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**UNITED STATES DISTRICT COURT
DISTRICT OF ARIZONA**

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|-------------------------|---|------------------|
| SECURITIES AND EXCHANGE |) | |
| COMMISSION, |) | |
| |) | |
| PLAINTIFF, |) | |
| |) | CASE NO. |
| |) | |
| |) | COMPLAINT |
| |) | |
| V. |) | |
| |) | |
| MARY BETH KNIGHT; and |) | |
| REBECCA NORTON, |) | |
| |) | |
| DEFENDANTS. |) | |
| |) | |
| |) | |

Plaintiff Securities and Exchange Commission (the "Commission") alleges as follows:

SUMMARY

1. This is an insider trading case. In late June 2006, Mary Beth Knight, a Senior Vice President of Choice Hotels International, Inc. ("Choice Hotels"), learned that Choice Hotels' second quarter earnings results were anticipated to be below analysts' expectations. In breach of her fiduciary duty, Knight subsequently sold Choice Hotels stock on the basis of this material nonpublic information, and tipped her friend, Rebecca Norton, who also traded in

Choice Hotels securities on the basis of the information. Knight's trading resulted in losses avoided of at least \$140,400. Norton's trading resulted in losses avoided and ill-gotten gains of at least \$44,711.

2. By engaging in the conduct set forth in this complaint, defendants Knight and Norton each violated Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)], Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78j(b)] and Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5]. Unless enjoined, the defendants will continue to engage in transactions, acts, practices, and courses of business similar to those alleged in this complaint.

3. The Commission seeks injunctions against future violations, disgorgement of losses avoided and ill-gotten gains, prejudgment interest on that disgorgement, and civil monetary penalties.

JURISDICTION

4. The Court has jurisdiction over this action pursuant to Sections 20(b) and 22(a) of the Securities Act [15 U.S.C. §§ 77t(b) and 77v(a)], and Sections 21(d), 21(e), 21A, and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e), 78u-1, and 78aa].

THE DEFENDANTS

5. Mary Beth Knight, age 50, resides in Maricopa County, Arizona and, at all relevant times, was a Senior Vice President with Choice Hotels.

6. Rebecca Norton, age 52, resides in Maricopa County, Arizona and, was a friend of, and real estate broker for, Knight. Norton previously worked in the securities industry and held a Series 7 securities license.

CHOICE HOTELS

7. Choice Hotels International, Inc. is a Delaware corporation headquartered in Silver Spring, Maryland, and operates as a hotel franchisor. The common stock of Choice Hotels traded, at all relevant times, on the New York Stock Exchange under the ticker symbol "CHH."

8. On July 25, 2006, after the market closed, Choice Hotels announced earnings for the second quarter ended June 30, 2006 that were two cents lower than the average of analysts' estimates, although still within the company's previously announced anticipated range. The average or "consensus" of analysts' expectations for the company's earnings was 38 cents per share. Choice Hotels announced, however, earnings of 36 cents per share. The next day (the first day of trading after the announcement), the share price of Choice Hotels fell nearly 25% from a July 25, 2006 closing price of \$58.85 per share to a July 26, 2006 closing price of \$44.20 per share. Trading volume increased from a daily average of 385,000 shares traded in the week preceding the announcement to 5.7 million shares traded the day after the announcement.

MATERIAL NONPUBLIC INFORMATION

9. On June 22, 2006, Knight was a newly-appointed Senior Vice President for Choice Hotels based in a satellite office in Phoenix, Arizona. On that date, she joined nearly 20 senior Choice Hotels executives at a corporate operational review meeting at the company's Silver Spring, Maryland headquarters. Among the topics of discussion at the meeting was the company's projected earnings for the second quarter ending June 30, 2006.

10. Two days before the meeting, on June 20, 2006, Knight and the other attendees received via electronic mail a written presentation for the operational review meeting, containing, among other things, a twenty-nine-page PowerPoint presentation titled "Second Quarter 2006 Financial Results and Forecast" prepared by the assistant controller of Choice

Hotels. The e-mail message (subject line: “Operational Review Meeting – Thursday, June 22, 2006”) indicated that one of the “three items on the agenda” would be “April and May Financial Results and Forecasts.”

