UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED: June 30, 2011

or

o 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: 001-32325

CALLISTO PHARMACEUTICALS, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**13-3894575**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

420 Lexington Avenue, Suite 1609, New York, New York 10170

(Address of principal executive offices) (Zip Code)

(212) 297-0010

(Registrant s telephone number)

(Former Name, Former Address and Former Fiscal Year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (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 x No o

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

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

The number of the registrant s shares of common stock outstanding was 158,516,071 as of August 12, 2011.

Table of Contents

CALLISTO PHARMACEUTICALS, INC.

FORM 10-Q

CONTENTS

Table of Contents

INTRODUCTORY NOTE

This Report on Form 10-Q for Callisto Pharmaceuticals, Inc. (Callisto or the Company) may contain forward-looking statements. You can identify these statements by forward-looking words such as may, will, expect, intend, anticipate, believe, estimate and cont similar words. Forward-looking statements include information concerning possible or assumed future business success or financial results. You should read statements that contain these words carefully because they discuss future expectations and plans, which contain projections of future results of operations or financial condition or state other forward-looking information. We believe that it is important to communicate future expectations to investors. However, there may be events in the future that we are not able to accurately predict or control. Accordingly, we do not undertake any obligation to update any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

The forward-looking statements included herein are based on current expectations that involve a number of risks and uncertainties set forth under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010 and other periodic reports filed with the SEC. Accordingly, to the extent that this Report contains forward-looking statements regarding the financial condition, operating results, business prospects or any other aspect of the Company, please be advised that Callisto s actual financial condition, operating results and business performance may differ materially from that projected or estimated by the Company in forward-looking statements. All drug candidates to treat GI disorders and diseases, currently plecanatide and SP-333, are being developed exclusively by Synergy Pharmaceuticals, Inc., our controlled subsidiary (Synergy). Use of the terms we , our or us in connection with GI drug candidates discussed herein refer to research and development activities and plans of Synergy.

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CALLISTO PHARMACEUTICALS, INC.

(A Development Stage Company)

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 598,104	$ 1,708,982
Prepaid expenses and other	969,399	769,403
Tax credits receivable	250,000	781,127
Total Current Assets	1,817,503	3,259,512
Property and equipment, net	6,763	9,397
Security deposits	87,740	87,740
Total Assets	$ 1,912,006	$ 3,356,649
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current Liabilities:		
Accounts payable	$ 4,382,375	$ 4,755,361
Accrued expenses	2,306,145	2,311,050
Total Current Liabilities	6,688,520	7,066,411
Derivative financial instruments, at estimated fair value warrants	7,958,506	3,487,959
Total Liabilities	14,647,026	10,554,370
Commitments and contingencies		
Stockholders Deficit:		
Series A convertible preferred stock, par value $0.0001, 700,000 shares authorized, 8,000 shares outstanding at June 30, 2011 and December 31, 2010	1	1
Series B convertible preferred stock, par value $0.0001, 2,500,000 shares authorized, no shares outstanding at June 30, 2011 and December 31, 2010		
Common stock, par value of $.0001 per share: 225,000,000 shares authorized; 158,516,071 and 157,509,404 shares outstanding at June 30, 2011 and December 31, 2010, respectively	15,852	15,751
Additional paid-in capital	142,565,138	139,496,452
Deficit accumulated during development stage	(139,835,231)	(135,573,268)
Total Stockholders Equity	2,745,760	3,938,936
Non-controlling interest	(15,480,780)	(11,136,657)

Total Stockholders Deficit		(12,735,020)		(7,197,721)
Total Liabilities and Stockholders Deficit	$	1,912,006	$	3,356,649

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

Table of Contents

CALLISTO PHARMACEUTICALS, INC.

(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010	June 5, 1996 (Inception) to June 30, 2011
Revenues	$	$	$	$	$
Costs and expenses:					
Research and development	2,356,099	4,402,155	3,728,027	5,597,565	49,560,509
Government grants					(1,135,318)
Purchased in process research and development					6,944,553
General and administrative	1,875,688	1,604,747	3,835,532	3,038,534	56,541,633
Loss from operations	(4,231,787)	(6,006,902)	(7,563,559)	(8,636,099)	(111,911,377)
Interest and investment income	3	7,675	54	24,150	914,936
State tax credit				628,806	1,025,606
Interest and other expense	6,208	(16,542)	(6,206)	(300,711)	(937,453)
Loss on debt extinguishment					(2,099,892)
Change in fair value of derivative instruments warrants	(697,660)	1,420,784	(1,036,375)	(15,641,361)	(23,203,691)
Net loss	(4,923,236)	(4,594,985)	(8,606,086)	(23,925,215)	(136,211,871)
Net Loss of subsidiary attributable to noncontrolling interest	2,422,640	2,870,134	4,344,123	4,035,191	15,480,780
Net loss attributable to controlling interest	(2,500,596)	(1,724,851)	(4,261,963)	(19,890,024)	(120,731,091)
Series A Preferred stock beneficial conversion feature accreted as a dividend					(4,888,960)
Series B Preferred stock beneficial conversion feature accreted as a dividend					(10,495,688)
Series A Preferred stock conversion rate change accreted as a dividend					(136,889)
Series B Preferred stock conversion rate change accreted as a dividend					(1,678,703)
Cumulative effect of adopting ASC Topic 815 January 1, 2009					(1,903,900)
Net loss available to common stockholders	$ (2,500,596)	$ (1,724,851)	$ (4,261,963)	$ (19,890,024)	$ (139,835,231)

Weighted average shares outstanding:				
basic and diluted	158,506,181	54,420,023	158,078,170	54,146,561
Net loss per common share :				
basic and diluted	$ (0.02)	$ (0.03)	$ (0.03)	$ (0.37)

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

Table of Contents

CALLISTO PHARMACEUTICALS, INC.

(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN

STOCKHOLDERS EQUITY (DEFICIT)

(Unaudited)

	Preferred Shares	Preferred Stock, Par Value	Common Shares	Common Stock, Par Value	Additional Paid in Capital
Balance at inception, June 5, 1996		$		$	$
Net loss for the year					
Issuance of founder shares			2,642,500	264	528
Common stock issued			1,356,194	136	272
Common stock issued via private placement			1,366,667	137	1,024,863
Balance, December 31, 1996			5,365,361	537	1,025,663
Net loss for the year					
Common stock issued via private placement			1,442,666	144	1,081,855
Balance, December 31, 1997			6,808,027	681	2,107,518
Net loss for the year					
Amortization of Stock based Compensation					52,778
Common stock issued via private placement			1,416,667	142	1,062,358
Common stock issued for services			788,889	79	591,588
Common stock repurchased and cancelled			(836,792)	(84)	(96,916)
Balance, December 31, 1998			8,176,791	818	3,717,326
Net loss for the year					
Deferred Compensation stock options					9,946
Amortization of Stock based Compensation					
Common stock issued for services					3,168,832
Common stock issued via private placement			346,667	34	259,966
Balance, December 31, 1999			8,523,458	852	7,156,070
Net loss for the year					
Amortization of Stock based Compensation					
Common stock issued			4,560,237	455	250,889
Other					432
Preferred shares issued	3,485,299	348			5,986,302
Preferred stock issued for services	750,000	75			1,124,925
Balance, December 31, 2000	4,235,299	423	13,083,695	1,307	14,518,618
Net loss for the year					
Deferred Compensation stock Options					20,000
Amortization of Stock based Compensation					

Balance, December 31, 2001	4,235,299		423	13,083,695		1,307		14,538,618
Net loss for the year								
Amortization of Stock based Compensation								
Balance, December 31, 2002	4,235,299	$	423	13,083,695	$	1,307	$	14,538,618

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

Table of Contents

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIT) (Continued)

