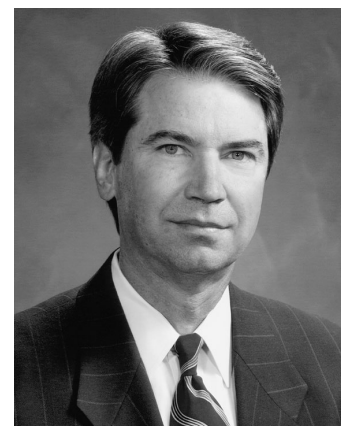


LETTER TO SHAREHOLDERS



Charles A. Ledsinger, Jr.
President and Chief Executive Officer

Dear Shareholders:

This time last year I wrote to you about our optimism even in a time of economic and geopolitical uncertainty. Our outstanding 2003 results certainly confirm that optimism was well-founded. They also underscore the soundness of our strategy and our franchising business model, which have served us well in challenging times.

Your company enters 2004 stronger than ever, thanks to the hard work and dedication of our associates and franchisees who are deeply committed to building a franchise success system second to none.

For the year 2003, Choice Hotels earned diluted earnings per share of \$1.96, a 28.9% increase over the prior year. Domestic unit growth rose 4.4% and franchising revenues increased 8.7% to \$187.1 million as the company generated domestic system-wide revenues of \$3.5 billion for our more than 3,600 U.S. properties.

At the core of our 2003 success was record franchise development. We executed 470 new franchise contracts representing 41,000 rooms, marking the first time Choice has ever exceeded the 40,000 room level in annual development activity. Each new franchise agreement provides Choice with a steady stream of royalty revenues, as well as marketing and reservations fees to help build brand awareness and drive occupancy.

This excellent performance occurred against the backdrop of a slowly recovering economy and an industry just starting to come back from the bottom. Despite all the industry ups and downs of the past few years, Choice has been able to continually grow its hotel system because of our strong product portfolio of conversion and new build brands, our ability to deliver strong reservations and marketing programs, and our commitment to partnering with our franchisees to create a true franchise success system.

With our singular focus on our franchising business, we have been able to concentrate our strategy on reaching more consumers, delivering exceptional services, building strong brands and leveraging our size, scale and distribution to deliver more business to our hotels while lowering their costs. Underlying this focus are the mission, vision and passion that guide our operations.

Our Mission: Deliver a franchise success system of strong brands, exceptional services, vast consumer reach, and size, scale and distribution that delivers guests and reduces costs for our hotel owners.

Our Vision: To generate the highest return on investment of any hotel franchise.

Our Passion: Customer Profitability.

Entering 2003, we established overarching objectives for the year:

- To grow the company aggressively, and responsibly, by focusing on RevPAR (revenue per available room) increases, unit growth and greater penetration from partner services, which helps our owners better manage their costs;
- To be totally focused and extraordinarily good at the services we deliver to franchisees at every level—in the field, through technology and with training, and to set the example for customer service to our franchisees;
- To deliver marketing that is impactful, memorable, effective and targeted;
- To keep our brands fresh, continually improving and meeting or exceeding guest expectations by designing products and services that allow franchisees to achieve a superior return on their investment.

How did we perform against these objectives? Quite well, as evidenced by our strong results. Here are some highlights:

Company growth: In 2003, we opened a net of 154 domestic hotels, added 470 new franchise contracts and grew our partner services income by almost 11% to \$13.2 million.

Customer service delivery: We refocused our franchise service directors to deliver more customized service to meet each hotel's most critical needs. We also introduced a new quality assurance program that focuses on enhancing guest satisfaction. Our franchisee satisfaction survey showed improvement in a number of service delivery areas, adding to already strong franchisee relations. One measure of franchisee satisfaction is our very high retention rate.

Marketing: Our summer and fall promotions were highly successful in generating more brand awareness and helping our Choice Privileges guest awards program grow by 25% to 2 million members.