11. The PowerPoint presentation indicated, among other things, that securities analysts who followed the company’s stock expected Choice Hotels to post earnings of 38 cents per share for the second quarter of 2006.

12. In addition, there was discussion at the June 22nd operational review meeting about the second quarter earnings projections and the likely impact that missing analysts’ expectations would have on the company’s stock price.

13. The assistant controller led a discussion for nearly an hour concerning Choice Hotels’ projected financial results for the second quarter of 2006, including a presentation of the earnings per share (“EPS”) data from his PowerPoint presentation. Part of the oral presentation tracked the PowerPoint presentation’s first several slides, including a slide titled “Q2 Forecast Comparison to 2005 and Analyst Expectations.” The assistant controller told the attendees, including Knight, that the current EPS estimate was one cent below analysts’ expectations, and further noted that although there was a potential to meet analysts’ EPS number, at that late date in the quarter, revenues were essentially locked in and that it would take another \$500,000 of net income to move the company’s EPS number by a penny.

14. At that point, a Choice Hotels senior officer commented to those in attendance that the market would penalize the company if it missed the consensus EPS target. He added that the last time Choice Hotels missed its EPS target by one penny, in October 2004, the stock was negatively impacted.

15. After attending the operational review meeting, Knight went to lunch with two other attendees of the meeting, including her direct superior, and stated her intention to sell her Choice Hotels shares for the purpose of purchasing property in Alaska.

Tipping a Friend

16. After lunch with her colleagues, Knight returned to Phoenix.

17. The next morning, back at her desk in Phoenix, Knight began communicating with her friend and realtor, Norton, by telephone.

18. Knight and Norton had been friends since 1994, having met when Norton was a selling agent for a property Knight had purchased. In addition to being friends, Norton also occasionally served as a real estate broker for Knight, and their families were acquainted. In June 2006, Norton was Knight's listing agent for a property that Knight was trying to sell.

19. As friends, Knight and Norton socialized together, including going on hikes and taking vacations together. Knight and Norton also extended professional courtesies to each other, including Knight providing "friends and family" discounts for hotels to Norton, and Norton reducing her real estate commission for certain transactions with Knight.

20. As of June 23, 2006, Knight was aware that Norton owned Choice Hotels stock.

21. During the weekend starting Friday, June 23, 2006, and lasting through Sunday, June 25, 2006, Knight and Norton communicated on multiple occasions, including sharing a forty-five minute hike on Black Mountain in Maricopa County, Arizona, during which Knight, in violation of her fiduciary duty owed to the shareholders of Choice Hotels, tipped Norton about the material nonpublic information that she had learned at the operational review meeting. Knight knew, or recklessly disregarded the fact, that Norton would use the information for trading

purposes. Knight told Norton that, based upon what she heard at the meeting, Choice Hotels was heading into “bad weather” and that things were going to be “messy” for a while, and that she (Knight) was going to sell her stock. Given their relationship, Knight stood to gain a reputational benefit from sharing information with Norton, and, because Norton was Knight’s realtor, Knight stood to receive a possible pecuniary benefit as well.

22. As of June 23, 2006, Norton was aware that Knight was an executive with Choice Hotels. Moreover, based on facts that Knight conveyed to Norton during their communications, Norton knew, or should have known, that this material nonpublic information was being conveyed in breach of a fiduciary duty.

23. On Monday, June 26, 2006, based on the material nonpublic information conveyed to her, Norton directed her securities broker to sell 2,385 shares of Choice Hotels stock at an average price of \$55.75 per share, for total proceeds of \$128,217. Norton’s sale on June 26, 2006 allowed her to avoid losses of at least \$22,800 that she would have incurred had she held the stock until news of Choice Hotels’ second quarter earnings results was publicly known.

24. On June 30, 2006 (four days later), Norton sold 844 additional shares of Choice Hotels stock at \$61.05 per share, for total proceeds of \$51,526. Norton’s sale on June 30, 2006 allowed her to avoid additional losses of at least \$14,221 that she would have incurred had she held the stock until news of Choice Hotels’ second quarter earnings results was publicly known.