	Unamortized Deferred Stock Based Compensation	Deficit Accumulated during the Development Stage	Total Stockholders Equity
Balance at inception, June 5, 1996	$	$	$
Net loss for the year		(404,005)	(404,005)
Issuance of founder shares			792
Common stock issued			408
Common stock issued via private placement			1,025,000
Balance, December 31, 1996		(404,005)	622,195
Net loss for the year		(894,505)	(894,505)
Common stock issued via private placement			1,081,999
Balance, December 31, 1997		(1,298,510)	809,689
Net loss for the year		(1,484,438)	(1,484,438)
Amortization of Stock based Compensation			52,778
Common stock issued			1,062,500
Common stock issued for services			591,667
Common Stock repurchased and cancelled			(97,000)
Balance, December 31, 1998		(2,782,948)	935,196
Net loss for the year		(4,195,263)	(4,195,263)
Deferred Compensation stock options	(9,946)		
Amortization of Stock based Compensation	3,262		3,262
Common stock issued for services			3,168,832
Common stock issued via private placement			260,000
Balance, December 31, 1999	(6,684)	(6,978,211)	172,027
Net loss for the year		(2,616,261)	(2,616,261)
Amortization of Stock based Compensation	4,197		4,197
Common stock issue			251,344
Other			432
Preferred shares issued			5,986,650
Preferred stock issued for services			1,125,000
Balance, December 31, 2000	(2,487)	(9,594,472)	4,923,389
Net loss for the year		(1,432,046)	(1,432,046)
Deferred Compensation stock options	(20,000)		
Amortization of Stock based Compensation	22,155		22,155
Balance, December 31, 2001	(332)	(11,026,518)	3,513,498
Net loss for the year		(1,684,965)	(1,684,965)
Amortization of Stock based Compensation	332		332
Balance, December 31, 2002	$	$ (12,711,483)	$ 1,828,865

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

Table of Contents

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIT) (Continued)

	Preferred Stock	Preferred Stock Par Value	Common Stock	Common Stock Par Value	Additional Paid in Capital	Unamortized Deferred Stock Based Compensation	Deficit Accumulated during the Development Stage	Total Stockholders Equity
Balance December 31, 2002	4,235,299	$ 423	13,083,695	$ 1,307	$ 14,538,618	$	$ (12,711,483)	$ 1,828,865
Net loss for the year							(13,106,247)	(13,106,247)
Conversion of preferred stock in connection with the Merger	(4,235,299)	(423)	4,235,299	423				
Common stock issued to former Synergy stockholders			4,329,927	432	6,494,458			6,494,890
Common stock issued in exchange for Webtronics common stock			1,503,173	150	(150)			
Deferred Compensation stock options					9,313,953	(9,313,953)		
Amortization of deferred Stock based Compensation						3,833,946		3,833,946
Private placement of common stock, net			2,776,666	278	3,803,096			3,803,374
Balance, December 31, 2003		$	25,928,760	$ 2,590	$ 34,149,975	$ (5,480,007)	$ (25,817,730)	$ 2,854,828

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Table of Contents

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIT) (Continued)

	Common Stock	Common Stock Par Value	Additional Paid in Capital	Unamortized Deferred Stock Based Compensation	Deficit Accumulated during the Development Stage	Total Stockholders Equity
Balance, December 31, 2003	25,928,760	$ 2,590	$ 34,149,975	$ (5,480,007)	$ (25,817,730)	$ 2,854,828
Net loss for the year					(7,543,467)	(7,543,467)
Amortization of deferred Stock-based compensation expense				3,084,473		3,084,473
Variable accounting for stock options			(816,865)			(816,865)
Stock-based compensation net of forfeitures			240,572	93,000		333,572
Common stock issued via private placements, net	3,311,342	331	6,098,681			6,099,012
Warrant and stock-based compensation for services in connection with the Merger			269,826			269,826
Common stock returned from former Synergy stockholders	(90,000)	(9)	(159,083)			(159,092)
Stock issued for patent rights	25,000	3	56,247			56,250
Common stock issued for services	44,000	7	70,833			70,840
Balance, December 31, 2004	29,219,102	$ 2,922	$ 39,910,186	$ (2,302,534)	$ (33,361,197)	$ 4,249,377

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

Table of Contents

CALLISTO PHARMACEUTICALS, INC.

(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIT) (Continued)

	Common Stock	Common Stock Par Value	Additional Paid in Capital	Unamortized Deferred Stock Based Compensation	Deficit Accumulated during the Development Stage	Total Stockholders Equity (Deficit)
Balance, December 31, 2004	29,219,102	$ 2,922	$ 39,910,186	$ (2,302,534)	$ (33,361,197)	$ 4,249,377
Net loss for the year					(11,779,457)	(11,779,457)
Deferred stock-based compensation new grants			1,571,772	(1,571,772)		
Amortization of deferred stock-based compensation				2,290,843		2,290,843
Variable accounting for stock options			75,109			75,109
Common stock issued via private placement:						
March 2005	1,985,791	198	3,018,203			3,018,401
August 2005	1,869,203	187	1,812,940			1,813,127
Finders fees and expenses			(176,249)			(176,249)
Exercise of common stock warrant	125,000	13	128,737			128,750
Common stock issued for services	34,000	3	47,177			47,180
Balance, December 31, 2005	33,233,096	$ 3,323	$ 46,387,875	$ (1,583,463)	$ (45,140,654)	$ (332,919)

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

Table of Contents

CALLISTO PHARMACEUTICALS, INC.

(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN

STOCKHOLDERS EQUITY (DEFICIT) (Continued)

	Series A Convertible Preferred Shares	Series A Convertible Preferred Stock	Common Stock	Common Stock Par Value	Additional Paid in Capital	Unamortized Deferred Stock Based Compensation	Deficit Accumulated during the Development Stage	Total Stockholders Equity (Deficit)
Balance, December 31, 2005		$	33,233,096	$ 3,323	$ 46,387,875	$ (1,583,463)	$ (45,140,654)	$ (332,919)
Net loss for the year							(12,919,229)	(12,919,229)
Reclassification of deferred unamortized stock-based compensation upon adoption of FAS 123R					(1,583,463)	1,583,463		
Stock based compensation expense					2,579,431			2,579,431
Common stock issued via private placement:								
February 2006			4,283,668	428	5,139,782			5,140,210
Finders fees and expenses					(561,808)			(561,808)
April 2006			666,667	67	799,933			800,000
Finders fees and expenses					(41,000)			(41,000)
Waiver and Lock-up Agreement			740,065	74	579,622			579,696
Common stock issued for services			87,000	9	121,101			121,110
Exercise of common stock warrants			184,500	18	190,017			190,035
Series A convertible preferred stock issued via private placement:	574,350	57			5,743,443			5,743,500
Finders fees and expenses	11,775	1			(448,909)			(448,908)
Detachable warrants					2,384,485			2,384,485
Beneficial conversion feature accreted as a dividend							(2,384,485)	(2,384,485)
Balance, December 31, 2006	586,125	$ 58	39,194,996	$ 3,919	$ 61,290,509	$	$ (60,444,368)	$ 850,118

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

Table of Contents

CALLISTO PHARMACEUTICALS, INC.

