(467)	(517)
Redemption of non-recourse funding obligations		(1,620)
Repayment and repurchase of long-term debt		(326)
Repayment of borrowings related to securitization entities	(7)	(10)
Dividends paid to noncontrolling interests	(39)	(52)
Other, net	(9)	13
Net cash used by financing activities	(304)	(1,941)
Effect of exchange rate changes on cash and cash equivalents	25	31
Net change in cash and cash equivalents	234	(1,909)
Cash and cash equivalents at beginning of period	2,784	5,993
Cash and cash equivalents at end of period	3,018	4,084
Less cash and cash equivalents held for sale at end of period		41
Cash and cash equivalents of continuing operations at end of period	$ 3,018	$ 4,043

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Formation of Genworth and Basis of Presentation

Genworth Holdings, Inc. (Genworth Holdings) (formerly known as Genworth Financial, Inc.) was incorporated in Delaware in 2003 in preparation for an initial public offering (IPO) of Genworth s common stock, which was completed on May 28, 2004. On April 1, 2013, Genworth Holdings completed a holding company reorganization pursuant to which Genworth Holdings became a direct, 100% owned subsidiary of a new public holding company that it had formed. The new public holding company was incorporated in Delaware on December 5, 2012, in connection with the reorganization, and was renamed Genworth Financial, Inc. (Genworth Financial) upon the completion of the reorganization.

On October 21, 2016, Genworth Financial entered into an agreement and plan of merger (the Merger Agreement) with Asia Pacific Global Capital Co., Ltd. (the Parent), a limited liability company incorporated in the People s Republic of China, and Asia Pacific Global Capital USA Corporation (Merger Sub), a Delaware corporation and an indirect, wholly-owned subsidiary of the Parent. Subject to the terms and conditions of the Merger Agreement, including the satisfaction or waiver of certain conditions, Merger Sub would merge with and into Genworth Financial with Genworth Financial surviving the merger as an indirect, wholly-owned subsidiary of the Parent. The Parent is a newly formed subsidiary of China Oceanwide Holdings Group Co., Ltd. (together with its affiliates, China Oceanwide). China Oceanwide has agreed to acquire all of our outstanding common stock for a total transaction value of approximately $2.7 billion, or $5.43 per share in cash. At a special meeting held on March 7, 2017, Genworth s stockholders voted on and approved a proposal to adopt the Merger Agreement. The transaction remains subject to closing conditions, including the receipt of required regulatory approvals in the U.S., China, and other international jurisdictions. Both parties are engaging with the relevant regulators regarding the applications and the pending transaction. Genworth and China Oceanwide continue to target closing the transaction in the middle of 2017.

The accompanying unaudited condensed financial statements include on a consolidated basis the accounts of Genworth Financial and the affiliate companies in which it holds a majority voting interest or where it is the primary beneficiary of a variable interest entity (VIE). All intercompany accounts and transactions have been eliminated in consolidation.

References to Genworth, the Company, we or our in the accompanying unaudited condensed consolidated financial statements and these notes thereto are, unless the context otherwise requires, to Genworth Financial on a consolidated basis.

We operate our business through the following five operating segments:

U.S. Mortgage Insurance. In the United States, we offer mortgage insurance products predominantly insuring prime-based, individually underwritten residential mortgage loans (flow mortgage insurance). We selectively provide mortgage insurance on a bulk basis (bulk mortgage insurance) with essentially all of our bulk writings being prime-based.

Canada Mortgage Insurance. We offer flow mortgage insurance and also provide bulk mortgage insurance that aids in the sale of mortgages to the capital markets and helps lenders manage capital and risk in Canada.

Australia Mortgage Insurance. In Australia, we offer flow mortgage insurance and selectively provide bulk mortgage insurance that aids in the sale of mortgages to the capital markets and helps lenders manage capital and risk.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

U.S. Life Insurance. We offer long-term care insurance products as well as service traditional life insurance and fixed annuity products in the United States.

Runoff. The Runoff segment includes the results of non-strategic products which have not been actively sold but we continue to service our existing blocks of business. Our non-strategic products primarily include our variable annuity, variable life insurance, institutional, corporate-owned life insurance and other accident and health insurance products. Institutional products consist of: funding agreements, funding agreements backing notes and guaranteed investment contracts.

In addition to our five operating business segments, we also have Corporate and Other activities which include debt financing expenses that are incurred at the Genworth Holdings level, unallocated corporate income and expenses, eliminations of inter-segment transactions and the results of other businesses that are managed outside of our operating segments, including certain smaller international mortgage insurance businesses and discontinued operations.

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and rules and regulations of the U.S. Securities and Exchange Commission (SEC). Preparing financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. These unaudited condensed consolidated financial statements include all adjustments (including normal recurring adjustments) considered necessary by management to present a fair statement of the financial position, results of operations and cash flows for the periods presented. The results reported in these unaudited condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. The unaudited condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and related notes contained in our 2016 Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform to the current year presentation.

(2) Accounting Changes

Accounting Pronouncements Recently Adopted

On January 1, 2017, we adopted new accounting guidance related to the accounting for stock compensation. The guidance primarily simplifies the accounting for employee share-based payment transactions, including a new requirement to record all of the income tax effects at settlement or expiration through the income statement, classifications of awards as either equity or liabilities, and classification on the statement of cash flows. We adopted this new accounting guidance on a modified retrospective basis and recorded a previously disallowed deferred tax asset of $9 million with a corresponding increase to cumulative effect of change in accounting within retained earnings at adoption.

On January 1, 2017, we adopted new accounting guidance related to transition to the equity method of accounting. The guidance eliminates the retrospective application of the equity method of accounting when obtaining significant influence over a previously held investment. The guidance requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. We did not have any significant impact from this guidance on our consolidated financial statements.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

On January 1, 2017, we adopted new accounting guidance related to the assessment of contingent put and call options in debt instruments. The guidance clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments in this update is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. This guidance is consistent with our previous accounting practices and, accordingly, did not have any impact on our consolidated financial statements.

On January 1, 2017, we adopted new accounting guidance related to the effect of derivative contract novations on existing hedge accounting relationships. The guidance clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. This guidance is consistent with our previous accounting for derivative contract novations and, accordingly, did not have any impact on our consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

In March 2017, the Financial Accounting Standards Board (the FASB) issued new guidance shortening the amortization period for the premium component of callable debt securities purchased at a premium. The guidance requires the premium to be amortized to the earliest call date. This change does not apply to securities held at a discount. The guidance is currently effective for us on January 1, 2019, with early adoption permitted. We are in process of evaluating the impact the guidance may have on our consolidated financial statements.

In February 2017, the FASB issued new guidance to clarify the accounting for gains and losses from the derecognition of nonfinancial assets and accounting for partial sales of nonfinancial assets. The new guidance clarifies when transferring ownership interests in a consolidated subsidiary holding nonfinancial assets is within scope. It also states that the reporting entity should identify each distinct nonfinancial asset and derecognize when a counterparty obtains control, and clarifies the accounting for partial sales. The new guidance is currently effective for us on January 1, 2018. We do not expect any significant impacts from this guidance on our consolidated financial statements.

In January 2017, the FASB issued new guidance simplifying the test for goodwill impairment. The new guidance states goodwill impairment is equal to the difference between the carrying value and fair value of the reporting unit up to the amount of recorded goodwill. The new guidance is currently effective for us on January 1, 2020, with early adoption permitted for testing dates after January 1, 2017. We do not expect any significant impacts from this new guidance on our consolidated financial statements.

In October 2016, the FASB issued new guidance related to the income tax effects of intra-entity transfers of assets other than inventory. The new guidance states that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The guidance is currently effective for us on January 1, 2018. We are still in process of evaluating the impact the guidance may have on our consolidated financial statements, including any cumulative effect adjustment that will be recorded directly to retained earnings as of the beginning of the period of adoption.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(3) Earnings Per Share

Basic and diluted earnings per share are calculated by dividing each income (loss) category presented below by the weighted-average basic and diluted common shares outstanding for the periods indicated:

	Three months ended March 31,	
(Amounts in millions, except per share amounts)	**2017**	**2016**
Weighted-average shares used in basic earnings per share calculations	498.6	498.0
Potentially dilutive securities:		
Stock options, restricted stock units and stock appreciation rights	2.4	1.4
Weighted-average shares used in diluted earnings per share calculations	501.0	499.4
Income from continuing operations:		
Income from continuing operations	$ 216	$ 127
Less: income from continuing operations attributable to noncontrolling interests	61	55
Income from continuing operations available to Genworth Financial, Inc. s common stockholders	$ 155	$ 72
Basic per share	$ 0.31	$ 0.14
Diluted per share	$ 0.31	$ 0.14
Loss from discontinued operations:		
Loss from discontinued operations, net of taxes	$	$ (19)
Less: income from discontinued operations, net of taxes, attributable to noncontrolling interests		
Loss from discontinued operations, net of taxes, available to Genworth Financial, Inc.'s common stockholders	$	$ (19)
Basic per share	$	$ (0.04)

Diluted per share	$	$ (0.04)
Net income:		
Income from continuing operations	$ 216	$ 127
Loss from discontinued operations, net of taxes		(19)
Net income	216	108
Less: net income attributable to noncontrolling interests	61	55
Net income available to Genworth Financial, Inc. s common stockholders	$ 155	$ 53
Basic per share	$ 0.31	$ 0.11
Diluted per share	$ 0.31	$ 0.11

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(4) Investments

(a) Net Investment Income

Sources of net investment income were as follows for the periods indicated:

(Amounts in millions)	**Three months ended March 31, 2017**	**2016**
Fixed maturity securities taxable	$ 641	$ 641
Fixed maturity securities non-taxable	3	3
Commercial mortgage loans	77	81
Restricted commercial mortgage loans related to securitization entities	2	2
Equity securities	8	5
Other invested assets	32	38
Restricted other invested assets related to securitization entities		2
Policy loans	42	35
Cash, cash equivalents and short-term investments	6	5
Gross investment income before expenses and fees	811	812
Expenses and fees	(21)	(23)
Net investment income	$ 790	$ 789

(b) Net Investment Gains (Losses)

The following table sets forth net investment gains (losses) for the periods indicated:

(Amounts in millions)	**Three months ended March 31, 2017**	**2016**
Available-for-sale securities:		
Realized gains	$ 63	$ 16
Realized losses	(34)	(23)

Net realized gains (losses) on available-for-sale securities	29	(7)
Impairments:		
Total other-than-temporary impairments	(1)	(11)
Portion of other-than-temporary impairments included in other comprehensive income		
Net other-than-temporary impairments	(1)	(11)
Trading securities		28
Commercial mortgage loans	1	1
Net gains (losses) related to securitization entities	2	8
Derivative instruments [1]	3	(38)
Net investment gains (losses)	$ 34	$ (19)

[1] See note 5 for additional information on the impact of derivative instruments included in net investment gains (losses).

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

We generally intend to hold securities in unrealized loss positions until they recover. However, from time to time, our intent on an individual security may change, based upon market or other unforeseen developments. In such instances, we sell securities in the ordinary course of managing our portfolio to meet diversification, credit quality, yield and liquidity requirements. If a loss is recognized from a sale subsequent to a balance sheet date due to these unexpected developments, the loss is recognized in the period in which we determined that we have the intent to sell the securities or it is more likely than not that we will be required to sell the securities prior to recovery. The aggregate fair value of securities sold at a loss during the three months ended March 31, 2017 and 2016 was $876 million and $240 million, respectively, which was approximately 96% and 91%, respectively, of book value.