25. On July 7, 2006, Norton took the additional step of selling short Choice Hotels stock for \$60.67 per share. “Selling short” is a trading strategy where a trader borrows shares to sell at a set price in anticipation of the stock price dropping. When the price drops, the trader buys the stock to “cover” the sale at a lower price and profits from the difference. Norton’s July 7, 2006 short sale of Choice Hotels stock was her first instance of shorting a stock.

26. Norton closed out her short position in Choice Hotels on July 26, 2006 (the first day of trading after the company's second quarter earnings results was announced) at \$45.29 per share, earning profits of at least \$7,690.

27. In all, Norton avoided losses or made illicit profits in the total amount of at least \$44,711 from her illegal trading in Choice Hotels stock.

Knight's Trade

28. The day after the June 22, 2006 operational review meeting, upon returning to her office in Phoenix, Knight sent an e-mail message to the associate general counsel of Choice Hotels at 9:01 a.m. that said: "I am considering selling some of my shares this summer. Can you tell me the blackout dates for the next 60 days so that I am in compliance when I sell. [sic]"

29. The associate general counsel wrote back three days later (June 26, 2006), saying: "We're in a blackout starting at the end of the quarter (June 30) and continuing until the day after we release earnings (currently scheduled for July 26). Here's the link to the Insider Trading Policy: [link attached in e-mail]. Let me know if you need more info." Knight printed out the company's Insider Trading Policy on that day and reviewed it.

30. The following day, June 27, 2006, Knight sent a follow-up e-mail message to the associate general counsel: "Thank you, I am exercising 12,000 shares today. I also mentioned [my boss] last week I would be doing so."

31. Knight sold 12,000 shares of Choice Hotels stock on June 27, 2006, at \$55.90 per share, for total proceeds in the amount of \$530,400. Knight's sale on June 27, 2006 allowed her to avoid losses of at least \$140,400 that she would have incurred had she held the stock until news of the company's second quarter earnings results was publicly known.

32. By trading on the basis of the material nonpublic information that she gleaned from the operational review meeting, Knight breached the fiduciary duty that she owed to the shareholders of Choice Hotels.

33. Knight did not purchase property in Alaska following her sale of Choice Hotels stock.

**VIOLATIONS OF SECTIONS 17(a) OF THE SECURITIES ACT AND
10(b) OF THE EXCHANGE ACT
AND EXCHANGE ACT RULE 10b-5**

34. Paragraphs 1 through 33 are re-alleged and incorporated herein by reference.

35. At all relevant times, Knight knew, or was reckless in not knowing, that the information she possessed from the operational review meeting was material and nonpublic. Knight knew, or was reckless in not knowing, that she violated her fiduciary duty owed to Choice Hotels shareholders by disclosing this information to Norton and by selling Choice Hotels stock on the basis of the information. Knight knew, or was reckless in not knowing, that Norton would use the information for trading purposes.

36. At all relevant times, Norton knew, or should have known, that the information she acquired concerning Choice Hotels' second quarter financial results was material nonpublic information that had been conveyed to her by Knight in breach of a fiduciary duty. On the basis of that information, Norton sold shares of Choice Hotels stock and shorted the stock.

37. For these reasons, Knight and Norton each violated Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)], and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court:

- (a) permanently restrain and enjoin defendant Knight and each of her agents, servants, employees, attorneys, and those persons in active concert or participation with her who receive actual notice, from violating Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)], and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5];
- (b) permanently restrain and enjoin defendant Norton and each of her agents, servants, employees, attorneys, and those persons in active concert or participation with her who receive actual notice, from violating Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)], and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5];
- (c) order defendant Knight to disgorge the losses avoided from her unlawful trading alleged herein, plus prejudgment interest thereon;
- (d) order defendants Knight and Norton to disgorge, jointly and severally, the losses avoided and ill-gotten gains derived from Norton's unlawful trading alleged herein, plus prejudgment interest thereon;
- (e) order defendants Knight and Norton each to pay a civil penalty pursuant to Section 21A of the Exchange Act [15 U.S.C. § 78u-1]; and

(f) grant such other relief as the Court deems just and proper.

Dated: May 17, 2011

Respectfully submitted,

s/ Dean M. Conway

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