(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN

STOCKHOLDERS EQUITY (DEFICIT) (Continued)

	Series A Convertible Preferred Shares	Series A Convertible Preferred Stock, Par Value	Series B Convertible Preferred Shares	Series B Convertible Preferred Stock, Par Value	Common Shares	Common Stock, Par Value	Additional Paid in Capital	Deficit Accumulated during the Development Stage	Total Stockholders Equity
Balance, December 31, 2006	586,125	$ 58		$	39,194,996	$ 3,919	$ 61,290,509	$ (60,444,368)	$ 850,118
Net loss for the year								(7,887,265)	(7,887,265)
Stock-based compensation expense							591,561		591,561
Common stock issued for services					80,000	8	36,792		36,800
Series A convertible preferred stock, issued via private placement	28,000	4					279,997		280,001
Finders fees and expenses, Series A private placement							(36,400)		(36,400)
Conversion of Series A preferred stock to common stock	(395,450)	(40)			7,668,165	767	(727)		
Beneficial conversion feature accreted as a dividend to Series A preferred stock							2,504,475	(2,504,475)	
Series B convertible preferred stock, issued via private placement			1,147,050	115			11,470,385		11,470,500
Finders fees and expenses, Series B private placement							(920,960)		(920,960)
Beneficial conversion feature accreted as a dividend to Series B preferred stock							10,495,688	(10,495,688)	
Change in fair value of Series B warrants from date of issuance to expiration of put option							(2,591,005)		(2,591,005)
Balance, December 31, 2007	218,675	22	1,147,050	115	46,943,161	4,694	83,120,315	(81,331,796)	1,793,350
Net loss for the year								(9,655,471)	(9,655,471)
Recapitalization of majority owned subsidiary via private placements of common stock							2,951,913		2,951,913
Minority interest in equity of subsidiary acquired							(42,824)		(42,824)
							589,063		589,063

Stock-based compensation expense									
Proceeds from issuance of 11% Notes attributable to detachable warrants							181,732		181,732
Conversion of Series A preferred stock to common stock	(120,675)	(12)			2,413,500	241	(229)		
Conversion of Series B preferred stock to common stock			(10,000)	(1)	200,000	20	(19)		
Balance, December 31, 2008	98,000	$ 10	1,137,050	$ 114	49,556,661	$ 4,955	$ 86,799,951	$ (90,987,267)	$ (4,182,237)

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

Table of Contents

CALLISTO PHARMACEUTICALS, INC.

(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN

STOCKHOLDERS EQUITY (DEFICIT) (Continued)

(Unaudited)

	Series A Convertible Preferred Shares	Series A Convertible Preferred Stock	Series B Convertible Preferred Shares	Series B Convertible Preferred Stock	Common Shares	Common Stock Par Value	Additional Paid in Capital	Deficit Accumulated during the Development Stage	Non-Controlling Interest	Total Stockholders Equity (Deficit)
Balance, December 31, 2008	98,000	$ 10	1,137,050	$ 114	49,556,661	4,955	$ 86,799,951	$ (90,987,267)	$	$ (4,182,237)
Cumulative effect of adoption of ASC Topic 815							(181,732)	(1,903,900)		(2,085,632)
Net Loss								(15,073,021)	(3,282,393)	(18,355,414)
Stock based compensation expense							1,119,856			1,119,856
Conversion of Series A preferred stock to common stock	(35,000)	(4)			894,445	89	(85)			
Conversion of Series B preferred stock to common stock			(122,884)	(12)	2,963,236	296	(284)			
Private placements of common stock of majority owned subsidiary							15,970,100			15,970,100
Fees and expenses associated with private placements of majority owned subsidiary							(260,002)			(260,002)
Preferred Stock dividend attributable to reset of conversion							1,815,592	(1,815,592)		

price in conjunction with waiver of liquidation preference										
Cashless Conversion of Warrants to Common Stock					193,769	19	(19)			
Balance December 31, 2009	63,000	$ 6	1,014,166	$ 102	53,608,111	$ 5,359	$ 105,263,377	$ (109,779,780)	$ (3,282,393)	$ (7,793,329)
Net Loss								(25,793,488)	(7,854,264)	(33,647,752)
Stock based compensation expense							854,651			854,651
Conversion of Series A preferred stock to common stock	(55,000)	(5)			1,527,777	153	(148)			
Conversion of Series B preferred stock to common stock			(1,014,166)	(102)	28,171,278	2,817	(2,715)			
Common shares in exchange for modification of convertible notes					265,770	27	100,169			100,196
Extinguishment on debt							2,809,531			2,809,531
Cashless conversion of Warrants to common stock upon extinguishment of convertible notes					72,355,769	7,236	(7,236)			
Warrants exchanged					1,505,699	151	(151)			
Direct offering of common stock of controlled subsidiary										

			Hotels	Rooms	%	%	
Comfort Inn	**1,422**	**110,932**	1,445	113,266	(23)	(2,334)	(1.6%)
Comfort Suites	**621**	**48,096**	620	48,180	1	(84)	0.2%
Sleep	**397**	**28,895**	389	28,377	8	518	2.1%
Quality	**1,015**	**88,967**	976	88,394	39	573	4.0%
Clarion	**192**	**28,259**	168	24,336	24	3,923	14.3%
Econo Lodge	**779**	**48,245**	786	48,519	(7)	(274)	(0.9%)
Rodeway	**381**	**20,940**	373	21,118	8	(178)	2.1%
MainStay	**38**	**2,943**	36	2,797	2	146	5.6%
Suburban	**63**	**7,543**	62	7,474	1	69	1.6%
Ascend Collection	**42**	**3,259**	30	2,459	12	800	40.0%
Cambria Suites	**20**	**2,328**	20	2,326		2	0.0%
Total Domestic Franchises	**4,970**	**390,407**	4,905	387,246	65	3,161	1.3%

International available rooms increased 2.3% to 102,326 as of March 31, 2011 from 100,018 as of March 31, 2010. The total number of international hotels increased 2.8% from 1,127 as of March 31, 2010 to 1,158 as of March 31, 2011.

As of March 31, 2011, the Company had 508 franchised hotels with 41,475 rooms under construction, awaiting conversion or approved for development in its domestic system as compared to 657 hotels and 52,483 rooms at March 31, 2010. The number of new construction franchised hotels in the Company s domestic pipeline decreased 27% to 352 at March 31, 2011 from 482 at March 31, 2010. The number of conversion franchised hotels in the Company s domestic pipeline declined by 19 units or 11% from March 31, 2010 to 156 hotels at March 31, 2011. The domestic system hotels under construction, awaiting conversion or approved for development declined 23% from the prior year primarily due to the decline in new executed franchise agreements over the trailing twelve months due to the current economic environment coupled with the opening of 291 franchised units over the twelve months ending March 31, 2011. The Company had an additional 98 franchised hotels with 8,433 rooms under construction, awaiting conversion or approved for development in its international system as of March 31, 2011 compared to 102 hotels and 8,221 rooms at March 31, 2010. While the Company s hotel pipeline provides a

Table of Contents

strong platform for growth, a hotel in the pipeline does not always result in an open and operating hotel due to various factors.

A summary of the domestic franchised hotels under construction, awaiting conversion or approved for development at March 31, 2011 and 2010 by brand is as follows:

	March 31, 2011 Units			March 31, 2010 Units			Variance					
							Conversion		New Construction		Total	
	Conversion	New Construction	Total	Conversion	New Construction	Total	Units	%	Units	%	Units	%
Comfort Inn	**31**	**58**	**89**	43	81	124	(12)	(28%)	(23)	(28%)	(35)	(28%)
Comfort Suites	**3**	**117**	**120**		154	154	3	NM	(37)	(24%)	(34)	(22%)
Sleep Inn		**70**	**70**	1	115	116	(1)	(100%)	(45)	(39%)	(46)	(40%)
Quality	**47**	**6**	**53**	39	13	52	8	21%	(7)	(54%)	1	2%
Clarion	**20**	**2**	**22**	16	6	22	4	25%	(4)	(67%)		0%
Econo Lodge	**35**	**2**	**37**	39	4	43	(4)	(10%)	(2)	(50%)	(6)	(14%)
Rodeway	**14**	**2**	**16**	33	3	36	(19)	(58%)	(1)	(33%)	(20)	(56%)
MainStay	**2**	**39**	**41**		39	39	2	NM		0%	2	5%
Suburban		**20**	**20**		26	26		NM	(6)	(23%)	(6)	(23%)
Ascend Collection	**4**	**4**	**8**	4	4	8		0%		0%		0%
Cambria Suites		**32**	**32**		37	37		NM	(5)	(14%)	(5)	(14%)
Total	**156**	**352**	**508**	175	482	657	(19)	(11%)	(130)	(27%)	(149)	(23%)