The following represents the activity for credit losses recognized in net income on debt securities where an other-than-temporary impairment was identified and a portion of other-than-temporary impairments was included in other comprehensive income (OCI) as of and for the three months ended March 31:

(Amounts in millions)	2017	2016
Beginning balance	$ 42	$ 64
Reductions:		
Securities sold, paid down or disposed	(1)	(1)
Ending balance	$ 41	$ 63

(c) Unrealized Investment Gains and Losses

Net unrealized gains and losses on available-for-sale investment securities reflected as a separate component of accumulated other comprehensive income were as follows as of the dates indicated:

(Amounts in millions)	March 31, 2017	December 31, 2016
Net unrealized gains (losses) on investment securities:		
Fixed maturity securities	$ 3,983	$ 3,656
Equity securities	49	12
Subtotal [(1)]	4,032	3,668
Adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves	(1,994)	(1,611)
Income taxes, net	(703)	(711)

Net unrealized investment gains (losses)		1,335		1,346
Less: net unrealized investment gains (losses) attributable to noncontrolling interests		92		84
Net unrealized investment gains (losses) attributable to Genworth Financial, Inc.	$	1,243	$	1,262

(1) Excludes foreign exchange.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The change in net unrealized gains (losses) on available-for-sale investment securities reported in accumulated other comprehensive income was as follows as of and for the three months ended March 31:

(Amounts in millions)	**2017**	**2016**
Beginning balance	$ 1,262	$ 1,254
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	392	1,596
Adjustment to deferred acquisition costs	(305)	(142)
Adjustment to present value of future profits	(5)	(34)
Adjustment to sales inducements	(5)	(19)
Adjustment to benefit reserves	(68)	(174)
Provision for income taxes	(2)	(436)
Change in unrealized gains (losses) on investment securities	7	791
Reclassification adjustments to net investment (gains) losses, net of taxes of $10 and $(6)	(18)	12
Change in net unrealized investment gains (losses)	(11)	803
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests	8	
Ending balance	$ 1,243	$ 2,057

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(d) Fixed Maturity and Equity Securities

As of March 31, 2017, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity and equity securities classified as available-for-sale were as follows:

		Gross unrealized gains		Gross unrealized losses		
(Amounts in millions)	**Amortized cost or cost**	**Not other-than-temporarily impaired**	**Other-than-temporarily impaired**	**Not other-than-temporarily impaired**	**Other-than-temporarily impaired**	**Fair value**
Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises	$ 4,837	$ 681	$	$ (25)	$	$ 5,493
State and political subdivisions	2,565	191		(46)		2,710
Non-U.S. government	1,722	106		(11)		1,817
U.S. corporate:						
Utilities	4,215	456		(36)		4,635
Energy	2,192	166		(19)		2,339
Finance and insurance	5,882	465		(31)		6,316
Consumer non-cyclical	4,380	441		(28)		4,793
Technology and communications	2,520	150		(27)		2,643
Industrial	1,223	86		(9)		1,300
Capital goods	2,085	236		(12)		2,309
Consumer cyclical	1,480	96		(14)		1,562
Transportation	1,105	86		(14)		1,177
Other	331	19		(1)		349
Total U.S. corporate	25,413	2,201		(191)		27,423
Non-U.S. corporate:						
Utilities	985	44		(9)		1,020
Energy	1,281	122		(8)		1,395
Finance and insurance	2,445	151		(7)		2,589
Consumer non-cyclical	701	20		(9)		712
Technology and communications	968	50		(6)		1,012
Industrial	924	56		(4)		976
Capital goods	563	25		(3)		585
Consumer cyclical	451	11		(1)		461

Transportation	632	67		(6)		693
Other	2,600	187		(6)		2,781
Total non-U.S. corporate	11,550	733		(59)		12,224
Residential mortgage-backed	4,139	264	12	(11)		4,404
Commercial mortgage-backed	3,250	97	4	(49)		3,302
Other asset-backed	3,231	15	1	(23)		3,224
Total fixed maturity securities	56,707	4,288	17	(415)		60,597
Equity securities	667	55		(13)		709
Total available-for-sale securities	$ 57,374	$ 4,343	$ 17	$ (428)	$	$ 61,306

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

As of December 31, 2016, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity and equity securities classified as available-for-sale were as follows:

		Gross unrealized gains		Gross unrealized losses		
(Amounts in millions)	**Amortized cost or cost**	**Not other-than-temporarily impaired**	**Other-than-temporarily impaired**	**Not other-than-temporarily impaired**	**Other-than-temporarily impaired**	**Fair value**
Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises	$ 5,439	$ 647	$	$ (50)	$	$ 6,036
State and political subdivisions	2,515	182		(50)		2,647
Non-U.S. government	2,024	101		(18)		2,107
U.S. corporate:						
Utilities	4,137	454		(41)		4,550
Energy	2,167	157		(24)		2,300
Finance and insurance	5,719	424		(46)		6,097
Consumer non-cyclical	4,335	433		(34)		4,734
Technology and communications	2,473	157		(32)		2,598
Industrial	1,161	76		(14)		1,223
Capital goods	2,043	228		(13)		2,258
Consumer cyclical	1,455	92		(17)		1,530
Transportation	1,121	86		(17)		1,190
Other	332	17		(1)		348
Total U.S. corporate	24,943	2,124		(239)		26,828
Non-U.S. corporate:						
Utilities	940	40		(11)		969
Energy	1,234	109		(12)		1,331
Finance and insurance	2,413	134		(9)		2,538
Consumer non-cyclical	711	17		(14)		714
Technology and communications	953	44		(10)		987
Industrial	928	39		(9)		958
Capital goods	518	21		(4)		535
Consumer cyclical	434	10		(2)		442
Transportation	619	65		(7)		677
Other	2,967	190		(13)		3,144

Total non-U.S. corporate	11,717	669		(91)		12,295
Residential mortgage-backed	4,122	259	10	(12)		4,379
Commercial mortgage-backed	3,084	98	3	(56)		3,129
Other asset-backed	3,170	15	1	(35)		3,151
Total fixed maturity securities	57,014	4,095	14	(551)		60,572
Equity securities	628	31		(27)		632
Total available-for-sale securities	$ 57,642	$ 4,126	$ 14	$ (578)	$	$ 61,204

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the gross unrealized losses and fair values of our investment securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, as of March 31, 2017:

	Less than 12 months			12 months or more			Total		
(Dollar amounts in millions)	**Fair value**	**Gross unrealized losses**	**Number of securities**	**Fair value**	**Gross unrealized losses**	**Number of securities**	**Fair value**	**Gross unrealized losses**	**Number of securities**
Description of Securities									
Fixed maturity securities:									
U.S. government, agencies and government-sponsored enterprises	$ 861	$ (25)	41	$	$		$ 861	$ (25)	41
State and political subdivisions	564	(28)	96	142	(18)	12	706	(46)	108
Non-U.S. government	345	(11)	35				345	(11)	35
U.S. corporate	4,601	(155)	630	509	(36)	68	5,110	(191)	698
Non-U.S. corporate	1,493	(41)	221	298	(18)	41	1,791	(59)	262
Residential mortgage-backed	675	(10)	104	56	(1)	31	731	(11)	135
Commercial mortgage-backed	1,067	(48)	153	16	(1)	7	1,083	(49)	160
Other asset-backed	847	(6)	150	344	(17)	67	1,191	(23)	217
Subtotal, fixed maturity securities	10,453	(324)	1,430	1,365	(91)	226	11,818	(415)	1,656
Equity securities	86	(5)	160	105	(8)	48	191	(13)	208
Total for securities in an unrealized loss position	$ 10,539	$ (329)	1,590	$ 1,470	$ (99)	274	$ 12,009	$ (428)	1,864
% Below cost fixed maturity securities:									
<20% Below cost	$ 10,453	$ (324)	1,430	$ 1,325	$ (78)	220	$ 11,778	$ (402)	1,650
20%-50% Below cost				40	(13)	6	40	(13)	6
Total fixed maturity securities	10,453	(324)	1,430	1,365	(91)	226	11,818	(415)	1,656
% Below cost equity securities:									
<20% Below cost	83	(4)	151	105	(8)	48	188	(12)	199
20%-50% Below cost	3	(1)	9				3	(1)	9

Total equity securities	86	(5)	160	105	(8)	48	191	(13)	208
Total for securities in an unrealized loss position	$ 10,539	$ (329)	1,590	$ 1,470	$ (99)	274	$ 12,009	$ (428)	1,864
Investment grade	$ 10,163	$ (318)	1,390	$ 1,172	$ (79)	216	$ 11,335	$ (397)	1,606
Below investment grade	376	(11)	200	298	(20)	58	674	(31)	258
Total for securities in an unrealized loss position	$ 10,539	$ (329)	1,590	$ 1,470	$ (99)	274	$ 12,009	$ (428)	1,864

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the gross unrealized losses and fair values of our corporate securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, based on industry, as of March 31, 2017:

	Less than 12 months			**12 months or more**			**Total**		
mounts in millions)	**Fair value**	**Gross unrealized losses**	**Number of securities**	**Fair value**	**Gross unrealized losses**	**Number of securities**	**Fair value**	**Gross unrealized losses**	**Number of securities**
on of Securities									
orate:									
	$ 784	$ (35)	118	$ 21	$ (1)	4	$ 805	$ (36)	122
	253	(5)	37	204	(14)	25	457	(19)	62
nd insurance	1,140	(25)	151	99	(6)	14	1,239	(31)	165
non-cyclical	825	(28)	105				825	(28)	105
gy and cations	450	(19)	62	89	(8)	13	539	(27)	75
	181	(5)	27	46	(4)	5	227	(9)	32
ods	321	(11)	48	6	(1)	1	327	(12)	49
cyclical	335	(12)	43	31	(2)	5	366	(14)	48
ation	295	(14)	37	13		1	308	(14)	38
	17	(1)	2				17	(1)	2
U.S. corporate	4,601	(155)	630	509	(36)	68	5,110	(191)	698
corporate:									
	232	(8)	23	14	(1)	1	246	(9)	24
	84	(2)	17	83	(6)	14	167	(8)	31
nd insurance	265	(5)	44	27	(2)	7	292	(7)	51
non-cyclical	238	(9)	24				238	(9)	24
gy and cations	197	(5)	27	18	(1)	1	215	(6)	28
	91	(2)	12	46	(2)	6	137	(4)	18
ods	66	(1)	10	28	(2)	2	94	(3)	12
cyclical	60	(1)	14				60	(1)	14
ation	95	(5)	15	25	(1)	2	120	(6)	17
	165	(3)	35	57	(3)	8	222	(6)	43

non-U.S. corporate	1,493	(41)	221	298	(18)	41	1,791	(59)	262			
corporate securities alized loss position	$ 6,094	$ (196)	851	$ 807	$ (54)	109	$ 6,901	$ (250)	02/14/2010			3,834
	02/14/2010				1,879	3,758	7,516				122,511	
	02/14/2010							12,270			400,002	
		75,000	150,000	300,000								
	02/14/2010								15,157	32.60	151,206	
	02/14/2010							2,889			94,181	
	02/14/2010				1,416	2,831	5,662				92,291	
	02/14/2010								9,778	32.60	97,545	
	02/14/2010							4,601			149,993	
		77,000	154,000	308,000								
	02/14/2010								15,157	32.60	151,206	
	02/14/2010							2,889			94,181	
	02/14/2010				1,416	2,831	5,662				92,291	
	02/14/2010								9,778	32.60	97,545	
	02/14/2010							7,669			250,009	

(1) Threshold amount reflects the threshold payment level under the Company s 2010 Management Incentive Plan, which is 50% of the target amount. Maximum amount reflects 200% of the target amount. The threshold amount is paid if 90% of the performance goal is attained. The maximum amount is paid upon attaining 120% of the performance goal. For a discussion of the performance targets under the 2010 Management Incentive Plan, see Annual Incentive Cash Compensation above. For the actual payments made to each Named Executive Officer pursuant to the 2010 Management Incentive Plan, see the 2010 Non-Equity Incentive Plan Compensation column of the Summary Compensation Table above.

