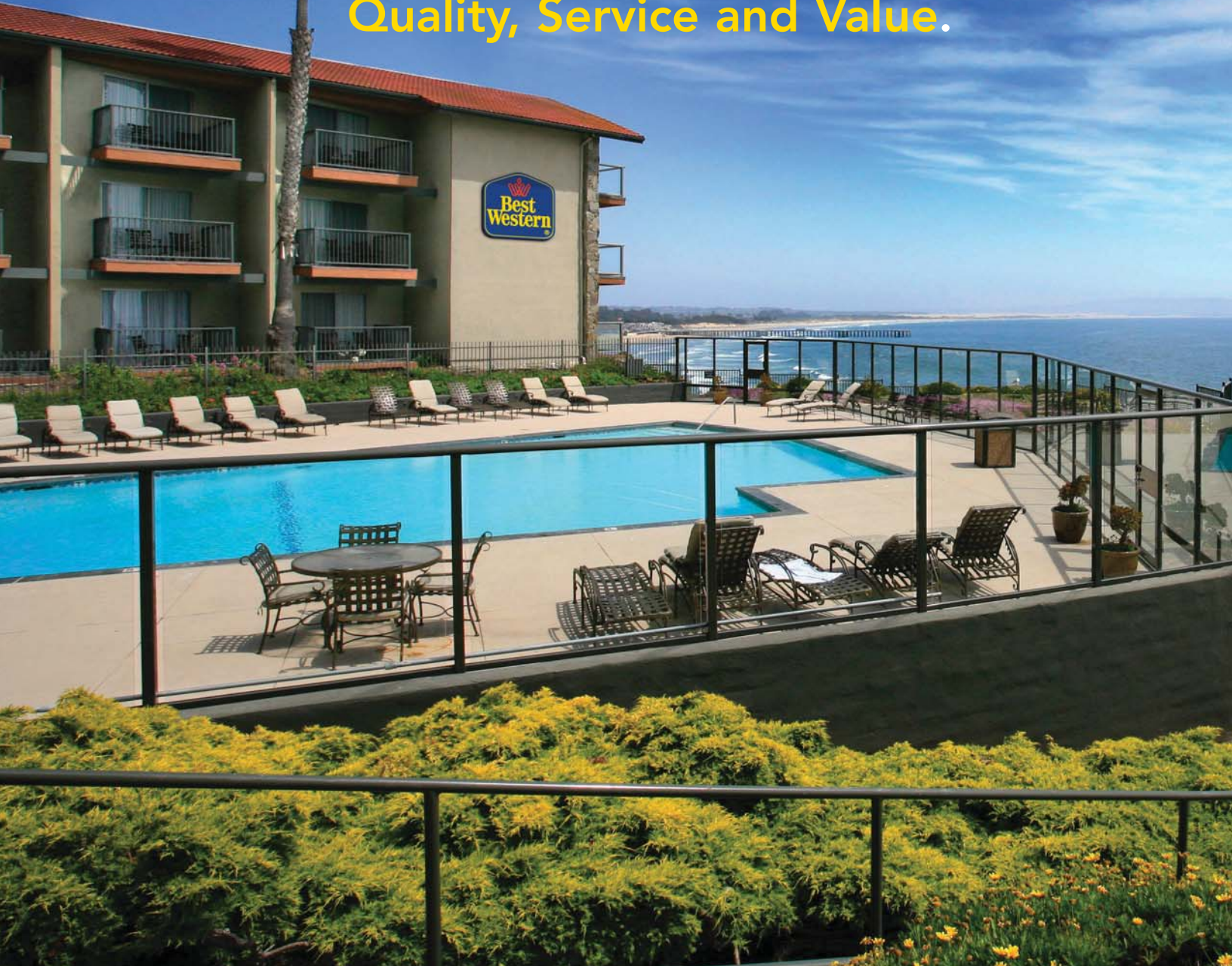


Best Western International, Inc.

2007

annual report

Quality, Service and Value.



Each Best Western® hotel is independently owned and operated.

A Letter From Best Western

2007 marked another year of strong growth and accomplishment for Best Western International, The World's Largest Hotel Chain®. Building on a strong 60th anniversary year in 2006, our business grew dramatically in several key areas:



- 2007 Lynx net revenue totaled \$1.1 billion worldwide – 8.3 percent greater than fiscal year 2006 for North America and 12.6 percent greater worldwide.
- The North American Worldwide Sales team generated nearly \$392 million in revenue for fiscal year 2007, 21 percent greater than the prior fiscal year.
- Gold Crown Club International rewards program revenue delivered to North American properties was up 27 percent over the prior fiscal year.
- bestwestern.com delivery in North America exceeded the revenue from online third parties and travel agents combined, speaking to the strength of our brand.