Domestic hotels open and operating declined by 23 hotels during the three months ended March 31, 2011 compared to a decline of one domestic hotel open and operating during the three months ended March 31, 2010. Gross domestic franchise additions declined from 78 for the three months ended March 31, 2010 to 42 for the same period of 2011. New construction hotels represented 4 of the gross domestic additions during three months ended March 31, 2011 compared to 28 hotels in the same period of the prior year. Gross domestic additions for conversion hotels during the three months ended March 31, 2011 declined by 12 to 38 hotels from 50 hotels in the same period of the prior year. The decline in new hotel openings in the current period reflects the lack of new hotel construction financing, a decline in the real estate market for hotel transactions and retention efforts implemented by other hotel brand companies have negatively impacted the Company s pipeline of new franchises. The Company expects the number of new franchise additions that will open during 2011 to decline from 327 in 2010 to approximately 277 hotels. This decline is expected to be driven by new construction hotels which are projected to decline by 48 hotels from 78 in 2010 to 30 hotels in 2011 due to the impact the tight credit markets have had on the number of new construction franchise agreements executed in 2009 and 2010 as well as the availability of capital to commence construction on existing projects.

Net domestic franchise terminations declined from 79 in the three months ended March 31, 2010 to 65 for the three months ended March 31, 2011 primarily due to fewer terminations related to the removal of hotels related to the non-payment of franchise fees.

International royalties increased by $0.6 million or 12% from $5.0 million in the first quarter of 2010 to $5.6 million for the same period of 2011 primarily due to foreign currency fluctuations and global RevPAR increases.

New domestic franchise agreements executed in the three months ended March 31, 2011 totaled 56 representing 5,158 rooms compared to 55 agreements representing 4,511 rooms executed in the first quarter of 2010. During the first quarter of 2011, 6 of the executed agreements were for new construction hotel franchises representing 572 rooms compared to 10 contracts representing 709 rooms for the same period a year ago. Conversion hotel executed franchise agreements totaled 50 representing 4,586 rooms for the three months ended March 31, 2011 compared to 45 agreements representing 3,802 rooms for the same period a year ago. Domestic initial fee revenue, included in the initial franchise and relicensing fees caption above, generated from executed franchise agreements increased 69% to $2.2 million for the three months ended March 31, 2011 from $1.3 million for the three months ended March 31, 2010. Initial fee revenue increased $0.9 million from the same period of the prior year despite executing approximately the same number of new franchise agreements in both periods due to an increase in average initial fees and the recognition of revenue during 2011 related to franchise agreements containing developer incentives executed in prior periods. Revenues associated with agreements including incentives are deferred and recognized when the incentive criteria are met or the agreement is terminated, whichever occurs first.

31

Table of Contents

A summary of executed domestic franchise agreements by brand for the three months ended March 31, 2011 and 2010 is as follows:

	For the Three Months Ended March 31, 2011			For the Three Months Ended March 31, 2010			% Change		
	New Construction	Conversion	Total	New Construction	Conversion	Total	New Construction	Conversion	Total
Comfort Inn	**2**	**7**	**9**	1	8	9	100%	(13%)	0%
Comfort Suites		**2**	**2**	2		2	(100%)	NM	0%
Sleep	**2**		**2**	2		2	0%	NM	0%
Quality		**24**	**24**	1	11	12	(100%)	118%	100%
Clarion		**5**	**5**		3	3	NM	67%	67%
Econo Lodge		**6**	**6**		10	10	NM	(40%)	(40%)
Rodeway		**5**	**5**	1	11	12	(100%)	(55%)	(58%)
MainStay	**1**		**1**	2		2	(50%)	NM	(50%)
Suburban				1		1	(100%)	NM	(100%)
Ascend Collection		**1**	**1**		2	2	NM	(50%)	(50%)
Cambria Suites	**1**		**1**				NM	NM	NM
Total Domestic System	**6**	**50**	**56**	10	45	55	(40%)	11%	2%

Relicensing fees include fees charged to the new owners of a franchised property whenever an ownership change occurs and the property remains in the franchise system as well as fees required to renew expiring franchise contracts. Relicensing and renewal contracts declined 22% from 18 in the first quarter of 2010 to 14 for the three months ended March 31, 2011. As a result of the decline in contracts, relicensing revenues declined $0.1 million from $0.6 million for the three months ended March 31, 2010 to $0.5 million for the three months ended March 31, 2011. The Company s relicensing activity in 2011 and beyond is dependent on the availability and cost of capital as well as the presence of an active real estate market for hotel transactions.

Selling, General and Administrative Expenses: The cost to operate the franchising business is reflected in SG&A on the consolidated statements of income. SG&A expenses were $23.8 million for the three months ended March 31, 2011, a $2.0 million or 9% increase from the three months ended March 31, 2010. Adjusted SG&A costs, which exclude certain items described above, increased $2.3 million to $23.8 million for the three months ended March 31, 2011 from $21.5 million for the same period of 2010. Adjusted SG&A for the three months ended March 31, 2011 increased from 11% over the same period of the prior year primarily due to increases in variable franchise sales commissions related to agreements executed with developer incentives in prior periods, an increase in quality assurance inspection fees as well as higher variable management incentive compensation.

Marketing and Reservations: The Company s franchise agreements require the payment of franchise fees, which include marketing and reservation system fees. The fees, which are primarily based on a percentage of the franchisees gross room revenues, are used exclusively by the Company for expenses associated with providing franchise services such as central reservation systems, national marketing and media advertising. The Company is contractually obligated to expend the marketing and reservation system fees it collects from franchisees in accordance with the franchise agreements; as such, no income or loss to the Company is generated.

Total marketing and reservation system fees were $63.0 million and $58.8 million for the three months ended March 31, 2011 and 2010, respectively. Depreciation and amortization attributable to marketing and reservation activities was $3.2 million and $2.7 million for the three month periods ended March 31, 2011 and 2010, respectively. Interest expense attributable to marketing and reservation activities was approximately $1.0 million and $0.1 million for the three month periods ended March 31, 2011 and 2010, respectively. As of March 31, 2011 and December 31, 2010, the Company s balance sheet includes a receivable of $54.7 million and $42.5 million, respectively from cumulative marketing and reservation expenses incurred in excess of cumulative marketing and reservations system fee revenues earned. These receivables are recorded as an asset in the financial statements as the Company has the contractual authority to require that the franchisees in the system at any given point repay the Company for any deficits related to marketing and reservation activities. The Company s current franchisees are legally obligated to pay any assessment the Company imposes on its franchisees to obtain reimbursement of such deficit regardless of whether those constituents continue to generate gross room revenue and whether or not they joined the system following the deficit s occurrence. The Company has no present intention to accelerate repayment of the deficit from current franchisees. Conversely, cumulative marketing and reservation system

32

fees not expended are recorded as a payable in the financial statements and are carried over to the next fiscal year and expended in accordance with the franchise agreements.

Our ability to recover these receivables may be adversely impacted by certain factors, including, among others, declines in the ability of our franchisees to generate revenues at properties they franchise from us, lower than expected franchise system growth of certain brands and/or lower than expected international franchise system growth. An extended period of occupancy or room rate declines or a decline in the number of hotel rooms in our franchise system could result in the generation of insufficient funds to recover marketing and reservation advances as well as meet the ongoing marketing and reservation needs of the overall system.

Other Income and Expenses, Net: Other income and expenses, net, declined $4.6 million to $3.8 million for the three months ended March 31, 2011 compared to income of $0.8 million in the same period of the prior year primarily due to the following items.