(2) Represents grants of RS to the applicable Named Executive Officers. These awards vest in equal installments on the anniversary of the grant date over a four-year period based on the continued employment of the officer. Dividends are paid on the restricted stock, if and at the same rate as dividends are paid on our outstanding Common Stock.

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(3) Represents grants of stock options to each Named Executive Officer. These awards vest in equal installments on the anniversary of the grant date over a four-year period, based on the continued employment of the officer.
(4) The exercise price of an option is equal to the closing price of Choice Common Stock on the date of grant. Fair market value was established by the Committee as the closing price reported on the New York Stock Exchange on the date of the grant. If no shares were traded on the grant date, the Committee determines the fair market value. The Committee directed that the closing price reported on February 12, 2010 be the fair market value for the grants awarded on Sunday, February 14, 2010, and Monday, February 15, 2010 since the New York Stock Exchange was not open for trading on either of these days.
(5) Represents the range of PVRSU award sizes upon vesting. These PVRSUs will vest, if at all, depending on the Company s actual three-year cumulative EPS compared to the performance target. During the performance periods, dividends accrue on the PVRSUs, if and at the same rate as dividends are paid out on our outstanding Common Stock; provided, however, that dividends are only paid out to the extent that the PVRSUs actually vest.

NARRATIVE TO THE SUMMARY COMPENSATION TABLE AND

GRANTS OF PLAN-BASED AWARDS TABLE

Employment Agreements

Choice has entered into an Employment Agreement with Mr. Joyce and Choice has entered into a Non-Competition, Non-Solicitation and Severance Benefit Agreement (Severance Benefit Agreement) with Mr. Haase.

Mr. Joyce

On March 21, 2008, Choice entered into an employment agreement with Mr. Joyce, effective May 1, 2008, as amended April 30, 2008 and further amended September 16, 2010 (as amended, the Joyce Employment Agreement). The term of the Joyce Employment Agreement is five years. The Joyce Employment Agreement provides that, for the first six months of the agreement term, Mr. Joyce would be President and Chief Operating Officer and, thereafter, he would transition to President and Chief Executive Officer. As previously disclosed, this schedule was accelerated and Mr. Joyce assumed the role of President and Chief Executive Officer on June 26, 2008. The Joyce Employment Agreement also provides that Mr. Joyce was to be nominated for election to the Board of Directors as a Class III director. Mr. Joyce was appointed to the Board of Directors, effective April 30, 2008.

Pursuant to the Joyce Employment Agreement, Mr. Joyce was to receive an initial annual base salary of $675,000 as Chief Operating Officer, which was to be increased to a minimum of $775,000 annually upon his becoming Chief Executive Officer. In addition, on the effective date of his employment, Mr. Joyce received (i) such number of restricted shares of Choice Common Stock with a fair market value on the effective date of $2,310,918, vesting of which is to occur in four equal annual installments beginning one year from the effective date, (ii) such number of options to purchase Choice Common Stock with a Black-Scholes valuation on the effective date of $2,881,921, vesting of which was to occur in four equal annual installments beginning one year from the effective date, and (iii) such number of PBRSUs with a fair market value on the effective date of $2,000,000, vesting of which is to occur five years from the effective date, subject to the satisfaction of certain performance targets.

In addition, Mr. Joyce is eligible, beginning in fiscal year 2008 and continuing throughout the term of the Joyce Employment Agreement, to earn a target bonus of 100% per year of his base salary. Pursuant to the Joyce Employment Agreement, Mr. Joyce s fiscal year 2008 bonus was based on a full year of service. Commencing with the 2009 annual equity awards, Mr. Joyce will be eligible to receive annual awards of options to purchase Choice Common Stock and/or restricted stock, with the value of such annual awards to be based on a multiple of his base salary, as determined in the discretion of the Compensation Committee, but in no event are such annual awards to have a value of less than $1,550,000 on the date of grant. Mr. Joyce is also eligible to participate in the Choice Supplemental Executive Retirement Plan (SERP) and Executive Deferred Compensation Plan (EDCP). As applied to Mr. Joyce under the SERP, upon attaining age 55, his years of service will be deemed to be his actual years of service plus ten years. As applied to Mr. Joyce under the EDCP, upon attaining age 55, his years of service will be deemed to be ten years.

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The Joyce Employment Agreement, as amended on September 16, 2010, further provides that Choice will provide Mr. Joyce with (i) an allowance for automobile expenses of $1,100 a month through 2010 and thereafter, $1,540 a month, (ii) an appropriate corporate membership, including initial and annual fees, at a dining and/or recreational club of his choice (iii) upon becoming Chief Executive Officer, use of the aircraft utilized by the Company for personal use for up to 25 flight hours per year through 2010 and thereafter 33 flight hours per year, in each case consistent with Company policy, (iv) reimbursement for all reasonable expenses incurred by him in the performance of services under the agreement, including all travel and living expenses while away from home on business or at the request of and in the service of Choice in accordance with Company policy, (v) participation in all other retirement, health, welfare and fringe benefit plans and policies as generally afforded to the most senior executives of the Company, as are in effect from time to time. Choice s obligation to provide additional payments on a fully grossed up basis to cover certain applicable federal, state and local income and excise taxes, if any, with respect to the provision of the automobile allowance, club membership and aircraft usage terminates as of December 31, 2010.

Mr. Haase

Mr. Haase, the Company s Executive Vice President, Global Brands, Marketing & Operations, entered into a Severance Benefit Agreement with the Company effective January 25, 2008. The Severance Benefit Agreement provides for certain benefits upon specified termination events. These benefits and the termination events that trigger them are described under Potential Payments upon Termination or Change in Control below. Pursuant to Company action and policies, he currently receives a base salary of $400,000 per year, may participate in our annual incentive bonus plan with a target bonus equal to 55% of his base salary, and he will be eligible to receive annual awards to purchase Choice Common Stock and/or restricted stock, with the value of such annual awards to be determined by the Compensation Committee at its discretion. In addition, Mr. Haase is entitled to receive a monthly automobile allowance and to participate in all other fringe benefits afforded Choice employees of similar status.

Please see the Potential Payments Upon Termination or Change in Control section below for a more detailed discussion on the termination and severance provisions set forth in each employment agreement described above, as well as the severance and termination provisions and arrangements applicable to our other Named Executive Officers.

OUTSTANDING EQUITY AWARDS AT YEAR-END 2010

The following table provides information on the current holdings of stock options and stock awards by the Named Executive Officers. This table includes unexercised and unvested stock option awards, unvested restricted stock awards and unvested PVRSUs with performance conditions that have not yet been satisfied. The market value of the restricted stock, PVRSU and PBRSU awards is based on the closing market price of Choice s stock as of December 31, 2010, which was $38.27. Because the PVRSUs will be earned, if at all, based on our three-year cumulative EPS performance as compared to the target EPS goal for the respective period (except for Mr. Joyce s 2008 PBRSUs that will be earned, if at all, based upon our five-year cumulative average EPS growth rate) the market value of the PVRSUs and PBRSUs shown in the table is based on achievement of the target level of performance under the awards.

		Option Awards[1]				Stock Awards[2]			
Name	**Grant Date**	**Number of Securities Underlying Unexercised Options Exercisable (#)**	**Number of Securities Underlying Unexercised Options Unexercisable (#)**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested ($)**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)**
Joyce	5/1/2008	124,801	124,802	$ 34.98	5/1/2015				
	5/1/2008							57,176	$ 2,188,126
	5/1/2008					33,032	$ 1,264,135		
	2/8/2009	39,664	118,996	$ 26.88	2/8/2016				
	2/8/2009					10,812	$ 413,775		
	2/15/2010		100,241	$ 32.60	2/15/2017				
	2/15/2010					15,338	$ 586,985		
	2/15/2010							15,338	$ 586,985
	2/15/2010					15,338	$ 586,985		
White	12/20/2002	18,250		$ 11.71	12/20/2012				
	2/10/2003	1,500		$ 10.20	2/10/2013				
	2/14/2005	10,000		$ 29.92	2/14/2015				
	2/11/2007					625	$ 23,919		
	12/11/2007	15,000	5,000	$ 36.42	12/11/2014				
	2/10/2008	9,536	9,537	$ 33.08	2/10/2015				
	2/10/2008							2,081	$ 79,640
	2/8/2009					1,919	$ 73,440		
	2/8/2009	7,037	21,112	$ 26.88	2/8/2016				
	2/14/2010		27,868	$ 32.60	2/14/2017				
	2/14/2010					3,130	$ 119,785		
	2/14/2010							3,067	$ 117,374
	2/14/2010					4,601	$ 176,080		
Haase	2/7/2002	14,700		$ 10.58	2/7/2012				
	2/10/2003	19,600		$ 10.20	2/10/2013				
	2/14/2005	23,200		$ 29.92	2/14/2015				
	2/12/2006	10,282		$ 48.75	2/12/2013				
	2/11/2007	9,408	3,136	$ 41.03	2/11/2014				
	5/25/2007	18,750	6,250	$ 38.71	5/25/2014				
	2/10/2008	12,341	12,341	$ 33.08	2/10/2015				
	2/10/2008							2,682	$ 102,640
	3/21/2008					30,553	$ 1,169,263		
	2/08/2009					3,139	$ 120,130		
	2/08/2009	11,515	34,548	$ 26.88	2/8/2016				
	2/14/2010		25,060	$ 32.60	2/14/2017				
	2/14/2010							3,758	$ 143,819
	2/14/2010					3,834	$ 146,727		
	2/14/2010					12,270	$ 469,573		
Pepper	2/10/2003	12,357		$ 10.20	2/10/2013				
	2/14/2005	17,000		$ 29.92	2/14/2015				

2/12/2006	13,539		$ 48.75	2/12/2013				
2/11/2007	11,475	3,825	$ 41.03	2/11/2014				
5/25/2007					1,875	$ 71,756		
2/10/2008	11,668	11,668	$ 33.08	2/10/2015				
2/10/2008							2,575	$ 98,545
2/8/2009	11,515	34,548	$ 26.88	2/8/2016				
2/8/2009					3,139	$ 120,130		

		Option Awards[1]				Stock Awards[2]			
Name	Grant Date	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
	2/14/2010		24,935	$ 32.60	2/14/2017				
	2/14/2010							2,831	$ 108,342
	2/14/2010					2,889	$ 110,562		
	2/14/2010					7,669	$ 293,493		
Pacious	2/11/2007					500	$ 19,135		
	5/25/2007					625	$ 23,919		
	12/11/2007	15,000	5,000	$ 36.42	12/11/2014				
	2/10/2008	7,180	7,181	$ 33.08	2/10/2015				
	2/10/2008							1,609	$ 61,576
	2/8/2009					2,616	$ 100,114		
	2/8/2009	9,596	28,789	$ 26.88	2/8/2016				
	2/14/2010		24,935	$ 32.60	2/14/2017				
	2/14/2010					2,889	$ 110,562		
	2/14/2010							2,831	$ 108,342
	2/14/2010					4,601	$ 176,080		

(1) The stock options listed above granted prior to December 20, 2005 vest at a rate of 20% per year, on each grant anniversary date, over the first five years of the ten-year option term. The stock options listed above granted on or after December 20, 2005 vest 25% per year, on each grant anniversary date, over the first four years of the seven-year term.