Internationally, we leveraged our global position with strategic additions to our portfolio, particularly in Asia. The region's booming economy and growing travel markets make Asia a smart fit as Best Western furthers its global reach and expands our distribution. Accordingly, in June 2007 we announced our aggressive development plan for India, with a goal of adding more than 100 hotels and 10,000 rooms to the blossoming Indian lodging market over the next 10 years. Best Western has already gained recognition as the fastest growing brand in Asia, with 120 properties that are either open or currently under construction. We must be doing the right things because one of Asia's top travel trade newspapers, TTG Asia, voted Best Western International the top hotel brand in the mid-scale segment.

In late 2006 we engaged The Boston Consulting Group, a world renowned strategy and management consulting firm, to help us define our 10-year product strategy. The BCG recommendations developed last year now form the cornerstone of our organization's future business plans. Best Western was also heartened to learn that the extensive consumer research conducted by BCG confirmed that *Best Western is the most preferred leisure brand in the mid-scale segment.*

More than 400,000 guests choose to stay with Best Western International every night. They choose our hotels because of the Best Western promise: quality, service and value. We will continue to strengthen our brand by living up to this brand promise and exceeding our guests' – and the industry's – expectations.

Annual reports tend to focus on hard numbers. The hospitality business, however, is really about people. We have set out a bold vision for ourselves: to lead the industry in superior customer care. We believe that if we establish an emotional connection with our guests (through compassion and caring), they will be loyal to us. And, treating our guests like family is how our company was founded.

We believe the combination of caring, involved and experienced hotel owners, a hardworking and dedicated Board of Directors and a professional and talented corporate team is the winning formula for building a stronger brand, delivering greater value to our members and making memorable connections with our guests.



David Francis, CHA
Chairman of the Board



David Kong
President and Chief Executive Officer

Dave Francis

David Kong

About the Company

Best Western International is THE WORLD'S LARGEST HOTEL CHAIN®, providing marketing, reservations and operational support to over 4,000* independently owned and operated member hotels in 80* countries and territories worldwide. An industry pioneer since 1946, Best Western has grown into an iconic brand that hosts 400,000* worldwide guests each night. Best Western's diverse property portfolio, its greatest strength, stems from a business model designed to give owners maximum flexibility to address market-specific needs. Equally committed to the business and leisure traveler, Best Western recently embarked on a five-year mission to lead the hotel industry in customer care. Since 2004, Best Western has served as the Official Hotel of NASCAR®. For more information or to make a reservation, please visit www.bestwestern.com.

**Numbers are approximate and can fluctuate.*

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Financial Highlights

Introduction – Best Western International, Inc. (the Company) is a membership organization incorporated as a non-profit corporation with headquarters in Phoenix, Arizona. As a membership organization, the Company's objective is to generate sufficient revenue to cover expenses and maintain financial stability. If profits are realized, they are generally offset by losses incurred in prior years or those planned for future years.

Results of Operations

Excess (Deficit) of Revenues over Expenses –

The Company reported a net loss after taxes of \$3.0 million in fiscal 2007 compared to net earnings after taxes of \$2.5 million in fiscal 2006.

Revenues – Revenues increased by \$15.4 million, or 8%; the major changes from 2006 are explained below.

- Monthly fees were approximately \$1.9 million, or 2%, higher primarily due to a 3.4% increase in monthly fees in 2007, partly offset by fewer average number of properties and room counts in 2007.
- Affiliation fees increased \$0.7 million, or 10%, due primarily to higher new member affiliations (increase in fee and higher average number of rooms per property) and 18 additional fees from the transfer of ownership of an existing BW affiliated property.
- International cost share and overhead recovery fees increased \$0.4 million, or 14%, mainly due to increased LYNX reservation revenue delivered to organizations affiliated with the Company.
- Other revenues increased \$3.6 million, or 53%, mostly due to higher program advertising commissions (\$1.0 million), customer care penalties (new in 2007 and totaling \$0.5 million), QC inspection fees (\$0.4 million – 155 more rapid response visits), member training revenue (\$0.3 million – expedited GM training), "800" express revenue (\$0.3 million) and design consulting fees (\$0.3 million).
- Revenue from self-funding programs increased \$6.1 million, or 12%, due primarily to higher Frequency stay program revenue (mostly BW Gold Crown Club International of \$5.9 million – 23% increase in room nights sold and 6% increase in ADR), increased purchases by members (BW Supply) and maintenance fees on Two Way systems, partially offset by lower GDS and internet booking fees charged to members (the fee for reservations made through the Company's proprietary website was eliminated in 2007; fee was \$1.25 in 2006).