Interest expense increased from $0.6 million for the three months ended March 31, 2010 to $3.2 million for the same period of 2011 due to the issuance of the Company s $250 million senior notes with an effective rate of 6.19% on August 25, 2010. The proceeds were utilized to repay outstanding borrowings under the Company s $350 million revolving line of credit which had an effective interest rate of approximately 0.7%.

Other gains and losses declined $2.1 million from income of $1.1 million to a loss of $1.0 million for the three months ended March 31, 2011. The loss in the current period primarily reflects a $1.8 million loss on assets held for sale resulting from the Company reducing the carrying amount of a parcel of land held for sale to its estimated fair value.

Other gains and losses also reflect the fluctuations in the fair value of investments held in the Company s non-qualified employee benefit plans. Other gains and losses increased $0.8 million due to fluctuations in these investments during both the three months ended March 31, 2011 and March 31, 2010. As discussed in the accompanying critical accounting policies, the Company sponsors two non-qualified retirement and savings plans: the Non-Qualified Plan and the EDCP plan. The fair value of the Non-Qualified Plan investments increased $0.3 million during both of the three months ended March 31, 2011 and 2010. The fair value of the Company s investments held in the EDCP plan increased $0.4 million during the three months ended March 31, 2011 compared to an increase in fair value of $0.5 million during the same period of the prior year.

The Company accounts for the Non-Qualified Plan in accordance with accounting for deferred compensation arrangements when investments are held in a rabbi trust and invested. As a result, the Company also recognizes compensation expense in SG&A related to changes in the fair value of investments held in the Non-Qualified Plan, excluding investments in the Company s stock. Therefore, during both of the three months ended March 31, 2011 and 2010, the Company s SG&A expense was increased by $0.4 million due to the increase in the fair value of these investments.

Income Taxes: The effective income tax rate was 28.2% and 35.9% for the three months ended March 31, 2011 and March 31, 2010, respectively.

The effective income tax rates for the three months ended March 31, 2011 differed from the U.S. federal statutory rate of 35% primarily due to a $1.4 million adjustment that reduced our current federal taxes payable. The Company believes that this adjustment is not material to its financial statements for prior annual or interim periods, the three months ended March 31, 2011 or the Company s expected annual results for the year ended December 31, 2011. The rate was also impacted by the effect of foreign operations, partially offset by state income taxes.

Net income: Net income for the three months ended March 31, 2011 decreased by $0.1 million to $15.7 million from $15.8 million in the same period of the prior year. Adjusted net income, as adjusted for certain items described above, increased by $0.9 million to $16.9 million for the three months ended March 31, 2011 from $16.0 million for the same period of the prior year.

Diluted EPS: Diluted EPS were $0.26 for both the three months ended March 31, 2011 and 2010. Adjusted diluted EPS, which excludes certain items described above, totaled $0.28 for the three months ended March 31, 2011 compared to $0.27 for the same period of the prior year.

Table of Contents

Liquidity and Capital Resources

Operating Activities

During the three months ended March 31, 2011, net cash used by operating activities totaled $5.2 million as compared to net cash provided by operating activities totaling $7.0 million for the same period of the prior year. The decline in cash flows from operating activities primarily reflects semi-annual interest payments on the Company s senior notes which were issued in August 2010 are a payable on February 28th and August 28th, management incentive compensation payments and the timing of other working capital items.

Net cash advanced for marketing and reservations activities totaled $9.0 million and $10.9 million during the three months ended March 31, 2011 and 2010, respectively. Cash advances during the three months ended March 31, 2011 related primarily due to planned advertising and promotional cost spending in excess of fees collected and investments in information technology initiatives. Based on the current economic conditions, the Company expects marketing and reservation activities to be a net use of cash ranging between $2 million and $6 million in 2011.

Investing Activities

Cash utilized for investing activities totaled $5.6 million for the three months ended March 31, 2011 compared to a $6.3 million of cash for the three months ended March 31, 2010. The decline in cash utilized for investing activities was primarily due to lower capital expenditures than the prior year, partially offset by equity method investments and an increase in financing provided to franchisees. During the three months ended March 31, 2011 and 2010, capital expenditures totaled $1.8 million and $4.6 million, respectively. Capital expenditures for 2011 primarily include upgrades of system-wide property and yield management systems, upgrades to information systems infrastructure and the purchase of computer software and equipment.

The Company occasionally provides financing to franchisees for property improvements, hotel development efforts and other purposes. During the three months ended March 31, 2011 and 2010, the Company advanced $1.5 million and $0.5 million, respectively for these purposes. At March 31, 2011, the Company had commitments to extend an additional $7.0 million for these purposes provided certain conditions are met by its franchisees, of which $3.6 million is expected to be advanced in the next twelve months.

Financing Activities

Financing cash flows relate primarily to the Company s borrowings, treasury stock purchases and dividends.

Debt

On February 24, 2011, the Company entered into a new $300 million senior unsecured revolving credit agreement (the Revolver) with Wells Fargo Bank, National Association, as administrative agent and a syndicate of lenders. Simultaneously with the closing of the Revolver, the $350 million unsecured revolving credit agreement dated as of June 2006 (the Old Revolver) was terminated. The Revolver provides for a $300 million unsecured revolving credit facility with a final maturity date on February 24, 2016. Up to $30 million of borrowings under the Revolver may be used for letters of credit and up to $20 million of borrowings under the Revolver may be used for swing-line loans.

The Revolver is unconditionally guaranteed, jointly and severally, on a senior unsecured basis by all of the Company s subsidiaries that currently guaranty the obligations under the Company s Indenture governing the terms of its 5.70% senior notes due 2020.

The Company may at any time prior to the final maturity date increase the amount of the Revolver by up to an additional $150 million to the extent that any one or more lenders commit to being a lender for the additional amount and certain other customary conditions are met. The Company may elect to have borrowings under the Revolver bear interest at (i) a base rate plus a margin ranging from 5 to 80 basis points based on the Company s credit rating or (ii) LIBOR plus a margin ranging from 105 to 180 basis points based on the Company s credit rating. In addition, the Revolver requires the Company to pay a quarterly facility fee on the full amount of the commitments under the Revolver (regardless of usage) ranging from 20 to 45 basis points based upon the credit rating of the Company.

The Revolver requires that the Company and its restricted subsidiaries comply with various covenants, including with respect to restrictions on liens, incurring indebtedness, making investments and effecting mergers and/or asset sales. In addition, the

34

Table of Contents

Revolver imposes financial maintenance covenants requiring the Company to maintain a total leverage ratio of not more than 3.5 to 1.0 and an interest coverage ratio of at least 3.5 to 1.0. At March 31, 2011, the Company maintained a total leverage ratio of approximately 1.5x and an interest ratio coverage of approximately 16.4x. At March 31, 2011, the Company was in compliance with all covenants under the Revolver.

The proceeds of the Revolver are used for general corporate purposes, including working capital, debt repayment, stock repurchases, dividends, investments and other permitted uses. As of March 31, 2011, the Company had $8.1 million of revolving loans outstanding pursuant to the Revolver.

Debt issuance costs incurred in connection with the Revolver totaled $2.4 million and are being amortized, on a straight-line basis, which is not materially different than the effective interest method, through the maturity of the Revolver. Amortization of these costs is included in interest expense in the accompanying statements of income.

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

The Company may redeem the Senior Notes at its option at a redemption price equal to the greater of (a) 100% of the principal amount of the notes to be redeemed and (b) the sum of the present values of the remaining scheduled principal and interest payments from the redemption date to the date of maturity discounted to the redemption date on a semi-annual basis at the Treasury rate, plus 45 basis points.

As a result of the issuance of the Senior Notes in August 2010 and the Revolver in February 2011, the Company s borrowing costs have increased as the Company s Old Revolver carried an interest rate of LIBOR plus approximately 50 basis points which has been lower than the effective rate of the Senior Notes and well as the borrowings under the Revolver.