(2) Restricted stock awards granted on and after December 20, 2005 vest at the rate of 25% each year for four years from the date of grant, except for Mr. Haase s 3/21/2008 award that vests over a three-year period beginning on the third anniversary of the grant date. PVRSUs are earned and vest upon the conclusion of a three-year performance period based on actual three-year cumulative EPS compared to the performance target. Mr. Joyce s PBRSUs are earned and vest upon the conclusion of a five-year performance period based on targeted recurring growth in EPS.

OPTION EXERCISES AND STOCK VESTED FOR 2010

The following table provides information for each of the Named Executive Officers on stock option exercises during 2010, including the number of shares acquired upon exercise and the value realized, and the number of shares acquired upon the vesting of stock awards and the value realized, each before payment of any taxes and broker commissions. Value realized is based on the closing market price of Choice Common Stock on the date of exercise or vesting, respectively.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting	Value Realized on Vesting ($)
Joyce			20,120	713,042
White (1)			2,707	89,660
Haase			2,093	66,076
Pacious			2,947	97,173
Pepper	6,363	157,667	6,321	201,783

(1) Mr. White elected to defer receipt of 2,707 shares otherwise issuable to him, for a value of $89,660. Mr. White elected to receive this deferred amount in a lump sum following termination of employment.

PENSION BENEFITS FOR 2010

Choice s supplemental executive retirement plan (SERP) is a non-contributory defined benefit pension plan covering our Chief Executive Officer and other key executives approved by the Board of Directors. In 2010, each of the Named Executive Officers were participants in the SERP, but such participation was subject to the December 31, 2009 suspension of future vesting and accrual of benefits as disclosed above in the Compensation Discussion and Analysis.

Pursuant to the SERP, retirement benefits are determined under a formula based on each participant s years of service and final average salary, defined as a monthly salary based on the sum of: (a) an average of base salary earned in the highest 60 months out of, and (b) the monthly pro-rata of the average of the five highest bonus payments earned during, the 120 months of employment immediately prior to the normal retirement date, the early retirement date or other date of separation from service. Subject to giving effect to the December 31, 2009 suspension of future accrual of benefits, the formula provides a benefit equal to 1% per year of service up to 15% and 1.5% per year of service thereafter up to 30%. Participants become vested in their benefits under the SERP upon completion of five years of service. Each of the participating Named Executive Officers, other than Mr. Joyce, was fully vested as of December 31, 2010. Benefits paid under the SERP are straight life annuity amounts, although participants have the option of selecting a joint and 50% survivor annuity (for those who are married or have a domestic partner) or ten-year guaranteed payments. The benefits are not subject to offset for social security and other amounts.

Pursuant to the Joyce Employment Agreement (as defined under Employment Agreements above), upon attaining age 55, Mr. Joyce is to be credited an additional ten years of service for purposes of the SERP. This provision was negotiated with Mr. Joyce at the time of his hire.

Unreduced benefits are available upon retirement at age 65 (the normal retirement age under the plan), or upon retirement at age 55, provided the participant has a minimum of ten years of service. The SERP does not provide for early retirement with reduced benefits; if a participant terminates prior to age 65, or prior to age 55 with ten years of service, benefit payments commence on the first day of the month following his or her 65th birthday. Upon termination for cause, participants forfeit any accumulated benefit under the SERP, even if vested. Further, upon the death of a participant before payment has begun, his or her spouse (or domestic partner) is generally entitled to receive 50% of the participant s vested SERP benefit.

All of the Named Executive Officers currently employed by the Company are entitled to an unreduced benefit at age 65, except Mr. Joyce who, pursuant to his employment agreement, will be eligible to receive unreduced benefits upon attaining age 55.

No participant is currently eligible for unreduced early retirement benefits under the SERP. However, pursuant to SEC rules, the benefits shown below assume that each executive will grow into eligibility for unreduced early retirement benefits and retire when first eligible (age 55 for most Named Executive Officers.)

Name	Plan Name	Number of Years of Credited Service	Present Value of Accumulated Benefit ($)(1)	Payments During Last Fiscal Year ($)
Joyce	SERP	13(2)	1,903,928	
White	SERP	8	192,152	
Haase	SERP	10	521,523	
Pacious	SERP	5	124,569	
Pepper	SERP	8	274,993	

(1) Present value of each Named Executive Officer s accumulated benefit under the SERP computed as of the same pension plan measurement date used for financial statement reporting purposes with respect to Choice s 2010 audited financial statements, as required by the rules of the SEC. For a discussion of the assumptions used in quantifying the present value of each officer s SERP benefit, see Note 14 to Choice s audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010.

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(2) Reflects an additional ten years of service which will be credited to Mr. Joyce upon attaining age 55, in accordance with the terms of his Employment Agreement. The estimated value of the additional ten years of service credited to Mr. Joyce was $1,637,378 as of December 31, 2010.

NON-QUALIFIED DEFERRED COMPENSATION FOR 2010

Executive Deferred Compensation Plan. In 2002, Choice adopted the Choice Hotels International, Inc. Executive Deferred Compensation Plan (EDCP), which became effective January 1, 2003. Our Chief Executive Officer and other key executives approved by the Board (including each of the Named Executive Officers) are eligible to participate in the EDCP. During 2010, each of the Named Executive Officers participated in the EDCP. Participants in the EDCP are not entitled to participate in the Non-Qualified Plan described below.

Under the EDCP, participants may defer up to 90% of their base salary and up to 100% of their bonus each year. Choice matches up to 15% of any deferred salary under the EDCP and the Choice 401(k) plan, offset by the total matching contributions to which the participant is otherwise entitled under the 401(k) plan. The participant s right to any Company match vests at 20% per year from the time the participant was first hired, with all past and future match amounts 100% vested after the participant s fifth year of service. As of December 31, 2010, each of the participating Named Executive Officers, other than Mr. Joyce, was fully vested in their Company match amounts.

A participant may elect a return based on a selection of investment options selected by the EDCP s administrators, which are generally publicly available mutual funds or other indices. Participants may elect to change their investment options under the EDCP in accordance with Plan requirements.

Benefits commence under the EDCP upon the death of the participant (to the participant s beneficiary), or, at the participant s election, upon the participant s termination of employment or, commencing in 2009 on a January designated by the participant, subject to any requirements imposed by 409A. If no election is made, benefits will commence upon termination of employment, subject to any requirements imposed by 409A. Benefits are payable in a lump-sum payment or in annual installments over a period of up to 20 years, as elected by the participant. If no election is made, benefits will be paid in a lump sum. Benefits will also automatically be paid in a lump sum if the amount payable as of any payout date is $100,000 or less.

In December 2008, the Company amended and restated the EDCP to comply with treasury regulations promulgated pursuant to 409A. The amendment and restatement, which became effective on January 1, 2009, only applies to that portion of each participant s EDCP account balances that are subject to 409A (generally, those contribution amounts that became vested or were credited after 2004). The pre-2005 plan documents continue to apply to the remaining participant account balances under the EDCP.

Stock Deferral Program. Each Named Executive Officer is entitled to defer all or any portion of any equity award (other than stock options). The executive may elect to defer the receipt of such equity until termination of their employment or until a specified future date. Any dividends or other distributions during the deferral period are credited to the executive s deferred equity account and reinvested in the purchase of additional Choice Common Stock. In December 2008, the Company amended and restated the 2006 Long-Term Incentive Plan to comply with treasury regulations promulgated pursuant to 409A. This amendment became effective on January 1, 2009.

Non-Qualified Plan. In 1997, Choice adopted the Choice Hotels International, Inc. Non-qualified Retirement Savings and Investment Plan (Non-Qualified Plan). Generally, Choice employees with gross earnings that are greater than 125% of the Internal Revenue Service (IRS) highly-compensated employee (HCE) limit, but who are not eligible to participate in the EDCP, are eligible to participate in the Non-Qualified Plan. None of the Named Executive Officers were eligible to participate in the Non-Qualified Plan in 2010. However, Mr. White retains an account balance under the plan related to his prior plan participation.

In general, participants under the Non-Qualified Plan may elect to defer up to 90% of their base salary and up to 100% of their annual bonus, reduced by the deferral limit in effect under the Choice 401(k) plan (which was $16,500 for 2010). Choice matches up to 5% of any deferred salary under the Non-Qualified Plan, offset by the amount of matching contributions to which the participant is entitled under the 401(k) plan.

Name	Plan Name	Executive Contributions 2010 ($)(1)	Registrant Contributions 2010 ($)(2)	Aggregate Earnings 2010 ($)(3)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance 2010 ($)
Joyce	EDCP	236,135	50,142	58,884	0	731,483
White	EDCP	128,237	14,488	50,156	0	651,174
	Non-Qualified Plan	0	0	11,868	0	95,279
	Stock Deferral Program	89,607	0	31,404	0	319,849
Haase	EDCP	229,845	20,131	350,380	0	4,263,134
	Stock Deferral Program	0	0	11,425	0	60,276
Pacious	EDCP	58,146	12,613	10,867	0	156,501
Pepper	EDCP	101,282	13,286	176,649	0	2,114,479
	Stock Deferral Program	0	0	42,668	0	230,918

(1) The following salary and bonus (non-equity incentive plan compensation) amounts are included in this column. The salary amounts represent 2010 base salary deferred by the officer during 2010. The bonus amounts represent the officer s 2009 annual bonus which was paid and deferred in early 2010. The salary amounts below are included in the 2010 Salary column of the Summary Compensation Table above, while the 2009 annual bonus amounts are included in the 2010 Non-Equity Incentive Plan column of the Summary Compensation Table above.

Name	Salary ($)	2009 Annual Bonus ($)
Joyce	119,882	116,250
White	38,862	89,375
Haase	59,861	169,983
Pacious	26,896	31,250
Pepper	30,782	70,500

(2) Amounts in this column are included in the 2010 All Other Compensation column of the Summary Compensation Table above.
(3) Of these amounts, the following earnings on each officer s EDCP account, which represent guaranteed preferential earnings to each applicable Named Executive Officer under the EDCP, are included in the 2010 Change in Pension Value and Non-qualified Deferred Compensation Earnings column of the Summary Compensation Table above: $15,741, Mr. Joyce; $17,326, Mr. White; $123,370, Mr. Haase; $61,019, Mr. Pepper; and $3,293, Mr. Pacious.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE OF CONTROL

The tables below reflect the amount of compensation that could have been received by each of the Named Executive Officers in the event such executive s employment had terminated under the various applicable triggering events described below as of December 31, 2010. The amounts shown assume that such termination was effective as of December 31, 2010 and, for any equity-based payments or valuations, the closing stock price of Choice s Common Stock on December 31, 2010, or $38.27 per share. The amounts shown are estimates only; the actual amounts to be paid to each executive will only be determinable at the time of his separation from Choice.

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General Payments Made upon Termination

Regardless of the manner in which his employment terminates, each of the Named Executive Officers is entitled to receive amounts earned during his term of employment. The following amounts are not included in the tables or narratives below and include:

- base salary earned through the date of termination;
- accrued but unpaid vacation pay earned through the date of termination;
- annual incentive compensation earned during the fiscal year of termination, which for 2010 is reflected in the 2010 Non-Equity Incentive Plan Compensation column of the Summary Compensation Table above for each Named Executive Officer;
- amounts contributed by the executive under the Choice 401(k) plan;
- payments pursuant to our life insurance plan, available to all employees generally, which provides for one times base salary upon death;
- except as otherwise noted below, the present value of each executive s accumulated benefit under the SERP, as set forth in the Pension Benefits Table above; and
- each executive s account balance under the EDCP, Non-Qualified Plan and Stock Deferral Program, as applicable and as set forth in the Non-Qualified Deferred Compensation Table above.