Expenses – Expenses increased by \$22.0 million, or 11%; the major changes from 2006 are explained below.

- Salaries, wages and commissions increased \$8.5 million, or 17%, primarily due to increases

in service levels to our customers and members of our Frequency stay program, increased business related to our supply program, additional staffing related to our information technology group and our compensation program for merit increases and bonuses.

- Payroll taxes and benefits increased \$3.2 million, or 29%, due to higher salaries expense (increases in both payroll taxes and benefits costs), and costs associated with the Company's deferred compensation plans.
- Advertising and promotion expense increased \$4.1 million, or 9%, mostly due to increased media advertising (\$2.2 million – GCCI and Canadian media advertising) and higher agency fees.
- Professional fees increased \$3.2 million, or 41%, mostly due to product strategy consulting costs of \$1.4 million and "I Care" related customer service consulting costs of about \$1.1 million in 2007.
- Other expenses increased \$2.1 million, or 14%, primarily due to the higher International GDS booking fees and GSA commissions paid on increased reservations volume and higher provision for doubtful accounts to adequately reserve for properties that have left the brand this year.
- Self-funding program cost of sales increased by \$0.8 million, or 4%, mainly as a result of the higher number of points issued to Gold Crown Club members partially offset by higher breakage on free night vouchers.

Financial Position and Liquidity

The Company continues to be in a healthy financial position at November 30, 2007. Cash balances are \$22.6 million. Current assets, those expected to generate cash within the next year, are \$66.8 million, or 74% of total assets.

Capital Resources

The Company expended \$7.9 million in fiscal 2007 for capital projects. The major projects were building improvements, computer hardware upgrades and computer software, including improvements to the Company's eCustomer contacts/web booking engine and telecommunications systems.

The Company expended \$7.3 million in fiscal 2006 for capital projects. The major projects were infrastructure upgrades and computer software, including improvements to the Company's web booking engine and a membership automation system.

The Company anticipates that existing cash balances and cash flows from operations will be adequate to meet the Company's cash requirements for at least the next year.

Independent Auditors' Report

MUKAI,
GREENLEE &
COMPANY, P.C.

Certified Public Accountants

2600 North Central Avenue
Suite 1820
Phoenix, Arizona 85004
Telephone (602) 279-2600
Fax (602) 279-5191

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Best Western International, Inc.

We have audited the accompanying consolidated statements of financial position of Best Western International, Inc. and Subsidiaries (the Company) as of November 30, 2007 and 2006, and the related consolidated statements of revenues, expenses and net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Best Western International, Inc. and Subsidiaries as of November 30, 2007 and 2006, and the changes in its net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



February 23, 2008

Consolidated Statements of Financial Position

November 30, 2007 and November 30, 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$22,636,834	\$ 5,918,670
Short term investments	-	17,967,562
Accounts receivable, principally from members (net of allowance for doubtful accounts of \$5,239,049 in 2007 and \$4,028,339 in 2006)	30,428,263	29,800,709
Prepaid expenses and other current assets	11,898,883	12,912,030
Deferred income tax asset	-	1,035,000
Income taxes receivable	1,787,680	470,762
TOTAL CURRENT ASSETS	66,751,660	68,104,733
PROPERTY, EQUIPMENT AND COMPUTER SOFTWARE, AT COST		
Land	2,335,018	2,335,018
Land improvements	737,598	737,598
Buildings	15,767,713	14,202,962
Leasehold improvements	127,602	127,602
Furniture and equipment	25,806,231	32,132,779
Computer software costs	28,564,313	24,835,089
	73,338,475	74,371,048
Less accumulated depreciation and amortization	(51,601,927)	(53,779,806)
Net property, equipment and computer software	21,736,548	20,591,242
OTHER ASSETS	1,285,954	1,139,987
TOTAL ASSETS	\$89,774,162	\$89,835,962
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable, accrued liabilities and deferred compensation plans	\$34,827,192	\$38,163,351
Current frequent travelers program liability	12,594,119	14,789,847
Income taxes payable	-	39,700
Deferred income tax liability	447,000	-
Deposits	8,385,545	8,050,189
TOTAL CURRENT LIABILITIES	56,253,856	61,043,087
Non-current deferred compensation plans liability	2,884,767	1,318,253
Non-current frequent travelers program liability	17,582,815	11,128,501
Non-current deferred income tax liability	104,000	414,000
TOTAL LIABILITIES	76,825,438	73,903,841
NET ASSETS	12,948,724	15,932,121
TOTAL LIABILITIES AND NET ASSETS	\$89,774,162	\$89,835,962

See accompanying notes to consolidated financial statements.