Dividends

The Company currently maintains the payment of a quarterly dividend on its common shares outstanding, however, the declaration of future dividends are subject to the discretion of our board of directors. On February 21, 2011, the Company s board of directors declared a cash dividend of $0.185 per share (or approximately $11.0 million in the aggregate), which was paid on April 15, 2011 to shareholders of record as of April 1, 2011. The Company s quarterly dividend rate remained unchanged from the previous quarterly declaration. We expect that cash dividends will continue to be paid in the future, subject to future business performance, economic conditions, changes in tax regulations and other matters. Based on our present dividend rate and outstanding share count, aggregate annual dividends for 2011 would be approximately $44.0 million.

Share Repurchases

During the three months ended March 31, 2011, the Company repurchased no shares of its common stock under the share repurchase program. Since the program s inception through March 31, 2011, we have repurchased 43.2 million shares (including 33.0 million prior to the two-for-one stock split effected in October 2005) of common stock at a total cost of $1.0 billion. Considering the effect of the two-for-one stock split, the Company has repurchased 76.2 million shares at an average price of $13.35 per share through March 31, 2011. At March 31, 2011 the Company had approximately 3.6 million shares remaining under the current stock repurchase authorization. Upon completion of the current authorization, our board of directors will evaluate the advisability of additional share repurchases.

Other items

Our Board previously authorized us to enter into programs which permit us to offer financing, investment and guaranty support to qualified franchisees as well as to acquire and resell real estate to incent franchise development for certain brands in top markets. Recent market conditions have resulted in an increase in opportunities to incentivize development under these programs. Over the next several years, we expect to continue to deploy capital opportunistically pursuant to these programs to promote growth of our emerging brands. The amount and timing of the investment in these programs will be dependent on market and other conditions. Our current expectation is that our annual investment in these programs will range from $20 million to $40 million. Notwithstanding these programs, the Company expects to continue to return value to its shareholders through a combination of share repurchases and dividends, subject to market and other conditions.

35

Table of Contents

Approximately $72.3 million of the Company s cash and cash equivalents at March 31, 2011 pertains to undistributed earnings of the Company s consolidated foreign subsidiaries. Since the Company s intent is for such earnings to be reinvested by the foreign subsidiaries, the Company has not provided additional United States income taxes on these amounts. While the Company has no intention to utilize these cash and cash equivalents in its domestic operations, any change to this policy would result in the Company incurring additional United States income taxes on any amounts utilized domestically.

During three months ended March 31, 2011, the Company recorded one-time employee termination charges totaling $0.3 million in SG&A and marketing and reservation expenses. These charges related to salary and benefits continuation payments for employees separating from service with the Company. At March 31, 2011, the Company had approximately $0.2 million of these salary and benefits continuation payments remaining to be remitted. During the three months ended March 31, 2011, the Company remitted $1.9 million of termination benefits related to employee termination charges recorded in prior periods and had approximately $2.1 million of these benefits remaining to be paid.

At March 31, 2011 approximately $2.4 million of termination benefits remained to be paid and the Company expects $2.0 million of these benefits to be paid in the next twelve months. In addition, the Company expects to satisfy approximately $2.6 million of deferred compensation and retirement plan obligations during the next twelve months.

The Company believes that cash flows from operations and available financing capacity are adequate to meet the expected future operating, investing and financing needs of the business.

Critical Accounting Policies

Our accounting policies comply with principles generally accepted in the United States. We have described below those policies that we believe are critical or require the use of complex judgment or significant estimates in their application. Additional discussion of these policies is included in Note 1 to our consolidated financial statements as of and for the year ended December 31, 2010 included in our Annual Report on Form 10-K.

Revenue Recognition.

We recognize continuing franchise fees, including royalty, marketing and reservations system fees, when earned and receivable from our franchisees. Franchise fees are typically based on a percentage of gross room revenues of each franchisee. Our estimate of the allowance for uncollectible royalty fees is charged to SG&A expense and to marketing and reservation expenses for uncollectible marketing and reservation system fees.

Initial franchise and relicensing fees are recognized, in most instances, in the period the related franchise agreement is executed because the initial franchise and relicensing fees are non-refundable and the Company is not required to provide initial services to the franchisee prior to hotel opening. We defer the initial franchise and relicensing fee revenue related to franchise agreements which include incentives until the incentive criteria are met or the agreement is terminated, whichever occurs first.

The Company may also enter into master development agreements (MDAs) with developers that grant limited exclusive development rights and preferential franchise agreement terms for one-time, non-refundable fees. When these fees are not contingent upon the number of agreements executed under the MDA, the Company recognizes the up-front fees over the MDA s contractual life. Fees that are contingent upon the execution of franchise agreements under the MDA are recognized upon execution of the franchise agreement.

The Company recognizes procurement services revenues from qualified vendors when the services are performed or the product delivered, evidence of an arrangement exists, the fee is fixed and determinable and collectability is probable. We defer the recognition of procurement services revenues related to certain upfront fees and recognize them over a period corresponding to the Company s estimate of the life of the arrangement.

Marketing and Reservation Revenues and Expenses.

The Company s franchise agreements require the payment of certain marketing and reservation system fees, which are used exclusively by the Company for expenses associated with providing franchise services such as national marketing, media advertising, central reservation systems and technology services. The Company is contractually obligated to expend the marketing and reservation system fees it collects from franchisees in accordance with the franchise agreements; as such, no income or loss to the Company is generated. In accordance with our contracts, we include in marketing and reservation expenses an allocation of costs for certain activities, such as human resources, facilities, legal, accounting, etc., required to carry out marketing and reservation activities.

36

The Company records marketing and reservation revenues and expenses on a gross basis since the Company is the primary obligor in the arrangement, maintains the credit risk, establishes the price and nature of the marketing or reservation services and retains discretion in supplier selection. In addition, net advances to and repayments from the franchise system for marketing and reservation activities are presented as cash flows from operating activities.

Marketing and reservation system fees not expended in the current year are carried over to the next fiscal year and expended in accordance with the franchise agreements. Shortfall amounts are similarly recovered in subsequent years. Cumulative excess or shortfall amounts from the operation of these programs are recorded as a marketing and reservation system fee payable or receivable. Under the terms of the franchise agreements, the Company may advance capital as necessary for marketing and reservation activities and recover such advances through future fees. Our current assessment is that the credit risk associated with the marketing and reservation system fees receivable is mitigated due to our contractual right to recover these amounts from a large geographically dispersed group of franchisees. However, our ability to recover these receivables may be adversely impacted by certain factors, including, among others, declines in the ability of our franchisees to generate revenues at properties they franchise from us, lower than expected franchise system growth of certain brands and/or lower than expected international franchise system growth. An extended period of occupancy or room rate declines or a decline in the number of hotel rooms in our franchise system could result in the generation of insufficient funds to recover marketing and reservation advances as well as meet the ongoing marketing and reservation needs of the overall system.

The Company evaluates the receivable for marketing and reservation costs in excess of cumulative marketing and reservation system fees earned on a periodic basis for collectability. The Company will record an allowance when, based on current information and events, it is probable that we will be unable to collect all amounts due for marketing and reservation activities according to the contractual terms of the franchise agreements. The receivables are considered to be uncollectible if the expected net, undiscounted cash flows from marketing and reservation activities are less than the carrying amount of the asset.

Choice Privileges is our frequent guest incentive marketing program. Choice Privileges enables members to earn points based on their spending levels with our franchisees and, to a lesser degree, through participation in affiliated partners programs, such as those offered by credit card companies. The points, which we accumulate and track on the members behalf, may be redeemed for free accommodations or other benefits.