With respect to deferred compensation plans, if the executive has previously elected to receive deferred amounts in the EDCP or Non-Qualified Plan in installments, the undistributed account balances will continue to be credited with increases or decreases reflecting changes in the investment options chosen by the executive.

Payments Made upon Constructive Termination or Termination without Cause

Mr. Joyce

Pursuant to the Joyce Employment Agreement, if Mr. Joyce is constructively terminated within two years of May 1, 2008 (the effective date of the agreement), he will be entitled to receive for three years after the date of such constructive termination all forms of compensation under the Joyce Employment Agreement, except for ungranted stock options and restricted shares, use of the aircraft utilized by the Company, medical and dental benefits, reimbursement of business expenses and certain other fringe benefits. If Mr. Joyce is constructively terminated more than two years after May 1, 2008, he will be entitled to receive for the longer of the remainder of the term of the agreement (through May 1, 2013) or two years after the date of such constructive termination, all forms of compensation under the Joyce Employment Agreement, except for ungranted stock options and restricted shares, use of the aircraft utilized by the Company, medical and dental benefits, reimbursement of business expenses and certain other fringe benefits.

During the period of time he is entitled to receive the foregoing constructive termination payments, except for his initial grant of performance-based restricted stock units, granted on May 1, 2008 in the amount of 57,176 shares (Initial PBRSUs), all unvested shares of restricted stock and stock options are to continue to vest. Mr. Joyce is also entitled to pro-rated vesting for the Initial PBRSUs based upon the percentage of actual service through constructive termination if the performance targets are met.

The Joyce Employment Agreement also provides for a two-year non-compete and non-solicitation period. Pursuant to the non-compete, Mr. Joyce may not engage in any competing business in the U.S. or Canada in which, at the time of termination of his employment, Choice is materially engaged. As used in the Joyce Employment Agreement, a competing business means any business engaged in the mid-market or economy hotel franchising business or any other line of business that Choice is engaged in at the time of termination. The agreement also provides for a general confidentiality provision in favor of Choice.

Generally, constructive termination is defined under Mr. Joyce s agreement as:

· our removal or termination other than by expiration of the agreement or for cause, death, disability or resignation;

· failure of Choice to place Mr. Joyce s name in nomination for election to the Board;

· assignment of duties inconsistent with the duties set forth in the agreement;

· a decrease in the executive s compensation or benefits;

· a change in the executive s title or line of reporting set forth in the agreement;

· a significant reduction in the scope of the executive s authority, position, duties or responsibilities;

· the relocation of the executive s office to a location more than 25 miles from his prior place of employment;

· a change in Choice s annual bonus program which adversely affects the executive; or

· any other material breach of the agreement by Choice.

Mr. Haase

Under the Severance Benefit Agreement with Mr. Haase, if the executive elects to terminate for good reason or if the Company terminates the executive for any reason other than for cause, the executive is entitled to receive continued base salary for 18 months, payable in installments in accordance with Choice s normal payroll practices and subject to standard deductions. Generally, good reason is defined under each agreement as a substantial change in the executive s compensation or position and responsibilities. In addition, the executive will be entitled to any annual bonuses that would have otherwise been paid during the 18-month period at 100% of the applicable target. The executive will also be eligible to receive continued medical and dental benefits during the 18-month period to the same extent and at the same cost to the executive as applicable to Choice s senior executives, with Choice to continue its employer contributions for such continued benefits. Optional deductions for items such as retirement plans and life insurance will cease on the termination date. Choice is also obligated to provide the executive with its standard outplacement services for executive-level employees during the 18-month period, subject to termination in the event the executive secures new employment.

Pursuant to Mr. Haase s Severance Benefit Agreement, he will continue to vest in any unvested stock options and other stock awards granted after the date of his severance agreement (January 25, 2008) during the 18-month period.

As conditions to his continued receipt of the payments and benefits above, Mr. Haase has each agreed that if he becomes employed prior to the end of the 18-month period, Choice is entitled to offset the payments required above by the amount of any compensation earned by him as a result of new employment, including unemployment insurance benefits, social security insurance or like amounts. In addition, Mr. Haase must execute a release in favor of Choice, releasing Choice and its affiliates from any claims relating to his employment with Choice. The agreement also provides for an 18-month non-compete and non-solicitation period, and a general confidentiality provision in favor of Choice.

Messrs. White, Pepper and Pacious

If Messrs. White, Pepper or Pacious is terminated without cause by Choice, each executive is entitled to severance payments under the Choice Hotels International Severance Benefit Plan, which applies equally to all Company employees except for those employees who are subject to an employment agreement or non-competition, non-solicitation and severance agreement. Under the Choice Hotels International Severance

Benefit Plan, each participant s severance benefit, and the length of time after termination for which the participant is eligible for the benefit, is determined based on his or her base salary, position and years of service as of the termination date. In addition, each participant is entitled to continuation of medical and dental coverage during the severance period, at the same level the participant was receiving at termination.

Pursuant to the Choice Hotels International Severance Benefit Plan, corporate officers without a specifically applicable written agreement, which include each of Messrs. White, Pepper and Pacious are entitled to five weeks of base salary (as in effect at termination of employment) per year of service with Choice, with a minimum of twenty-six weeks of base salary and a maximum of seventy weeks. Additionally, if the termination occurs on or after June 30, the executive is entitled to receive a full bonus for the year in which the termination occurs. Assuming a termination as of December 31, 2010, each of Messrs. White and Pepper would be entitled to forty weeks of continued base salary and Mr. Pacious would be entitled to twenty-six weeks of continued base salary. In addition, each would receive payment of their 2010 incentive bonus, as well as continued medical and dental benefits during each executive s severance benefit period. The severance benefit terminates prior to the end of the severance benefit period provided under the Choice Hotels International Severance Benefit Plan upon the earlier to occur of (i) death of the participant, or (ii) employment with a new employer. In addition, the severance benefit is subject to the participant s execution of a standard release agreement in favor of Choice.

Payments Made upon Death or Disability

Our disability program provides that each of the executives will receive an annual benefit equal to 70% of the previous year s base salary and annual bonus, with such amount capped at $25,000 per month. In each case, the disability benefit continues until the executive reaches age 65.

Messrs. White, Haase, Pepper and Pacious have a supplemental executive individual life insurance policy, paid for by Choice, in the amount of $1,000,000. Premiums on this policy are added to each executive s taxable income for the year.

Pursuant to the Joyce Employment Agreement, if Mr. Joyce s employment is terminated because of death or disability, then all of his unvested restricted stock and stock options continue to vest in accordance with their terms. Mr. Joyce is also entitled to pro-rated vesting of his Initial PBRSUs based upon the percentage of actual service through the date of death or disability if the performance targets are met.

Payments Made upon Termination Following Change of Control

Mr. Joyce

If, within 12 months after a change in control, Mr. Joyce is terminated, pursuant to the Joyce Employment Agreement, he is entitled to receive severance compensation. If such termination is within two years of May 1, 2008 (the effective date of the agreement), he will be entitled to receive all forms of compensation under the Joyce Employment Agreement (except for unvested stock options and restricted stock, use of the aircraft utilized by the Company, medical and dental benefits, reimbursement of business expenses and certain other fringe benefits), for three years after the date of such change of control termination. If such termination is more than two years after May 1, 2008, he will be entitled to receive all forms of compensation under the Joyce Employment Agreement (except for unvested stock options and restricted stock, use of the aircraft utilized by the Company, medical and dental benefits, reimbursement of business expenses and other certain fringe benefits), for the longer of the remainder of the term of the Joyce Employment Agreement or two and a half years after the date of such change of control termination.

During the period of time he receives the foregoing change of control severance payments, except for the Initial PBRSUs (as defined above), all unvested shares of restricted stock and stock options are to automatically become fully vested and any and all restrictions are to lapse immediately prior to the date of such change of control termination. Mr. Joyce is also entitled to pro-rated vesting for the Initial PBRSUs based upon the percentage of actual service through date of the change in control if the performance targets are met. With respect to PVRSUs that may be awarded in future years, any such shares will not continue to vest or become vested following any such change.

While Mr. Joyce is entitled to reimbursement of any excise tax charged to him pursuant to his agreement, as of December 31, 2010, Mr. Joyce s actual compensation did not rise to the limit set forth by Section 280G(b) of the Internal Revenue Code wherein an excise tax would be imposed.

Upon a change in control termination, Mr. Joyce would be subject to the non-compete and non-solicitation provisions described above, and he would be required to execute a general release in favor of Choice in order to receive any of the above-described severance payments.

Generally, change in control is defined under the agreements described above as:

- any person (with certain exceptions, including Mr. Bainum and his family members) becomes the beneficial owner of 33% or more of the outstanding voting securities of Choice;
- individuals constituting the Board of Directors of Choice, and the successors of such individuals (as nominated by the Board or committee thereof), cease to constitute a majority of the Board;
- a merger or other consolidation which results in Choice shareholders owning less than 65% of the surviving entity; and
- the acquisition of Choice, a liquidation or sale of all or substantially all of the assets of Choice, or a tender offer for all or substantially all of the stock of Choice.

Mr. Haase

For Mr. Haase, if his employment is terminated within 12 months following a change of control, and such termination is by Choice without cause, by him for constructive termination or good reason, he is entitled to receive:

- a lump-sum severance payment of 200% of his base salary then in effect and the full amount of the previous year s annual incentive bonus (or if no bonus was paid in the prior year, the maximum target bonus);
- all unvested stock options and restricted stock will accelerate and vest in full and the performance periods for any outstanding PVRSUs will be deemed completed with the maximum level of performance attained; and
- an amount equal to the excise tax charged to him, if applicable, as a result of the receipt of the payments and benefits described above.

While Mr. Haase is entitled to reimbursement of any excise tax charged to him pursuant to his Severance Benefit Agreement, none of his actual compensation earned during 2010 rose to the limit set forth by Section 280G(b) of the Internal Revenue Code wherein an excise tax would be imposed. Also, upon a change in control termination, Mr. Haase would be subject to the non-competition and non-solicitation provisions described above.

In addition to the other conditions applicable to Mr. Haase in order for him to receive his severance payments, as described above, he is required to execute a general release in favor of Choice in order to receive any severance payments upon a qualifying termination following a change in control.

Mr. Joyce

The following table shows the potential payments upon termination, with or without a change of control, for Mr. Joyce:

Executive Benefits and Payments	Constructive Termination ($)	Termination Following Change-in-Control ($)	Disability ($)	Death ($)
Compensation:				
Salary Continuation under Employment Agreement	1,866,667[1]	2,000,000[2]		
Annual Incentive Bonus[3]	1,600,000	1,600,000		
Benefits & Perquisites:				
Auto Allowance	43,120[4]	46,200[5]		
Disability Income[6]			4,250,000	
Health and Welfare Benefits[7]	35,632	35,632		
Life Insurance Benefits[8]	768	768		800,000
Club Membership	34,800[9]	43,500[10]		
Retirement Benefits				
SERP [11]	908,907	908,907		454,454
Long-Term Incentives:				
Stock Options[12][13]	2,192,230	2,334,326	2,334,326	2,334,326
Restricted Stock Grants[14][15]	2,558,426	2,851,880	2,851,880	2,851,880
PBRSUs [16]				

(1) Amount represents continued payment of Mr. Joyce s base salary, based on his salary as of December 2010, for two years and four months through April 2013.

(2) Amount represents continued payment of Mr. Joyce s base salary, based on his salary as of December 2010, for two and one half years through June 2013.

(3) Amount represents the estimated target incentive bonus amounts for fiscal years 2011 and 2012.