Consolidated Statements of Revenues, Expenses & Net Assets

Years ended November 30, 2007 and 2006

	2007	2006
REVENUES:		
Monthly fees	\$98,007,064	\$96,124,416
Annual dues	8,946,151	8,760,500
Affiliation fees	8,070,956	7,348,263
Special advertising assessment	11,660,896	12,006,010
Special quality assurance assessment	1,416,310	1,456,412
International reservations fees	17,123,492	14,398,493
Member meetings	3,560,596	3,368,700
International cost share and overhead recovery fees	2,924,482	2,568,728
Other revenues	10,454,334	6,824,508
Program fees:		
* Property direct relations	2,943,045	3,196,585
* Frequency stay programs	32,413,838	26,441,329
* Travel card program	3,280,588	2,759,019
* GDS and internet domestic reservations	7,548,870	9,608,042
* BW Supply sales, mark-up and commissions	6,700,300	5,843,428
* Other programs	5,860,444	4,834,291
TOTAL REVENUES	220,911,366	205,538,724
EXPENSES:		
Salaries, wages and commissions	56,952,811	48,478,303
Third party labor	10,634,250	11,263,342
Payroll taxes and employee benefits	14,476,467	11,252,059
Advertising and promotion	48,725,713	44,631,618
Telephone	6,101,789	6,179,479
Travel	6,971,276	6,293,646
Depreciation and amortization	6,717,513	6,225,165
Rentals	4,330,439	4,280,886
Maintenance, utilities, property taxes	4,244,860	4,170,145
Professional fees and settlements	10,930,993	7,775,968
Meetings related costs	4,150,587	4,079,535
Printing	5,076,596	5,635,646
Supplies, postage and freight	5,506,922	5,379,832
Interest	33,638	161,193
Other expenses	17,055,906	14,964,184
Program cost of sales:		
* Frequency stay programs	13,629,513	12,903,251
* Third party GDS/Internet booking fees for North American properties	6,923,804	7,011,410
* Other programs	1,008,998	800,779
TOTAL EXPENSES	223,472,075	201,486,441
(Deficit) excess of revenues over expenses before income tax expense	(2,560,709)	4,052,283
Income tax expense	(422,688)	(1,546,262)
(Deficit) excess of revenues over expenses	(2,983,397)	2,506,021
NET ASSETS:		
Beginning of Year	15,932,121	13,426,100
END OF YEAR	\$12,948,724	\$15,932,121

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended November 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Deficit) excess of revenues over expenses	\$(2,983,397)	\$2,506,021
Adjustments to reconcile (deficit) excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization	6,717,513	6,225,165
Provision for doubtful accounts	2,457,941	1,982,131
Provision for (benefit from) deferred income taxes	1,172,000	(136,000)
Gain on sale of property and equipment and computer software	(6,644)	-
Changes in assets and liabilities:		
(Increase) in accounts receivable	(3,085,495)	(8,191,088)
Decrease (increase) in prepaid expenses and other current assets	1,013,147	(1,873,474)
(Increase) in income taxes receivable	(1,316,919)	(384,112)
(Increase) in other assets	(145,967)	(90,005)
(Decrease) in accounts payable, accrued liabilities and deferred compensation plans	(1,769,644)	(464,480)
Increase in frequent travelers program liability	4,258,586	4,388,574
(Decrease) in income taxes payable	(39,700)	(300)
Increase in deposits	335,355	45,889
Total adjustments	9,590,173	1,502,300
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,606,776	4,008,321
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturity (purchases) of investments	17,967,562	(5,967,562)
Purchase of property, equipment and computer software	(7,866,174)	(7,305,846)
Proceeds from sale of property and equipment	10,000	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	10,111,388	(13,273,408)
Net increase (decrease) in cash and cash equivalents	16,718,164	(9,265,087)
Cash and cash equivalents at beginning of year	5,918,670	15,183,757
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$22,636,834	\$5,918,670

Supplemental disclosures of cash flow information:

Cash paid for interest was \$33,638 in 2007 and \$161,193 in 2006.

