TANDEM DIABETES CARE INC
Form 10-Q
July 31, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2014

OR

¨ **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 001-36189

Tandem Diabetes Care, Inc.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**20-4327508** **(I.R.S. Employer** **Identification No.)**
11045 Roselle Street **San Diego, California** **(Address of principal executive offices)**	**92121** **(Zip Code)**

(858) 366-6900

Registrant s telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Exchange on Which Registered**
Common Stock, par value $0.001 per share	**The NASDAQ Stock Market LLC**

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 ¨

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 ¨

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

As of July 21, 2014, there were 23,463,233 shares of the registrant s Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TANDEM DIABETES CARE, INC.

CONDENSED BALANCE SHEETS

	June 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 64,207,844	$ 124,385,137
Restricted cash	2,000,000	2,050,000
Short-term investments	30,097,363	5,095,331
Accounts receivable, net	4,362,238	5,298,502
Inventory	11,121,021	10,330,156
Prepaid and other current assets	2,634,098	1,830,056
Total current assets	114,422,564	148,989,182
Property and equipment, net	12,476,109	9,885,985
Patents, net	2,538,560	2,697,220
Other long term assets	579,823	642,746
Total assets	$ 130,017,056	$ 162,215,133
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 2,520,912	$ 2,352,037
Accrued expense	1,686,425	1,873,565
Employee-related liabilities	5,497,815	5,876,011
Deferred revenue	514,309	411,423
Other current liabilities	2,991,219	4,086,196
Total current liabilities	13,210,680	14,599,232
Notes payable long-term	29,392,352	29,396,571
Deferred rent long-term	3,004,629	1,886,508
Other long-term liabilities	861,928	795,640
Total liabilities	46,469,589	46,677,951
Commitments and contingencies		
Stockholders equity:		
Common stock, $0.001 par value; 100,000,000 shares authorized, 23,455,483 and 22,925,614 shares issued and outstanding at June 30, 2014 (unaudited)	23,455	22,926

and December 31, 2013, respectively		
Additional paid-in capital	293,861,259	284,705,251
Accumulated other comprehensive income	12,282	
Accumulated deficit	(210,349,529)	(169,190,995)
Total stockholders equity	83,547,467	115,537,182
Total liabilities and stockholders equity	$ 130,017,056	$ 162,215,133

See accompanying notes to condensed financial statements.

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TANDEM DIABETES CARE, INC.

CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Sales	$ 10,254,640	$ 5,527,744	$ 18,320,108	$ 10,986,151
Cost of sales	6,805,890	5,121,866	14,004,700	8,539,866
Gross profit	3,448,750	405,878	4,315,408	2,446,285
Operating expenses:				
Selling, general and administrative	18,068,303	11,324,309	36,109,208	18,208,386
Research and development	3,698,245	2,758,761	7,361,564	5,081,238
Total operating expenses	21,766,548	14,083,070	43,470,772	23,289,624
Operating loss	(18,317,798)	(13,677,192)	(39,155,364)	(20,843,339)
Other income (expense), net				
Interest and other income	30,784	234	49,284	460
Interest and other expense	(909,577)	(1,170,696)	(2,052,454)	(2,337,871)
Change in fair value of stock warrants		(453,224)		(3,283,604)
Total other expense, net	(878,793)	(1,623,686)	(2,003,170)	(5,621,015)
Net loss	$ (19,196,591)	$ (15,300,878)	$ (41,158,534)	$ (26,464,354)
Other comprehensive gain or loss:				
Unrealized gain (loss) on short-term investments	(1,551)		12,282	
Comprehensive loss	$ (19,198,142)	$ (15,300,878)	$ (41,146,252)	$ (26,464,354)
Net loss per share, basic and diluted	$ (0.83)	$ (72.50)	$ (1.79)	$ (75.42)
Weighted average shares used to compute basic and diluted net loss per share	23,097,760	211,035	23,017,424	350,883

See accompanying notes to condensed financial statements.