(4) Amount represents continued payment of Mr. Joyce s auto allowance, as in effect December 2010, for two years and four months through April 2013.

(5) Amount represents continued payment of Mr. Joyce s auto allowance, as in effect December 2010, for two years and six months through June 2013.

(6) Amount represents the aggregate of the current monthly benefit payments at $25,000 per month that Mr. Joyce would be entitled to receive under the Choice disability program as of December 2010 through the month in which he reaches age 65.

(7) Amount represents reimbursement of COBRA continuation of coverage premiums for Mr. Joyce and his family.

(8) Amount represents the estimated cost of coverage for the life insurance policy provided by Choice to Mr. Joyce through December 31, 2012; however, the amount reflected under the heading Death is the estimated value of the proceeds payable to Mr. Joyce s beneficiary upon death.

(9) Amount represents continued payment of Mr. Joyce s club membership, as in effect December 2010, through April 2013, on a fully grossed-up basis to cover applicable taxes payable by Mr. Joyce on such compensation.

(10) Amount represents continued payment of Mr. Joyce s club membership, as in effect December 2010 through June 2013, on a fully grossed up basis to cover applicable taxes payable by Mr. Joyce on such compensation.

(11) As of December 2010, Mr. Joyce has no accrued vested benefit under the SERP; however, his employment agreement provides that he will be credited with 10 additional years of service upon attaining age 55. Amount represents the present value of the accumulated benefit under the SERP that Mr. Joyce would receive at age 55. Upon death, Mr. Joyce s beneficiary is generally entitled to receive 50% of the SERP balance.

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(12) Upon constructive termination, stock options will continue to vest for a period of two years and four months through April 2013. Upon death or disability, stock options will continue to vest through the original term of such option. Values presented represent the intrinsic value of the options based on a closing share price on December 31, 2010 of $38.27.
(13) In the case of termination following a change of control, the stock option awards immediately vest. Values presented represent the intrinsic value of the options based on a closing share price on December 31, 2010 of $38.27.
(14) Upon constructive termination, restricted stock will continue to vest for a period of two years and four months through April 2013. Upon death or disability, restricted stock will continue to vest through the original term of the restricted stock. The values presented represent the value of the stock based on the closing price of our stock on December 31, 2010 of $38.27.
(15) In the case of termination following a change of control, the restricted stock awards immediately vest. The values presented represent the value of the stock based on the closing price of our stock on December 31, 2010 of $38.27.
(16) Upon constructive termination, death, disability or termination following a change of control, Mr. Joyce is entitled to a pro-rata vesting of the award if the performance target has been achieved for the period preceding the foregoing triggering events. As of December 31, 2010, the performance target had not been met.

Mr. White

The following table shows the potential payments upon termination, with or without a change in control, for Mr. White:

Executive Benefits and Payments	Termination Without Cause ($)	Termination Following Change-in-Control ($)	Disability ($)	Death ($)
Benefits & Perquisites:				
Salary Continuation under Choice Hotels International Severance Benefit Plan(1)	250,000	250,000		
Disability Income(2)			6,750,000	
Health and Welfare Benefits(3)	10,330	10,330		
Life Insurance Benefits(4)	2,303	2,303		1,325,000
Retirement Benefits				
SERP (5)	91,730	91,730	91,730	45,865
Long-Term Incentives:				
Stock Options(6)		457,224		
Restricted Stock Grants(7)		393,224		
PVRSUs (8)		394,028		

(1) Amount represents continuation of base salary, as in effect on December 31, 2010, for forty weeks pursuant to the Choice Hotels International Severance Benefit Plan. Bonus amounts for 2011 could also become due depending upon the date of termination.
(2) Amount represents the aggregate of the current monthly benefit payments at $25,000 per month that Mr. White would be entitled to receive under the Choice disability program as of December 31, 2010 through the month in which he reaches age 65.
(3) Amount represents the estimated value of future premiums that Choice would pay on behalf of Mr. White under our medical and dental plans for continued coverage during the severance period.
(4) Amount represents the estimated cost of coverage for the life insurance policy provided by Choice to Mr. White for forty weeks; however, the amount reflected under the heading Death is the estimated value of the proceeds payable to Mr. White s beneficiary upon his death.
(5) Amount represents the present value of the accumulated benefit under the SERP, assuming termination on December 31, 2010. As of such date, Mr. White was not eligible for early termination under the SERP.

Thus, amount reflects the present value of his benefit based on the normal retirement age under the SERP of 65. Upon death, Mr. White s beneficiary is generally entitled to receive 50% of the SERP balance.

(6) Amount represents the estimated value of such options, which would immediately vest upon a change in control. Values presented represent the intrinsic value of the options based on a closing share price on December 31, 2010 of $38.27.

(7) Upon a termination following a change of control, the restricted stock awards immediately vest. The value has been calculated based on the closing stock price on December 31, 2010 of $38.27.

(8) Upon a termination following a change of control, unvested awards will accelerate and vest in full and the maximum performance level under the terms of the awards will be assumed to have been achieved. Values presented represent the value of the stock based on the closing share price on December 31, 2010 of $38.27 and achievement of the 200% vesting target.

Mr. Haase

The following table shows the potential payments upon termination, with or without a change of control, for Mr. Haase:

Executive Benefits and Payments	Termination For Good Reason ($)	Termination Following Change in Control ($)	Disability ($)	Death ($)
Compensation:				
Salary Continuation under Severance Benefit Agreement(1)	600,000	__	__	__
Annual Incentive Bonus(2)	220,000	__	__	__
Benefits & Perquisites:				
Cash Severance(3)	__	1,353,560	__	__
Health and Welfare Benefits(4)	20,143	__		
Outplacement Services(5)	18,000	__	__	__
Disability Income(6)	__	__	4,525,000	__
Life Insurance Benefits(7)	1,911	__	__	1,400,000
Retirement Benefits				
SERP(8)	248,967	248,967	248,967	124,484
Long-Term Incentives:				
Stock Options(9)	397,429	599,642	__	__
Restricted Stock Grants(10)	1,167,733	1,905,693	__	__
PVRSUs (11)	__	492,918	__	__

(1) Amount represents continued payment of Mr. Haase s base salary, based on his salary as of December 31, 2010, for 18 months following termination.

(2) Amount represents the estimated target incentive bonus amounts for fiscal year 2011 payable in February 2012.

(3) Amount represents 200% of Mr. Haase s base salary, based on his salary as of December 31, 2010 and the annual bonus for 2010 paid out in 2011.

(4) Amount represents the estimated value of the future premiums that Choice would pay on behalf of Mr. Haase under our medical and dental plans for continued coverage for 18 months following termination.

(5) Amount represents the estimated value of standard outplacement services for up to 18 months following termination.

(6) Amount represents the aggregate of the current monthly benefit payments at $25,000 per month that Mr. Haase would be entitled to receive under the Choice disability program as of December 31, 2010 through the month in which he reaches age 65.

(7) Amount represents the estimated cost of coverage for the life insurance policy provided by Choice to Mr. Haase for 18 months; however, the amount reflected under the heading Death is the estimated value of the proceeds payable to Mr. Haase s beneficiary upon his death.

(8) Amount represents the present value of the accumulated benefit under the SERP, assuming termination on December 31, 2010. As of such date, Mr. Haase was not eligible for early termination under the SERP. Thus, amount reflects the present value of his benefit based on the normal retirement age under the SERP of 65. Upon death, Mr. Haase s beneficiary is generally entitled to receive 50% of the SERP balance.

(9) For termination without cause, unvested options granted after January 25, 2008 will continue to vest through the term of Mr. Haase s Severance Agreement for 18 months following termination. Values presented represent the intrinsic value of the options based on the closing share price on December 31, 2010 of $38.27. Unvested options immediately vest upon a change in control.

(10) Amount represents the estimated value of restricted stock awards granted after January 25, 2008, which continue to vest through the term of Mr. Haase s Severance Agreement, 18 months following termination, upon termination without cause and immediately vest upon a change of control. Values presented represent the intrinsic value of the options based on a closing share price on December 31, 2010 of $38.27.

(11) Upon a termination following a change in control, unvested awards will accelerate and vest in full and the maximum performance level under the terms of the award will be assumed to have been achieved. Values presented represent the value of the stock based on the closing share price on December 31, 2010 of $38.27 and achievement of the 200% vesting target. For termination without cause, the PVRSUs granted after January 25, 2005 continue to vest through the term of Mr. Haase s Severance Agreement, 18 months following termination.

Mr. Pepper

The following table shows the potential payments upon termination, with or without a change in control, for Mr. Pepper:

Executive Benefits and Payments	Termination Without Cause ($)	Termination Following Change-in-Control ($)	Disability ($)	Death ($)
Benefits & Perquisites:				
Salary Continuation under Choice Hotels International Severance Benefit Plan(1)	236,992	236,992		
Health and Welfare Benefits(2)	10,330	10,330		
Disability Income(3)			6,525,000	
Life Insurance Benefits(4)	724	724		1,308,000
Retirement Benefits				
SERP(5)	131,277	131,277	131,277	65,639
Long-Term Incentives:				
Stock Options(6)		595,440		
Restricted Stock Grants(7)		595,940		
PVRSUs(8)		413,775		

(1) Amount represents continuation of base salary, as in effect on December 31, 2010, for forty weeks pursuant to the Choice Hotels International Severance Benefit Plan. Bonus amounts for 2011 could also become due depending upon the date of termination.

(2) Amount represents the estimated value of the future premiums that Choice would pay on behalf of Mr. Pepper under our medical and dental plans for continued coverage during the severance period.

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(3) Amount represents the aggregate of the current monthly benefit payments at $25,000 per month that Mr. Pepper would be entitled to receive under the Choice disability program as of December 31, 2010 through the month in which he reaches age 65.
(4) Amount represents the estimated cost of coverage for the life insurance policy provided by Choice to Mr. Pepper for forty weeks; however, the amount reflected under the heading Death is the estimated value of the proceeds payable to Mr. Pepper s beneficiary upon his death.
(5) Amount represents the present value of the accumulated benefit under the SERP, assuming termination on December 31, 2010. As of such date, Mr. Pepper was not eligible for early termination under the SERP. Thus, amount reflects the present value of his benefit based on the normal retirement age under the SERP of 65. Upon death, Mr. Pepper s beneficiary is generally entitled to receive 50% of the SERP balance.
(6) Amount represents the estimated value of such options, which would immediately vest upon a change in control. Values presented represent the intrinsic value of the options based on a closing share price on December 31, 2010 of $38.27.
(7) For termination following a change in control, the restricted stock awards immediately vest. The value has been calculated based on the closing stock price on December 31, 2010 of $38.27.
(8) Upon a termination following a change in control, unvested awards will accelerate and vest in full and the maximum performance level under the terms of the awards will be assumed to have been achieved. Values presented represent the value of the stock based on the closing share price on December 31, 2010 of $38.27 and achievement of the 200% vesting target.

Mr. Pacious

The following table shows the potential payments upon termination, with or without a change in control, for Mr. Pacious:

Executive Benefits and Payments	Termination Without Cause ($)	Termination Following Change-in-Control ($)	Disability ($)	Death ($)
Benefits & Perquisites:				
Salary Continuation under Choice Hotels International Severance Benefit Plan(1)	150,000	150,000		
Health and Welfare Benefits(2)	200	200		
Disability Income(3)		__	6,025,000	
Life Insurance Benefits(4)	466	466		1,300,000
Retirement Benefits				
SERP(5)	59,467	59,467	59,467	29,734
Long-Term Incentives:				
Stock Options(6)		515,808		
Restricted Stock Grants(7)		429,810		
PVRSUs(8)		339,838		

(1) Amount represents continuation of base salary, as in effect on December 31, 2010, for 26 weeks pursuant to the Choice Hotels International Severance Benefit Plan. Bonus amounts for 2011 could also become due depending upon the date of termination.
(2) Amount represents the estimated value of the future premiums that Choice would pay on behalf of Mr. Pacious under our medical and dental plans for continued coverage pursuant during the severance period.
(3) Amount represents the aggregate of the current monthly benefit payments at $25,000 per month that Mr. Pacious would be entitled to receive under the Choice disability program as of December 31, 2010 through the month in which he reaches age 65.