We provide Choice Privileges as a marketing program to franchised hotels and collect a percentage of program members room revenue from franchises to operate the program. Revenues are deferred in an amount equal to the estimated fair value of the future redemption obligation. A third-party actuary estimates the eventual redemption rates and point values using various actuarial methods. These judgmental factors determine the required liability attributable to outstanding points. Upon redemption of points, the Company recognizes the previously deferred revenue as well as the corresponding expense relating to the cost of the awards redeemed. Revenues in excess of the estimated future redemption obligation are recognized when earned to reimburse the Company for costs incurred to operate the program, including administrative costs, marketing, promotion and performing member services. Costs to operate the program, excluding estimated redemption values, are expensed when incurred.

Valuation of Intangibles and Long-Lived Assets

The Company evaluates the potential impairment of property and equipment and other long-lived assets, including franchise rights and other definite-lived intangibles, on an annual basis or whenever an event or other circumstances indicates that we may not be able to recover the carrying value of the asset. Recoverability is measured based on net, undiscounted expected cash flows. Assets are considered to be impaired if the net, undiscounted expected cash flows are less than the carrying amount of the assets. Impairment charges are recorded based upon the difference between the carrying value and the fair value of the asset. Significant management judgment is involved in developing these projections, and they include inherent uncertainties. If different projections are used in the current period, the balances for non-current assets could be materially impacted. Furthermore, if management uses different projections or if different conditions occur in future periods, future-operating results could be materially impacted.

The Company evaluates the impairment of goodwill and trademarks with indefinite lives on an annual basis, or during the year if an event or other circumstance indicates that we may not be able to recover the carrying amount of the asset. Since the Company has one reporting unit, the fair value of the Company s net assets is used to determine if goodwill may be impaired. Indefinite life trademarks are considered to be impaired if the net, undiscounted expected cash flows associated with the trademark are less than their carrying amount.

Table of Contents

Loan Loss Reserves

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

Mezzanine, and Other Notes Receivables

The Company has provided financing to franchisees in support of the development of properties in key markets. The Company expects the owners to repay the loans in accordance with the loan agreements, or earlier as the hotels mature and capital markets permit. The Company estimates the collectability and records an allowance for loss on its mezzanine and other notes receivable when recording the receivables in the Company s financial statements. These estimates are updated quarterly based on available information.

The Company considers a loan to be impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. All amounts due according to the contractual terms means that both the contractual interest payments and the contractual principal payments of a loan will be collected as scheduled in the loan agreement. The Company measures loan impairment based on the present value of expected future cash flows discounted at the loan s original effective interest rate or the estimated fair value of the collateral. For impaired loans, the Company establishes a specific impairment reserve for the difference between the recorded investment in the loan and the present value of the expected future cash flows or the estimated fair value of the collateral. The Company applies its loan impairment policy individually to all mezzanine and other notes receivable in the portfolio and does not aggregate loans for the purpose of applying such policy. For impaired loans, the Company recognizes interest income on a cash basis. If it is likely that a loan will not be collected based on financial or other business indicators it is the Company s policy to charge off these loans to SG&A expenses in the accompanying consolidated statements of income in the quarter when it is deemed uncollectible.

The Company assesses the collectability of its senior notes receivable by comparing the market value of the underlying assets to the carrying value of the outstanding notes. In addition, the Company evaluates the property s operating performance, the borrower s compliance with the terms of the loan and franchise agreements, and all related personal guarantees that have been provided by the borrower. For subordinated or unsecured receivables, the Company assesses the property s operating performance, the subordinated equity available to the Company, the borrower s compliance with the terms of loan and franchise agreements, and the related personal guarantees that have been provided by the borrower.

The Company considers loans to be past due and in default when payments are not made when due. Although the Company considers loans to be in default if payments are not received on the due date, the Company does not suspend the accrual of interest until those payments are more than 30 days past due. The Company applies payments received for loans on non-accrual status first to interest and then principal. The Company does not resume interest accrual until all delinquent payments are received.

Forgivable Notes Receivable

From time to time, the Company provides unsecured financing to franchisees for property improvements and other purposes in the form of forgivable promissory notes. The notes bear market interest rates, and are forgiven and amortized over that time period if the franchisee remains in the system in good standing.

Franchisees are not required to repay the forgivable notes provided that the respective hotels remain in the system and in good standing throughout the term of their note. The Company fully reserves all defaulted notes in addition to recording a reserve on the estimated uncollectible portion of the remaining notes. For those notes not in default, the Company calculates an allowance for losses and determines the ultimate collectability on these forgivable notes based on the historical default rates for those unsecured notes that are not forgiven but are required to be repaid. The Company records bad debt expense in SG&A expenses in the accompanying consolidated statements of income in the quarter when the note is deemed uncollectible.

Stock Compensation.

The Company s policy is to recognize compensation cost related to share-based payment transactions in the financial statements based on the fair value of the equity or liability instruments issued. Compensation expense related to the fair value of share-based awards is recognized over the requisite service period based on an estimate of those awards that will

ultimately vest. The Company estimates the share-based compensation expense for awards that will ultimately vest upon inception of the grant and adjusts the estimate of share-based compensation for those awards with performance and/or service requirements that will not be satisfied so that compensation cost is recognized only for awards that ultimately vest.

Income Taxes.

Income taxes are recorded using the asset and liability method of accounting for income taxes. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not such assets will be unrealized. Deferred U.S. income taxes have not been recorded for temporary differences related to investments in certain foreign subsidiaries and corporate affiliates. The temporary differences consist primarily of undistributed earnings that are considered permanently reinvested in operations outside the U.S. If management s intentions change in the future, deferred taxes may need to be provided.

With respect to uncertain income tax positions, a tax liability is now recorded in full when management determines that the position does not meet the more likely than not threshold of being sustained on examination. A tax liability may also be recognized for a position that meets the more likely than not threshold, based upon management s assessment of the position s probable settlement value. The Company records interest and penalties on unrecognized tax benefits in the provision for income taxes.

Pension, Profit Sharing and Incentive Plans

The Company sponsors two non-qualified retirement savings and investment plans for certain employees and senior executives. Employee and Company contributions are maintained in separate irrevocable trusts. Legally, the assets of the trusts remain those of the Company; however, access to the trusts assets is severely restricted. The trusts cannot be revoked by the Company or an acquirer, but the assets are subject to the claims of the Company s general creditors. The participants do not have the right to assign or transfer contractual rights in the trusts.

In 2002, the Company adopted the Choice Hotels International, Inc. Executive Deferred Compensation Plan (EDCP) which became effective January 1, 2003. Under the EDCP, certain executive officers may defer a portion of their salary into an irrevocable trust. Prior to January 1, 2010, participants could elect an investment return of either the annual yield of the Moody s Average Corporate Bond Rate Yield Index plus 300 basis points, or a return based on a selection of available diversified investment options. Effective January 1, 2010, the Moody s Average Corporate Bond Rate Yield Index plus 300 basis points is no longer an investment option for salary deferrals made on compensation earned after December 31, 2010. As of March 31, 2011 and December 31, 2010, the Company recorded a deferred compensation liability of $16.1 million and $17.6 million, respectively related to these deferrals and credited investment returns. Compensation expense is recorded in SG&A expense on the Company s consolidated statements of income based on the change in the deferred compensation obligation related to earnings credited to participants as well as changes in the fair value of diversified investments. Compensation expense recorded in SG&A for the three months ended March 31, 2011 and 2010 were $0.3 million and $0.2 million, respectively.

The Company has invested the employee salary deferrals in diversified long-term investments which are intended to provide investment returns that partially offset the earnings credited to the participants. The diversified investments held in the trusts totaled $14.6 million and $13.6 million as of March 31, 2011 and December 31, 2010, respectively, and are recorded at their fair value, based on quoted market prices. These investments are considered trading securities and therefore the changes in the fair value of the diversified assets is included in other gains and losses in the accompanying statements of income. The Company recorded investment gains during the three months ended March 31, 2011 and 2010 of $0.4 million and $0.5 million, respectively.