Brands: We introduced new prototypes for our Econo Lodge, Sleep Inn and Comfort Suites brands and created a brand extension for our Clarion full-service brand called the Clarion Collection, which features well-established boutique hotels in key urban markets. In addition to our new brand prototypes that reduce construction costs and improve the return on investment, we also enhanced our programs to help owners with renovations and conversions by broadening the scope of goods and services available with our preferred vendors to help franchisees better manage costs and provide amenities desired by their guests.

This significant progress in 2003 sets the stage for even more success this year, in which we will focus even greater attention on working with our franchisee partners to build guest satisfaction and improve hotel performance.

We now are entering a period of economic recovery with hopefully an attendant improvement in RevPAR. We ended the fourth quarter of 2003 with a 5% improvement in RevPAR system-wide, a clear sign that travel is on the rebound. More importantly, that upswing has continued into the first quarter of 2004.

The Travel Industry Association of America (TIA) is forecasting a 4.4% overall increase in travel spending by domestic and international travelers in 2004, with domestic leisure travel predicted to grow by 3.2% and domestic business travel to increase by 4.2%. Arrivals from international travelers are predicted to grow by 5% to 42.2 million. This forecast is good news for our hotel owners, who are well-positioned in the mid-priced and economy segments to capture a good share of that travel increase.

The TIA also predicts that Americans will continue to book their travel at the last minute, with 64% of trips planned within two weeks of taking the trip and with the majority of travel continuing to be highway-related and closer to home, which will match up well with our locations.

So how do we propose to capture more than our fair share of that business? Our marketing programs emphasize the more than 4,800 worldwide locations we offer travelers and the wide range of amenities provided by our eight brands. With more than 57 million room nights booked each year, the Choice system accommodates the traveling public in 49 states and 42 countries and territories globally.

Our marketing promotions focus in part on building the strength of our guest rewards programs, Choice Privileges for the mid-priced brands and EA\$Y CHOICE for the economy brands, by offering travelers the opportunity to earn free nights and airline miles quickly and easily. In turn, these programs help build brand loyalty and provide new opportunities for more direct marketing to our frequent and best customers.

The Internet gives us another powerful marketing tool, with Choicehotels.com, our proprietary Internet site, providing consumers with ease of use, foreign language capability and our Best e-rate Guarantee program. We also have forged agreements with major third-party travel Web sites to obtain preferred placement and reduced fees for our hotels. By leveraging our size, scale and distribution, we have helped our franchisees to capture business more effectively by improving the yield through these sites.

Since I joined Choice in the fall of 1998, the percentage of reservations booked on-line on our own Web site and third-party sites has grown dramatically from 1.3% in 1998 to 33.4% in 2003, as more and more consumers turn to the Internet to transact personal business. Of that Internet business, almost 56% comes directly to our proprietary site, choicehotels.com.

At the same time, our call centers continue to handle more than 10 million reservations inquiries a year, with our ability to convert calls into booked rooms steadily improving.

For 2004 we aim to sustain our unit growth momentum while continuing to improve product quality, enhance brand reputation and build greater guest loyalty. Choice has made great strides in the past five years and has consistently delivered a strong performance for its shareholders despite the economic downturn and the dampening impact on travel of the war on terrorism.

The volatility of world events reminds us that the environment in which we operate will continue to present unexpected challenges. But our resiliency and performance of the past few years gives me confidence in our ultimate ability to persevere and perform well.

I have been extremely fortunate to have the benefit of a dedicated Board of Directors that has provided wise counsel and strong support for our initiatives. This past year we decided to pay a cash dividend on our common stock, and we have continued to build shareholder value through targeted share repurchases.

I also have enjoyed the support of our 1,500 associates who have diligently worked to make Choice a better company and a better place to work, earning us recognition for "Workplace Excellence" from the Maryland Work-Life Alliance and as one of the "50 Great Places to Work" from *Washingtonian* magazine.

As the economy gathers strength and more travelers return to the road, our future looks very bright. At our more than 4,800 hotels worldwide, our owners and their staffs are ready to welcome you. Behind that effort are our associates and vendor partners who share a commitment to deliver great service.

With customer profitability as our passion, we can create a franchise success system unequalled in our industry and a company renowned for steadily growing shareholder value.



Charles A. Ledsinger, Jr.
President and Chief Executive Officer

March 22, 2004