(4) Amount represents the estimated cost of coverage for the life insurance policy provided by Choice to Mr. Pacious for 26 weeks; however, the amount reflected under the heading Death is the estimated value of the proceeds payable to Mr. Pacious beneficiary upon his death.

(5) Amount represents the present value of the accumulated benefit under the SERP, assuming termination on December 31, 2010. As of such date, Mr. Pacious was not eligible for early termination under the SERP. Thus, amount reflects the present value of his benefit based on the normal retirement age under the SERP of 65. Upon death, Mr. Pacious beneficiary is generally entitled to receive 50% of the SERP balance.

(6) Amount represents the estimated value of such options, which would immediately vest upon a change in control. Values presented represent the intrinsic value of the options based on a closing share price on December 31, 2010 of $38.27.

(7) For termination following a change in control, the restricted stock awards immediately vest. The value has been calculated based on the closing stock price on December 31, 2010 of $38.27.

(8) Upon a termination following a change in control, unvested awards will accelerate and vest in full and the maximum performance level under the terms of the awards will be assumed to have been achieved. Values presented represent the value of the stock based on the closing share price on December 31, 2010 of $38.27 and achievement of the 200% vesting target.

NON-EXECUTIVE DIRECTOR COMPENSATION FOR 2010

During 2010, non-employee directors were entitled to receive the following cash and equity compensation:

	Compensation ($)
Annual Retainer Stock	
Members Independent	110,000
Annual Retainer Cash[2]	
Board Member (up to 7 meetings)	20,000[1]
Audit Committee Member (up to 6 meetings)	10,000
Compensation Committee Member (up to 4 meetings)	6,000
Corporate Governance and Nominating Member (up to 2 meetings)	3,000
Diversity Committee Member (up to 2 meetings)	3,000
Audit Committee Chair	15,000
Compensation Committee Chair	7,500
Corporate Governance and Nominating Chair	4,000
Diversity Committee Chair	4,000
Lead Independent Director	6,000
Excess Meeting Fees	
Each In-Person Meeting in Excess of Expected Activity Level	2,000
Each Telephonic Meeting in Excess of Expected Activity Level	1,000

(1) In September 2010, the Compensation Committee approved an increase in the Board Service Cash Retainer from $20,000 to $35,000, effective at the Board Meeting on May 5, 2011.

(2) Committee Chairs also receive the applicable Committee Member Retainer.

The following table illustrates the compensation paid to non-employee directors during 2010:

Name [1]	Fees Earned or Paid in Cash($)	Stock Awards($)[2]	All Other Compensation($)[3]	Total ($)
Fiona P. Dias	33,000	110,020	4,610	147,630
Scott A. Renschler	23,000	110,020	476	133,496
William L. Jews	36,000	110,020	__	146,020
John T. Schwieters	52,000	110,020	3,107	165,127
Ervin R. Shames	52,500	110,020	472	162,992
Gordon A. Smith	29,000	110,020	__	139,020
David C. Sullivan	36,000	110,020	3,717	149,737

(1) Mr. Joyce is not included in the table as he served as an employee of Choice during 2010 and does not receive any compensation for his role as director. Stewart Bainum, Jr., Chairman of the Board, is also an employee of Choice and does not receive compensation for his services as a director. Pursuant to the terms of Mr. Bainum s employment contract, he is paid an annual salary of $200,000, may participate in the Choice 401(k) and non-qualified deferred compensation plans and is furnished with suitable office space and secretarial assistance, with access to telephone, computer, fax and other reasonable and necessary office space and office supplies.

(2) Represents the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. As of December 31, 2010, each director had the following aggregate number of deferred shares accumulated in their deferral accounts for all years of service as a director, including additional shares credited as a result of reinvestment of dividend equivalents: Fiona P. Dias, 15,512; William L. Jews, 7,254; John T. Schwieters, 14,713; Ervin R. Shames, 17,961; Gordon A. Smith, 16,975; David C. Sullivan, 13,524; and Scott A. Renschler, 4,437.

(3) This column includes reimbursements processed in 2010 for spousal travel and the Stay at Choice program which provides reimbursements to directors when staying at Choice hotels.

PROPOSAL 2 ADVISORY VOTE APPROVING EXECUTIVE COMPENSATION

As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, we are seeking shareholder input on our executive compensation as disclosed in this proxy statement. The Board and the Compensation Committee actively monitor our executive compensation practices in light of the industry in which we operate and the marketplace for talent in which we compete. We remain focused on compensating our executive officers fairly and in a manner that incentivizes high levels of performance while providing tools necessary to attract and retain the best talent. As evidence of our continued monitoring in this area, we made significant changes to our executive compensation program for 2010, designed to provide a competitive compensation package for our executives while achieving our objective of increasing shareholder value.

As described in the Compensation Discussion and Analysis beginning on page 21 of this Proxy Statement, our executive compensation program is designed to incentivize achievement of short-and long-term Company and individual performance. By paying for performance, we believe we align the interests of our executive officers interests with those of our stockholders. The Company believes the highest executive talent is attracted to a company that recognizes and rewards performance.

Consistent with the philosophy noted above, the compensation program has been designed to achieve the following objectives:

- Provide an attractive mix of salary and annual short- and long-term incentive compensation at competitive levels, as appropriate for public companies of our size, to enable the recruitment and retention of highly qualified executives;
- Link pay to corporate and individual performance to encourage and reward excellence and contributions that further our Company s success;
- Align the interests of executives with those of our shareholders through grants of equity-based compensation that also provide opportunities for ongoing executive ownership; and
- Foster long-term focus required for success in the hospitality industry through equity incentives that vest over time.

For these reasons, the Board recommends that shareholders vote in favor of the following resolution:

RESOLVED, that the compensation paid to the Company s named executive officers, as disclosed pursuant to the rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby APPROVED

The vote is advisory and is not binding on the Board. However, the Compensation Committee of the Board expects to take into account the outcome of the vote as it continues to consider the Company s executive compensation program.

Board Recommendation

The Board recommends that stockholders vote **FOR** the approval of executive compensation.

PROPOSAL 3 ADVISORY VOTE ON FUTURE FREQUENCY OF

THE ADVISORY VOTES ON EXECUTIVE COMPENSATION

As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act , we are seeking shareholder input on how often we will seek advisory votes on the compensation of named executive officers as disclosed in future proxy statements, similar to Proposal 2 in this Proxy Statement. We are required to hold such votes at least once every three years. Accordingly, shareholders may indicate their preference to hold future advisory votes on executive compensation:

- every year;
- every two years; or
- every three years.

You may also abstain from voting. The Board recommends that shareholders vote in favor of holding future advisory votes on executive compensation every year. Because this vote is non-binding, the Board has discretion to determine how frequently we will hold future advisory votes on executive compensation. However, the Board of Directors will consider the outcome of this vote in making its determination. Please note that you are being asked to indicate your preference on the above choices, and you are not being asked to approve or disapprove the Board s recommendation.

The Board believes that holding advisory votes on executive compensation every year will allow for shareholder concerns to be voiced regularly and considered by the Compensation Committee as it undertakes its yearly compensation determinations. As a result, an annual vote will allow the Compensation Committee to be more informed and responsive to shareholder concerns about the compensation of the Company s most highly compensated executive officers. The Board also views an annual vote as a good corporate governance practice.

Board Recommendation

The Board recommends that stockholders vote in favor of holding future advisory votes on executive compensation votes **EVERY YEAR.**

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company s policy for the review and approval of related person transactions is contained in the Company s written Amended and Restated Basic Policies of the Board of Directors. This policy requires Board approval of any material transactions between the Company and its directors, officers, shareholders, employees or agents and affiliates. For this purpose, the Company s Legal Department determines which transactions may be viewed as material transactions requiring Board approval under the policy. Except as described in this paragraph, the Board does not apply pre-determined standards in reviewing material transactions. Board approval is also required for investments by directors, officers or employees in certain entities that compete with, supply to or purchase from the Company unless such investments are in securities of a company that is listed on a national securities exchange or is regularly traded by national securities dealers (provided that the investments do not exceed one percent of the market value of the outstanding securities of such company). Investments in Manor Care, Inc. and Sunburst Hospitality Corporation and their affiliates are exempted from the policy. Set forth below is information regarding certain transactions in which our executives, directors or entities associated with them had a direct or indirect material interest.

Sunburst Hospitality Corporation (Sunburst) is one of the Company s franchisees, with a portfolio of 25 Choice franchised hotels as of December 31, 2010. The Chairman of the Board, Stewart Bainum, Jr., along with other Bainum family members, owns a controlling interest in Sunburst. Total revenue paid by Sunburst to the Company for franchising, royalty, marketing and reservation fees for 2010 was approximately $4.4 million. The franchise agreements require the payment of certain fees and charges, including the following: (a) a royalty fee of between 2.51% and 5.0% of monthly gross room revenues; (b) a marketing fee of between 0.7% and 2.1% of monthly gross room revenues plus $0.28 per day multiplied by the specified room count; and (c) a reservation fee of 0.88% to 1.75% of monthly gross room revenues. The marketing fee and the reservation fee are subject to reasonable increases during the term of the franchise if the Company raises such fees uniformly among all its franchisees, generally.

In connection with Sunburst s recapitalization in 2000, Choice and Sunburst entered into an Omnibus Amendment of the franchise agreements. The Omnibus Amendment provides that (i) Sunburst shall pay an application fee of $20,000 on all future franchise agreements, and (ii) no royalties, marketing or reservation fees shall be payable for a period of two years for the next ten franchise agreements entered into after December 28, 1998, (iii) Sunburst is not required to pay liquidated damages upon the termination of any franchise agreements unless the related hotel owned by Sunburst that carried a Choice Hotels brand is not sold by Sunburst within three years from the date such hotel was reflagged with a different non-Choice Hotels brand, in which case liquidated damages will be paid with respect to any such hotel; not to exceed a maximum of $100,000, (iv) if Sunburst sells any property that is the subject of an existing Franchise Agreement with Choice Hotels, if that property is not past due on any fees and (a) is not failing a quality assurance review, Choice Hotels will enter into a new Franchise Agreement on customary market terms with the buyer (without addendum or property improvement plan), or (b) is failing a quality assurance review, Choice Hotels will enter into a Franchise Agreement on customary market terms with a property improvement plan containing only those items necessary to pass such quality assurance review.

The Company entered into an Amended and Restated Employment Agreement with its Chairman of the Board, Stewart Bainum, Jr., in 2008. Pursuant to which, Mr. Bainum is paid an annual salary of $200,000, may participate in the Choice 401(k) and non-qualified deferred compensation plans and is furnished with suitable office space and secretarial assistance, with access to telephone, computer, fax and other reasonable and necessary office services.

In October 2007, the Company entered into a lease for certain office space in Chevy Chase, Maryland, for the purpose of providing office space to Stewart Bainum, Sr., a principal shareholder of the Company. The terms of the lease require the Company to make rent payments totaling approximately $360,250 during the initial five-year term. The Company currently provides use of the entire leased space to Stewart Bainum, Sr. free of charge and reimburses him for the taxes incurred related to the personal use of the office space, which reimbursements are approximately $40,000 per year.