Cash paid for income taxes was \$622,000 in 2007 and \$2,141,000 in 2006.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended November 30, 2007 and 2006

(1) Organization and Summary of Significant Accounting Policies

(a) *Nature of Business*

Best Western International, Inc., and subsidiaries (the Company) is a membership organization incorporated as a non-profit organization. The Company is an association of member hotels established solely to provide revenue generating opportunities and the leverage of purchasing power to benefit its members.

The Company's services and products are sold throughout the world, primarily in the United States and Canada. The Company grants credit to its members; in those instances where a member requests product in excess of the credit limit allowed by Company policy, the Company requests a letter of credit or prepayment to secure the collection of accounts receivable.

In the event of dissolution, after liquidation of all debts and obligations, any remaining assets of the Company shall be distributed to an Arizona-based non-profit education or charitable organization.

(b) *Principles of Consolidation*

The consolidated financial statements include the accounts of Best Western International, Inc. and its wholly-owned subsidiaries consisting of B-W Advertising Agency, Inc., B-W Insurance Agency, Inc., B-W Worldwide Reservations, Inc., B-W GCCl, Inc., Best Western International Limited, B-W Financial Services, Inc., BWI Latin America Reservations Co., BWI Latin America Service Co., BWI Asia, Inc., BWI Denmark, Inc., and B-W International Licensing, Inc.

BWI (Thailand) Co., LTD and Best Western (Hong Kong) Limited are wholly-owned subsidiaries of B-W International Licensing, Inc. BWI Brazil Ltda. and BWI Argentina S.R.L. are wholly-owned subsidiaries of BWI Latin America Service Co. and BWI Latin America Reservations Co., BWI Denmark Inc. Arizona, Filial heraf is a branch of BWI Denmark, Inc.

All significant intercompany transactions and balances are eliminated in consolidation.

(c) *Reclassifications*

Certain 2006 amounts have been reclassified to conform to the 2007 financial statement presentation.

(d) *Cash and Cash Equivalents*

Cash and cash equivalents include highly liquid money market instruments that have original maturities of three months or less at the date of purchase.

The Company has concentrated its credit risk for cash by maintaining deposits in Wells Fargo Bank, N.A. and other financial institutions which exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

(e) *Accounts Receivable and Allowance for Doubtful Accounts*

Accounts receivable, principally from members are primarily from member fees, member services and product sales. The Company does not require collateral, within credit limits established. The Company performs ongoing credit evaluations of its member receivables, non-payment can lead to termination of affiliation.

The allowance for doubtful accounts is based on the Company's assessment of the collectibility of member accounts. The Company regularly reviews the allowance by considering factors such as historical experience. The amounts of member accounts receivable greater than 90 days past due was \$834,244 and \$601,677, as of November 30, 2007 and 2006, respectively.

(f) *Property, Equipment and Computer Software*

Property, equipment and computer software are recorded at cost. Depreciation on land improvements, buildings, furniture and equipment is computed using the straight-line and accelerated methods over estimated useful lives ranging from 3 to 39 years. Leasehold improvements are amortized on a straight-line basis over the shorter of the related lease term or the estimated useful lives of the assets. Purchased software license fees and related implementation costs and costs to develop software for internal use are deferred and amortized on a straight-line basis over a three-year period. Repair and maintenance costs are charged to operating expenses as incurred.