In 1997, the Company adopted the Choice Hotels International, Inc. Nonqualified Retirement Savings and Investment Plan (Non-Qualified Plan). The Non-Qualified Plan allows certain employees who do not participate in the EDCP to defer a portion of their salary and invest these amounts in a selection of available diversified investment options. As of March 31, 2011 and December 31, 2010, the Company had recorded a deferred compensation liability of $11.1 million and $10.6 million, respectively related to these deferrals. Compensation expense is recorded in SG&A expense on the Company s consolidated statements of income based on the change in the deferred compensation obligation related to earnings credited to participants as well as changes in the fair value of diversified investments. The net increase in compensation expense recorded in SG&A for the three months ended March 31, 2011 and 2010 was $0.4 million for both periods.

The diversified investments held in the trusts were $10.2 million and $9.7 million as of March 31, 2011 and December 31, 2010, respectively, and are recorded at their fair value, based on quoted market prices. These investments are considered trading securities and therefore the changes in the fair value of the diversified assets is included in other gains and losses in

Table of Contents

the accompanying statements of income. The Company recorded investment gains during the three months ended March 31, 2011 and 2010 of $0.3 million for both periods. In addition, the Non-Qualified Plan held shares of the Company s common stock with a market value of $0.9 million at both March 31, 2011 and December 31, 2010.

The Company is subject to risk from changes in debt and equity prices from our non-qualified retirement savings plan investments in debt securities and common stock. The diversified investments held in the Non-Qualified Plan and EDCP include investments primarily in equity and debt securities, and cash and cash equivalents.

New Accounting Standards

See Footnote No. 1 Recently Adopted Accounting Guidance of the Notes to our Financial Statements for information related to our adoption of new accounting standards in 2011 and for information on our anticipated adoption of recently issued accounting standards.

FORWARD-LOOKING STATEMENTS

Certain matters discussed in this quarterly report constitute forward-looking statements within the meaning of federal securities law. Generally, our use of words such as expect, estimate, believe, anticipate, will, forecast, plan, project, assume or similar words of futurity id that are forward-looking and that we intend to be included within the Safe Harbor protections provided by Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements are based on management s current beliefs, assumptions and expectations regarding future events, which in turn are based on information currently available to management. Such statements may relate to projections of the Company s revenue, earnings and other financial and operational measures, Company debt levels, payment of stock dividends, and future operations or other matters. We caution you not to place undue reliance on any forward-looking statements, which are made as of the date of this quarterly report. Forward-looking statements do not guarantee future performance and involve known and unknown risks, uncertainties and other factors.

Several factors could cause actual results, performance or achievements of the Company to differ materially from those expressed in or contemplated by the forward-looking statements. Such risks include, but are not limited to, changes to general, domestic and foreign economic conditions; operating risks common in the lodging and franchising industries; changes to the desirability of our brands as viewed by hotel operators and customers; changes to the terms or termination of our contracts with franchisees; our ability to keep pace with improvements in technology utilized for reservations systems and other operating systems; fluctuations in the supply and demand for hotels rooms; and our ability to manage effectively our indebtedness, among other factors. These and other risk factors are discussed in detail in Item 1A Risk Factors of the Company s Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission on March 1, 2011. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required by law.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in interest rates and the impact of fluctuations in foreign currencies on the Company s foreign investments and operations. The Company manages its exposure to these market risks through the monitoring of its available financing alternatives including in certain circumstances the use of derivative financial instruments. We are also subject to risk from changes in debt and equity prices from our non-qualified retirement savings plan investments in debt securities and common stock, which have a carrying value of $24.7 million and $23.4 million at March 31, 2011 and December 31, 2010, respectively which we account for as trading securities. The Company will continue to monitor the exposure in these areas and make the appropriate adjustments as market conditions dictate.

At March 31, 2011 and December 31, 2010, the Company had $8.1 million and $0.2 million of debt with variable interest rates outstanding at a weighted average effective interest rate of 1.7% and 0.7%, respectively. A hypothetical change of 10% in the Company s effective interest rate from March 31, 2011 levels would increase or decrease interest expense by approximately fourteen thousand dollars. The Company expects to refinance its long-term debt obligations prior to their scheduled maturities.

The Company does not presently have any derivative financial instruments.

ITEM 4. CONTROLS AND PROCEDURES

The Company has a disclosure review committee whose membership includes the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), among others. The CEO and CFO consider the disclosure review committee s procedures in performing their evaluations of the Company s disclosure controls and procedures (as such term is defined in Rule 13a-15(e)

Table of Contents

under the Securities Exchange Act of 1934) and in assessing the accuracy and completeness of the Company s disclosures.

An evaluation was performed under the supervision and with the participation of the Company s CEO and CFO of the effectiveness of the design and operation of the Company s disclosure controls and procedures. Based on that evaluation, the Company s management, including the CEO and CFO, concluded that the Company s disclosure controls and procedures were effective as of March 31, 2011.

There has been no change in the Company s internal controls over financial reporting that occurred during the quarter ended March 31, 2011, that materially affected, or is reasonably likely to materially affect the Company s internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In December 2010, a class action lawsuit was filed against the Company in the United States District Court for the Central District of Florida by several current and former franchisees. The lawsuit relates to certain Company practices in connection with its Choice Privileges guest rewards program. The plaintiffs complaint alleges breach of contract, unjust enrichment and unfair and deceptive trade practices under Florida law.

On April 4, 2011, the Company s Motion to Dismiss or for Stay Pending Arbitration was granted by the court and the action was stayed pending arbitration. The Company, thus far, is unaware of any arbitration actions filed by the plaintiffs.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

The following table sets forth purchases and redemptions of Choice Hotels International, Inc. common stock made by the Company during the three months ended March 31, 2011:

Month Ending	Total Number of Shares Purchased or Redeemed	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1),(2)	Maximum Number of Shares that may yet be Purchased Under the Plans or Programs, End of Period
January 31, 2011		$		3,570,460
February 28, 2011	50,681	39.82		3,570,460
March 31, 2011	4,614	38.86		3,570,460
Total	55,295	$ 39.74		3,570,460

(1) The Company s share repurchase program was initially approved by the board of directors on June 25, 1998. The program has no fixed dollar amount or expiration date.

(2) During the three months ended March 31, 2011, the Company redeemed 55,295 shares of common stock from employees to satisfy minimum tax-withholding requirements related to the vesting of restricted stock grants. These redemptions were not part of the board repurchase authorization.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

Table of Contents

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION
None.

ITEM 6. EXHIBITS
Exhibit Number and Description

Exhibit Number	Description
3.01(a)	Restated Certificate of Incorporation of Choice Hotels Franchising, Inc. (renamed Choice Hotels International, Inc.)
3.02(b)	Amended and Restated Bylaws of Choice Hotels International, Inc.
10.01(c)	Senior Unsecured Revolving Credit Agreement, dated February 24, 2011 among Choice Hotels International, Inc., Wells Fargo Bank National Association, as administrative agent and a syndicate of lenders.
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a)
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a)
32*	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350
101*	The following statements from the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, filed on May 9, 2011, formatted in XBRL: (i) Consolidated Statements of Income, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows, (iv) Notes to Financial Statements, tagged as blocks of text.

* Filed herewith
(a) Incorporated by reference to the identical document filed as an exhibit to Choice Hotels International, Inc. s Registration Statement on Form S-4, filed August 31, 1998 (Reg. No. 333-62543).
(b) Incorporated by reference to the identical document filed as an exhibit to Choice Hotels international, Inc. s Current Report on Form 8-K filed February 16, 2010.
(c) Incorporated by reference to the identical document filed as an exhibit to Choice Hotels International, Inc. s Current Report on Form 8-K filed March 2, 2011.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	CHOICE HOTELS INTERNATIONAL, INC.
Date: May 9, 2011	By: /s/ DAVID L. WHITE
	David L. White
	Senior Vice President, Chief Financial Officer & Treasurer