The Company subleases space in its Silver Spring, Maryland headquarters complex for use by the Commonweal Foundation (Commonweal), a non-profit organization that supports educational programs and projects assisting disadvantaged youth. Barbara Bainum, the sister of Stewart Bainum, Jr., is the Chairman of the Board of Commonweal and other Bainum family members, including Scott A. Renschler and Stewart Bainum, Sr., the father of our Chairman, are members of the Board of Directors of Commonweal. Ms. Bainum served on the Company s Board of Directors from 1996 until 2004. Beginning in August 2004, the Company has donated a portion of the value of the subleased space to Commonweal. The Company is able to claim a deduction for the value of that portion of the subleased space, based on the Company s costs under the master lease. Mr. Bainum pays the remaining portion of rent for the space used by Commonweal. During 2010, the Company received rent payments of $8,000 from Mr. Bainum. The rental payments under the sublease are a pass through of the Company s costs under the master lease. As such, the Company believes the sublease is on terms at least as favorable as if obtained from non-related parties. Beginning in April of 2010 and continuing through March 2013 (which is the expiration date of the Company s master lease), the Company began donating the entire space utilized by Commonweal, at which point Mr. Bainum stopped making payments to Choice with respect to Commonweal s use of the subleased office space. From April through December of 2010, the aggregate value of the space donated to Commonweal is $65,000. The Company expects to be able to claim a deduction for the value of the entirety of the subleased space, based on the Company s costs under its master lease.

The Company maintains an Aircraft Lease Agreement with LP_C, LLC (LPC), which is owned by Stewart Bainum, Stewart Bainum, Jr., Barbara Bainum and Roberta Bainum. The agreement permits the Company to lease from time to time the aircraft owned by LPC. During 2010, the Company incurred a total of $0.7 million for aircraft usage pursuant to the agreement. The Company believes the terms of the aircraft lease are more favorable to the Company than those that could be obtained from non-related parties.

In December 2008, the Company s Board of Directors approved an arrangement with Realty to permit Realty to utilize the services of one particular Choice employee from Choice s Corporate Business & Strategy group. The approved transaction was memorialized in a Consulting Agreement dated March 1, 2009. Per the terms of the consulting agreement, Realty and its affiliates are permitted to utilize up to 50% of the designated employee s overall working time, and in return is required to reimburse Choice for 50% of the Company s overall cost associated with the individual s employment (including base salary, bonus compensation and benefits). During 2010, Realty made $147,000 in reimbursement payments to Choice pursuant to the consulting agreement.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company s reporting officers and directors, and persons who own more than ten percent of the Company s Common Stock, to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the Securities and Exchange Commission (the Commission), the NYSE and the Company. Based solely on the Company s review of the forms filed with the Commission and written representations from reporting persons that they were not required to file Form 5 for certain specified years, the Company believes that all of its reporting officers, directors and greater than ten percent beneficial owners complied with all filing requirements applicable to them during the year ended December 31, 2010, except that the following reports were filed untimely due to administrative oversight: a Form 4 for Scott Oaksmith reporting one transaction; a Form 4 for Patrick Pacious reporting one transaction; and a Form 4 for Patrick Cimerola reporting one transaction.

AUDIT COMMITTEE REPORT

Upon the recommendation of the Audit Committee and in compliance with the regulations of the NYSE, the Board of Directors has adopted an Audit Committee Charter setting forth the requirements for the composition of the Audit Committee, the qualifications of its members, the frequency of meetings, and the responsibilities of the Audit Committee. A copy of the Audit Committee charter is available at the investor relations section of the Company s website at *www.choicehotels.com*. The Audit Committee consists of Mr. Schwieters as Chairman, Mr. Shames, Mr. Sullivan and Mr. Jews. The Audit Committee is composed of four independent directors within the meaning of the NYSE s rules.

Report of Audit Committee

The Audit Committee is responsible for providing independent, objective oversight of the Company s accounting functions and internal controls. The Audit Committee possesses sole authority to engage and discharge independent registered public accounting firms and to approve all significant non-audit engagements with such firms. Further responsibilities of the Audit Committee include review of SEC filings and financial statements and ultimate supervision of the Company s internal auditing function.

Management is responsible for the Company s system of internal controls and the financial reporting process. The independent registered public accounting firm is responsible for performing an independent audit of the Company s consolidated financial statements and management s assessment of internal controls pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 in accordance with Public Company Accounting Oversight Board (PCAOB) standards and to issue a report thereon. The Audit Committee s responsibility is to monitor and oversee those processes.

In this context, the Audit Committee has reviewed and discussed with management and the independent registered public accounting firm, PricewaterhouseCoopers LLP, the Company s audited financial statements as of and for the year ended December 31, 2010. Management represented that the consolidated financial statements were prepared in accordance with Generally Accepted Accounting Principles (GAAP). The Audit Committee discussed with the independent registered public accounting firm matters required to be discussed by Statement on Auditing Standards (SAS) No. 90, Audit Committee Communications, SAS No. 89, Audit Adjustments and SAS No. 61, Communications with Audit Committees, as adopted by the PCAOB in Rule 3200T. All of these statements were issued by the American Institute of Certified Public Accountants.

In addition, the Audit Committee has discussed with PricewaterhouseCoopers LLP their independence from the Company and its management, including matters in the written disclosure and letter required by applicable requirements of the PCAOB and the provision of non-audit services by the independent registered public accounting firm. A disclosure summarizing the fees paid to PricewaterhouseCoopers LLP in 2010 for audit and non-audit services appears below under the heading Principal Auditor Fees and Services. All of the services provided by PricewaterhouseCoopers LLP were pre-approved by the Audit Committee in accordance with its policies and procedures. The Audit Committee received a description of the services and approved them after determining that they would not affect the auditor s independence.

The Audit Committee discussed with the Company s internal auditors and the independent registered public accounting firm the overall scopes and plans for their respective audits. The Audit Committee met with the internal auditors and the independent registered public accounting firm, with and without management present, to discuss the results of their examinations, the evaluations of the Company s internal controls and the overall quality of the Company s financial reporting.

Based on the Audit Committee s discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010, for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE

John T. Schwieters, Chairman

Ervin R. Shames

David C. Sullivan

William Jews

PROPOSAL 4 RATIFICATION OF THE APPOINTMENT OF

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Appointment of Independent Registered Public Accounting Firm

The Audit Committee of the Board has appointed PricewaterhouseCoopers LLP as the independent registered public accounting firm to audit the Company s consolidated financial statements for the fiscal year ending December 31, 2011. During fiscal year 2010, PricewaterhouseCoopers LLP served as the Company s independent registered public accounting firm and also provided certain tax and other audit related services. See Principal Auditor Fees and Services below.

As a matter of good corporate governance, the appointment of PricewaterhouseCoopers LLP is being presented to the shareholders for ratification. If the appointment is not ratified, the Board will consider whether it should select a different independent registered public accounting firm.

The Company expects that representatives of PricewaterhouseCoopers LLP will be present at the Annual Meeting. They will be given an opportunity to make a statement if they desire to do so, and it is expected that they will be available to respond to appropriate questions.

Principal Auditor Fees and Services

During fiscal years 2010 and 2009, the Audit Committee pre-approved all audit and non-audit services provided by our independent registered public accounting firm. The following table presents fees for audit services rendered by PricewaterhouseCoopers LLP for the audit of the Company s annual financial statements relating to fiscal years 2010 and 2009, and fees incurred for other services rendered by PricewaterhouseCoopers LLP relating to those periods.

Fees	Fiscal Year Ended December 31, 2010	Fiscal Year Ended December 31, 2009
Audit Fees	$ 866,389	$ 825,313
Audit Related Fees[(1)]	$ 216,237	$ 105,100
Tax Fees[(2)]	$ 119,208	$ 37,823
All Other Fees[(3)]	$ 4,071	$ 1,500
Total	$ 1,205,905	$ 969,736

(1) Audit Related Fees primarily include employee benefit plan audits, Franchise Disclosure Document consents, review of the Company s proxy statement, audits of the Company s marketing and reservations activities and other miscellaneous assurance services. For 2010, Audit Related Fees also included an audit in connection with the Company s registration and sale of debt securities.
(2) Tax Fees primarily related to review of certain Company income tax returns and certain state and international tax matters.
(3) All Other Fees include renewal fees for the online Comperio accounting research software program provided by PricewaterhouseCoopers LLP.

Board Recommendation

The Board recommends a vote **FOR** the ratification of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2011.

SHAREHOLDER PROPOSALS FOR 2012 ANNUAL MEETING

A shareholder who intends to have a shareholder proposal included in the Company s proxy statement for the 2012 Annual Meeting must submit such proposal so that it is received by the Company s Corporate Secretary no later than December 2, 2011.

A shareholder who intends to present a proposal at the 2012 Annual Meeting, but does not seek to have the proposal included in the Company s proxy statement for the 2012 Annual Meeting, must deliver notice to the Company no later than March 6, 2012, but not prior to February 5, 2012.

A shareholder who intends to nominate one or more persons for election to the Board of Directors at the 2012 Annual Meeting must deliver notice to the Company no later than March 6, 2012, but not prior to February 5, 2012. Such notice must set forth (a) the name and address of the shareholder who intends to make the nomination and the name, age, business address, residence address and principal occupation of the person or persons to be nominated, (b) a representation that the shareholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice, (c) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming, such person or persons) relating to the nomination or nominations, (d) the class and number of shares of the Company which are beneficially owned by such shareholder and the person to be nominated as of the date of such shareholder s notice and by any other shareholder known by such shareholder to be supporting such nominees as of the date of such shareholder s notice, (e) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC, and (f) the consent of each nominee to serve as a director of the Company if so elected.

SHAREHOLDERS SHARING THE SAME LAST NAME AND ADDRESS

In accordance with notices that we sent to certain shareholders, we are sending only one copy of our annual report on Form 10-K and proxy statement to shareholders who share the same last name and address, unless they have notified us that they want to continue receiving multiple copies. This practice, known as householding, is designed to reduce duplicate mailings and save significant printing and postage costs as well as natural resources.

If you received a householded mailing this year and you would like to have additional copies of our annual report on Form 10-K and/or proxy statement mailed to you, or you would like to opt out of this practice for future mailings, please submit your request to our Corporate Secretary by mail to Corporate Secretary, Choice Hotels International, Inc., 10750 Columbia Pike, Silver Spring, Maryland 20901 or call our Investor Relations department at (301) 592-5026. We will promptly send additional copies of the annual report on Form 10-K and/or proxy statement upon receipt of such request. You may also contact us at the same mailing address and phone number provided above if you received multiple copies of the Annual Meeting materials and would prefer to receive a single copy in the future.

SOLICITATION OF PROXIES

The Company will bear the cost of the solicitation. In addition to solicitation by mail, the Company will request banks, brokers and other custodian nominees and fiduciaries to supply proxy material to the beneficial owners of Company Common Stock of whom they have knowledge, and will reimburse them for their expenses in so doing; certain directors, officers and other employees of the Company, not specially employed for the purpose, may solicit proxies, without additional remuneration therefore by personal interview, mail, telephone or telegraph.

OTHER MATTERS TO COME BEFORE THE MEETING

The Board of Directors does not know of any matters which will be brought before the 2011 Annual Meeting other than those specifically set forth in the notice of meeting. If any other matters are properly introduced at the meeting for consideration, including, among other things, consideration of a motion to adjourn the meeting to another time or place, the individuals named on the enclosed proxy card will have discretion to vote in accordance with their best judgment, unless otherwise restricted by law.