Notes to Consolidated Financial Statements

Years ended November 30, 2007 and 2006

- (g) *Investments*
Short term investments, classified as held-to-maturity, consist of securities issued by Federal or Federally-Sponsored agencies and commercial paper with maturities less than one year from the date of the financial statements. These investments are valued at amortized costs.
- (h) *Income Taxes*
The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.
- (i) *Impairment or Disposal of Long-Lived Assets*
The Company reviews long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Properties held for sale are recorded at the lower of cost or fair value less estimated costs to sell.
- (j) *Revenue Recognition*
Fees, dues and assessments are established by the Board of Directors to cover the cost of providing services to its Members. These fees are billed monthly and recognized as revenue in the same month as the service they are designated to cover are provided. All other revenue sources, such as program fees, are recognized as earned in the month that the product or service is provided.
- (k) *Significant Estimates and Assumptions*
Management of the Company has made certain estimates and assumptions relating to the reporting of assets and liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.
- The following is a description of the estimate used for the GCCI frequency travelers program. The frequent travelers program estimated total liability is \$30,176,934 and \$25,918,348 as of November 30, 2007 and 2006, respectively. It represents management's estimate of the future obligation of awards for points earned but not yet redeemed by participants. The liability is calculated by multiplying the outstanding point balance, reduced for an estimate of the points in accounts inactive for a 13-month period, by the estimated redemption rate and the result of that calculation is multiplied by the average cost per point. Added to this account is the estimated liability for Free Night Vouchers (FNV) that were issued as GCCI point redemptions. This amount is based upon the open value of the FNV issued as GCCI point redemptions for the last 18 months as of November 30, 2007, and the last 30 months for November 30, 2006. Management estimates the redemption rate on GCCI points to be 65%, which is based on a combination of historical trend of points redeemed, and the future expected levels of points to be redeemed and the cost per point of \$0.004, which is based on the average cost paid per point redeemed. Should the actual redemption rate be higher or lower than 65%, it could have a material effect on the future results of the operations of the Company.
- The portion of this liability expected to be redeemed within the next 12 months, based on the historical trend of points redeemed, is \$12,594,119 and \$14,789,847 as of November 30, 2007 and 2006, respectively.
- (l) *Concentration of Credit Risk*
Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable, principally from members. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of members comprising the Company's customer base.

Notes to Consolidated Financial Statements

Years ended November 30, 2007 and 2006

(2) Income Taxes

Income tax expense (benefit) for the years ended November 30, 2007 and 2006 consisted of the following:

2007	Current	Deferred	Total
Federal	\$ (626,844)	\$943,000	\$316,156
State	(122,468)	229,000	106,532
	\$ (749,312)	\$1,172,000	\$422,688

2006	Current	Deferred	Total
Federal	\$1,474,262	\$(109,400)	\$1,364,862
State	208,000	(26,600)	181,400
	\$1,682,262	\$(136,000)	\$1,546,262

The actual tax expense differs from the "expected" tax expense (computed by applying the applicable U.S. federal corporate tax rate of 34% and the composite state tax rate of 8.25% to the (deficit) excess of revenues over expenses before income tax expense for the years ended November 30, 2007 and 2006. This is principally due to an increase in the book to tax basis of depreciable assets, utilization of a portion of the Company's net operating loss to offset taxable income, payment of an assessment for prior year taxes, state income tax expense and adjustments to prior year provisions. Also contributing to the difference are various income and expense items which are not deductible for tax purposes, including trademark, and certain meal and entertainment deductions.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at November 30, 2007 and 2006 are presented below:

	2007	2006
CURRENT DEFERRED TAX ASSETS:		
Acquisition of new logo	\$ 53,000	\$ 53,000
Compensated absences accrual for financial reporting purposes	1,034,000	1,009,000
Allowance for doubtful accounts	2,213,000	1,723,000
Deferred compensation plans	177,000	-
Net operating loss Federal & State	-	3,100,000
Total current deferred tax assets	3,477,000	5,885,000
CURRENT DEFERRED TAX LIABILITY:		
Prepaid expenses deferred for financial reporting purposes	3,924,000	4,850,000
Net current deferred tax (liability) assets	(447,000)	1,035,000
NON-CURRENT DEFERRED TAX ASSETS:		
Deferred compensation plans	1,219,000	557,000
Acquisition of new logo	119,000	172,000
Net operating loss	156,000	-
Total non-current deferred tax assets	1,494,000	729,000
NON-CURRENT DEFERRED TAX LIABILITY:		
Difference between financial statement and tax basis depreciation and amortization	1,598,000	1,143,000
Net non-current deferred tax liability	104,000	414,000
NET DEFERRED TAX (LIABILITY) ASSET	\$ (551,000)	\$ 621,000

Notes to Consolidated Financial Statements

Years ended November 30, 2007 and 2006

The Company had a net operating tax loss for 2005 and 2004 of \$2,725,387 and \$6,531,914, respectively. The Company amended its federal tax returns for 2003 and 2002 and applied these losses against the taxable income originally reported for those years. As a result, the Company is expecting a refund of taxes paid in those years in the amount of \$2,350,153. This refund is recorded as an income tax receivable in the accompanying consolidated statements of financial position. The balance of the unused net operating loss was applied against taxable income in 2006.

The Company's net operating tax loss for 2005 and 2004 could not be carried back for state income tax purposes. The Company plans to apply these net operating losses against future state taxable income. The benefit of these net operating losses is included in the Company's deferred tax asset accounts.

