

# COMPENSATION/KEY EXECUTIVE STOCK OPTION PLAN COMMITTEE

## CHARTER

### CHOICE HOTELS INTERNATIONAL, INC.

This Charter of the Compensation/Key Executive Stock Option Plan Committee (the “**Committee**”) of the Board of Directors of Choice Hotels International, Inc. (the “**Company**”) was adopted by the Board of Directors of the Company (the “**Board**”) on September \_\_, 2002.

**1. Purposes.** The primary purpose and function of the Committee are to:

(a) Discharge the Board’s responsibilities relating to compensation of the Company’s executives.

(b) Produce an annual report on executive compensation for inclusion in the Company’s proxy statement in accordance with applicable rules and regulations.

**2. Goals; Responsibilities and Authority.** The primary goals, responsibilities and authority of the Committee are to:

(a) *Compensation Related.*

(i) Review and approve corporate goals and objectives relevant to CEO compensation, evaluate the CEO’s performance in light of those goals and objectives, and set the CEO’s compensation level based on this evaluation.

(ii) Review and approve salary changes and bonus plans for other officers of the Company and its subsidiaries with a base salary of \$100,000 or more.

(iii) Periodically review company policies concerning management benefits and benefit plans for all employees of the Company.

(iv) Make recommendations to the Board with respect to incentive compensation plans and equity based plans.

(v) Administer the Choice Hotels International, Inc. 1997 Long-Term Incentive Plan (the “**Stock Option Plan**”).

(vi) Grant awards to employees eligible to participate in the Stock Option Plan.

(vii) Produce an annual report on executive compensation for inclusion in the Company's proxy statement in accordance with applicable rules and regulations.

(b) **Self Evaluation.** The Committee shall undertake an evaluation of the Committee's effectiveness at least once a year in compliance with legal requirements.

(c) **Reporting to the Board.** The Committee shall report to the Board.

(d) **Outside Advisors.** The Committee has the sole authority, without seeking Board approval, to retain outside compensation consultants regarding director, CEO or senior management compensation, to terminate the same, and to approve the applicable consulting fees and terms.

(e) **Delegation.** The Committee is authorized to delegate one or more of its duties to a subcommittee.

(f) **Other.** The Committee shall address such other matters as may be referred to the Committee by the Board.

### **3. Composition of the Committee.**

(a) **Number.** The Committee shall consist of at least three directors.

(b) **Independence.** All of the members of the Committee must be "independent" directors. A director is not "independent" unless the Board affirmatively determines on an ongoing basis that the director has no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company), based upon standards adopted by the Board and consistent with applicable law and applicable requirements of any exchange or self-regulatory organization with which the Company's shares are listed for trading. In addition, to determine whether a director is "independent," the following shall be considered:

(i) **Employees.** No director who is an employee or a former employee (including non-employee executive officer) of the Company (or an affiliate of the Company) is "independent" until five years following the termination of his or her employment. A director who serves as an interim Chairman or CEO may be excluded from the definition of "former employee" and thus be deemed independent immediately after the termination of his or her service as interim Chairman or CEO. In the event the employment relationship is with a former parent or predecessor of the Company, the director may serve on the Committee after three [*five*] years following the termination of the relationship between the Company and the former parent or predecessor.

(ii) *Affiliation with Auditor.* No director who is, or in the past five years has been, affiliated with or employed by a present or former outside auditor of the Company (or of an affiliate of the Company) is “independent” until five years after the end of either the affiliation or the auditing relationship.

(iii) *Interlocking Directorate.* No director can be “independent” if he or she is, or in the past five years has been, part of an interlocking directorate. A director is part of an “interlocking directorate,” if any of the executives of the Company serve on the compensation committee of the company which employs such director.

(iv) *Family Members.* A director who has an immediate family member in any of the above categories is not “independent” until the expiration of the applicable “cooling-off” periods. Employment of a family member in a non-officer position does not preclude a determination that a director is “independent.”

(c) *Election.* The members of the Committee shall be elected by the Board at the meeting of the Board following the Annual Meeting of the Shareholders and shall serve until their successors are duly elected and qualified. Unless a Chair is elected by the full Board, the members of the Committee shall designate a Chair by majority vote of the full Committee membership.

#### **4. Meetings of the Committee.**

(a) The Committee shall meet at least twice annually, or more frequently as circumstances dictate. The Chair of the Committee shall have the authority to call meetings of the Committee upon reasonable notice and shall preside at all meetings of the Committee. Meetings of the Committee may be conducted by telephone conference if each of the members may simultaneously hear each other member. A majority of the members of the Committee shall constitute quorum for the conduct of business and the Committee shall act by majority vote of the quorum. Action of the Committee may be taken without a meeting if unanimous written consent thereto by each of the members of the Committee is given. The Committee shall keep minutes of its meetings and shall provide copies of such minutes and of actions by written consent to the Board and to the Secretary of the Company for placement in the Company’s minute books.

**5. Funding of the Committee’s Functions by the Company.** The Company shall provide for appropriate funding for the Committee, in its capacity as a committee of the Board, in such amounts as may be determined by the Committee, for payment of compensation to any advisors engaged by the Committee in connection with the fulfillment by the Committee of its responsibilities and duties hereunder.