The taxable income amounts originally reported for 2003 and 2002 were adjusted as a result of an examination by the Internal Revenue Service (IRS) of the Company's tax return for those years. The taxable income was increased by \$321,391 and \$1,488,204 respectively. The Company paid additional income taxes for those years of \$615,300; this payment is included in income tax expense for 2006.

As the management of the Company considers it more likely than not that the gross deferred tax assets will be realized, a valuation allowance has not been applied.

(3) Line of Credit

The Company has a \$6,750,000 unsecured line of credit available for current working capital needs at November 30, 2007 and 2006. The line of credit expires on May 31, 2009, and provides for interest at either the prime rate, as defined by Wells Fargo Bank, or the LIBOR rate plus 137.5 basis points. The Company had no outstanding borrowings against this line of credit at November 30, 2007 or 2006.

The unsecured line of credit agreement includes three financial covenants as defined in the agreement, all of which the Company was in compliance with at November 30, 2007.

(4) Accounts Payable and Accrued Liabilities

The major components of accounts payable and accrued liabilities at November 30, 2007 and 2006 are as follows:

	2007	2006
Accounts payable	\$ 21,232,375	\$ 23,225,645
Accrued liabilities and deferred compensation plans	13,594,817	14,937,706
Total	\$ 34,827,192	\$ 38,163,351

(5) Contingencies

The Company is a defendant in a number of lawsuits arising in the ordinary course of business. In the opinion of management and corporate counsel to the Company, the ultimate outcome of such litigation will not have a material adverse effect on the Company's business, financial position, results of operations or cash flows.

Notes to Consolidated Financial Statements

Years ended November 30, 2007 and 2006

(6) Allowance for Doubtful Accounts

The following is a breakdown of the allowance for doubtful accounts:

Allowance for Doubtful Accounts	2007	2006
Beginning Balance	\$ 4,028,339	\$ 2,365,884
Recoveries	721,865	1,066,750
Provision	2,457,941	1,982,131
Write Offs	(1,969,096)	(1,386,426)
Ending Balance	\$ 5,239,049	\$ 4,028,339

(7) Membership Annual Dues

At November 30, 2007 and 2006, certain members had remitted approximately \$8,364,005 and \$8,569,630, respectively, to a bank trust escrow account in payment of annual dues for fiscal years 2008 and 2007, respectively. These funds are not available to the Company until December 1st of the following fiscal year, and therefore are not recorded in the financial statements at November 30, 2007 and 2006.

(8) Leases

Rental expense on operating leases for office space, equipment and software is charged to rentals. Aggregate rental expense for the years ended November 30, 2007 and 2006 was \$1,247,545 and \$1,223,530, respectively. Minimum future rentals on non-cancelable operating leases having a remaining term in excess of one year at November 30, 2007 are as follows:

Years ending November 30,	Equipment and Software	Office Space	Total Minimum Rentals
2008	\$ 658,908	\$ 592,910	\$1,251,818
2009	437,725	515,665	953,390
2010	99,474	314,938	414,412
2011	-	75,437	75,437
	\$1,196,107	\$1,498,950	\$2,695,057

(9) Employee Retirement Savings Plans

The Company sponsors a 401(k) investment plan which is available to all U.S. employees on the first day of service, and a Canadian RRSP Plan which is available to all Canadian employees on the first day of service. Under the plans, employees may contribute a percentage of their eligible wages to the plans, subject to maximum statutory regulations. The Company contributes 3% of the annual salary to all eligible employees. The Company may also contribute a discretionary amount, as determined by the Board of Directors, to be allocated in proportion to the first 6% of employees' contributions provided an employee has worked 1,000 hours during the plan year and is employed on the last day of the plan year.

The Company's contribution to the 401(k) investment plan was \$2,693,817 and \$2,218,778 for the years ended November 30, 2007 and 2006, respectively, and the Company's contribution to the RRSP Plan was \$84,252 and \$82,782 for the years ended November 30, 2007 and 2006, respectively, and is included in payroll taxes and employee benefits in the accompanying consolidated statements of revenues, expenses and net assets.

Notes to Consolidated Financial Statements

Years ended November 30, 2007 and 2006

(10) Deferred Compensation Plans

The Company has a deferred compensation plan in which key management employees of the Company, as determined by the Board of Directors, are selected to participate. This plan was initiated on June 1, 1997 and is a defined contribution plan. Participating employees may defer a percentage of their annual salaries and a percentage of any incentive compensation into the plan. The Company contributes based on a formula designed to restore benefits otherwise lost to participating employees due to statutory limits in the 401(k) investment plan and by an amount equal to the rate of the old age survivors and disability insurance tax under IRS code section 3101 multiplied by participant's compensation in excess of the social security tax base.

The Company's expense related to this plan was \$535,358 and \$257,839 for the years ended November 30, 2007 and 2006, respectively, and is included in payroll taxes and employee benefits in the accompanying statements of revenues, expenses and net assets.

On July 1, 2007, the Company established a long-term compensation incentive plan for key executives, retroactive to the year ended November 30, 2005. Amounts awarded under the plan for each performance period are payable to each key executive in March of the third year after the performance period ends. The key executive must be employed by the Company on the payment date. The plan allows for proration of the accrued benefit for key executives because of death, disability or retirement. The Company records expense for this plan over a three year period. The Company's expense related to this plan was \$993,000 for the year ended November 30, 2007, and is included in payroll taxes and employee benefits in the accompanying statements of revenues, expenses and net assets.

Amounts awarded under this incentive plan, and amounts expensed as of November 30, 2007 are as follows:

Performance Period	Awarded	Expensed
Year ended November 30, 2005	\$ 420,000	\$420,000
Year ended November 30, 2006	576,000	384,000
Year ended November 30, 2007	567,000	189,000
	<u>\$1,563,000</u>	<u>\$993,000</u>
Current liability		\$420,000
Non-current liability		573,000
		<u>\$993,000</u>

Supplemental Information (unaudited)

Director, Governor and Advisory Committee Expenses

The Company has seven members on its Board of Directors. These Directors are elected by the association's members for a three-year term and may serve no more than two terms. Directors attend board meetings, member meetings, international conferences with Affiliate organizations and perform other services for the Company throughout the year. They are paid a fee of \$400 per day of service and are reimbursed for travel expenses.

Directors appoint Governors to assist them in membership matters within their districts, including property inspections. Governors are reimbursed for their travel expenses on such trips and are compensated \$250 when visiting an applicant hotel or site.

In addition, Directors appoint members to serve on various Advisory Committees. These Advisory Committees meet and review, and make recommendations to the Board of Directors. Members of these committees are reimbursed for their travel expenses when they meet.

The expenses related to Directors, Governors and the Advisory Committees are presented below:

	2007				2006			
	Director	Governor	Advisory Committee	Total	Director	Governor	Advisory Committee	Total
EXPENSES								
Fees	\$ 514,800	\$57,000	\$ -	\$ 571,800	\$ 517,600	\$56,700	\$ -	\$ 574,300
Other expenses	783,664	41,986	131,591	957,241	784,087	31,939	207,584	1,023,610
Total	\$1,298,464	\$98,986	\$131,591	\$1,529,041	\$1,301,687	\$88,639	\$207,584	\$1,597,910

Board of Directors

2008 Board of Directors

Best Western International's Board of Directors, clockwise from far left, rear:

Bonnie McPeake, representing District IV;
P.G. West, representing District I;
Larry McRae, representing District II;
Raymond Johnston, representing District VI;
David Francis, representing District VII;
Charles Helm, representing District V;
Roman Jaworowicz, representing District III.



Board of Directors

David Francis, CHA

Chairman
Representing District VII
Best Western of Lynchburg
Lynchburg, Virginia

Bonnie McPeake, CHA

Vice-Chairman
Representing District IV
Best Western Pinehurst Inn
Aberdeen, North Carolina

P.G. West, CHA

Secretary/Treasurer
Representing District I
Best Western Turquoise Inn & Suites
Cortez, Colorado

Charles Helm, CHA

Representing District V
Best Western Crown Colony Inn & Suites
Lufkin, Texas

Roman J. Jaworowicz, CHA

Representing District III
Best Western Highland Inn & Conference Centre
Midland, Ontario, Canada
Best Western Campbellsville Lodge
Campbellsville, Kentucky

Raymond Johnston

Representing District VI
Best Western Las Brisas Hotel
Palm Springs, California
Best Western Las Brisas Hotel
Tucson, Arizona

Larry McRae, CHA

Representing District II
Best Western Grant Creek Inn
Missoula, Montana

Corporate Officer

David T. Kong

President and Chief Executive Officer

Executive Offices

6201 North 24th Parkway
Phoenix, Arizona 85016-2023, USA
(602) 957-4200

Independent Auditors

Mukai, Greenlee & Company, P.C.
Phoenix, Arizona



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