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TANDEM DIABETES CARE, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Operating activities		
Net loss	$ (41,158,534)	$ (26,464,354)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	1,918,188	1,706,386
Provision for allowance for doubtful accounts	100,966	95,924
Provision for inventory reserve	163,246	102,946
Interest expense related to amortization of debt discount and debt issuance costs	133,704	297,028
Change in fair value of common and preferred stock warrants		3,283,604
Amortization of discount on short-term investments	(20,883)	
Stock-based compensation expense	7,302,263	644,452
Loss on disposal of property and equipment		18,691
Changes in operating assets and liabilities:		
Restricted cash		(178,981)
Accounts receivable	835,298	(416,941)
Inventory	(1,007,756)	(3,630,987)
Prepaid and other current assets	(804,042)	108,333
Accounts payable	76,775	(155,895)
Accrued expense	(187,139)	49,824
Employee-related liabilities	(378,196)	1,950,059
Deferred revenue	102,886	(1,779,709)
Other current liabilities	(1,242,490)	339,132
Deferred rent	1,438,833	(288,580)
Other long term liabilities	66,288	343,344
Net cash used in operating activities	$ (32,660,593)	$ (23,975,724)
Investing activities		
Purchase of short-term investments	(35,828,867)	
Purchase of property and equipment	(4,290,457)	(1,416,078)
Purchase of patents	(173,200)	(500,000)
Proceeds from sales and maturities of short-term investments	10,860,000	
Net cash used in investing activities	$ (29,432,524)	$ (1,916,078)
Financing activities		
Issuance of notes payable, net of issuance costs	29,925,000	29,249,054

Restricted cash in connection with notes payable and corporate credit card	50,000	(2,000,000)
Principal payments on notes payable	(30,000,000)	(4,396,323)
Issuance of preferred stock for cash, net of offering costs		15,999,532
Proceeds from issuance of common stock	1,940,824	9,461
Net cash provided by financing activities	1,915,824	38,861,724
Net (decrease) increase in cash and cash equivalents	$ (60,177,293)	$ 12,969,922
Cash and cash equivalents at beginning of period	124,385,137	17,162,730
Cash and cash equivalents at end of period	$ 64,207,844	$ 30,132,652
Supplemental disclosures of cash flow information		
Interest paid	$ 1,918,750	$ 2,561,667
Supplemental schedule of noncash investing and financing activities		
Unrealized gain on short-term investments	$ 12,282	
Property and equipment included in accounts payable	$ 59,196	$ 241,761
Common and preferred stock warrants issued, including incremental value of modification of warrants		$ 437,268

See accompanying notes to condensed financial statements.

TANDEM DIABETES CARE, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Basis of Presentation

The Company

Tandem Diabetes Care, Inc. is a medical device company focused on the design, development and commercialization of products for people with insulin-dependent diabetes. Unless the context requires otherwise, the terms the Company or Tandem refer to Tandem Diabetes Care, Inc.

The Company designed and commercialized its flagship product, the t:slim Insulin Delivery System, or t:slim, based on its proprietary technology platform and unique consumer-focused approach. The U.S. Food and Drug Administration (FDA) cleared t:slim in November 2011 and the Company commenced commercial sales of t:slim in the United States in the third quarter of 2012.

Tandem was originally incorporated in the state of Colorado on January 27, 2006 under the name Phluid Inc. On January 7, 2008, the Company was reincorporated in the state of Delaware for the purposes of changing its legal name from Phluid Inc. to Tandem Diabetes Care, Inc. and changing its state of incorporation from Colorado to Delaware.

Basis of Presentation

The Company has prepared the accompanying unaudited condensed financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments which are of a normal and recurring nature, considered necessary for a fair presentation have been included.

Interim financial results are not necessarily indicative of results anticipated for the full year. These unaudited condensed financial statements should be read in conjunction with the Company s audited financial statements and footnotes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013, from which the balance sheet information herein was derived.

Initial Public Offering

In November 2013, the Company completed its initial public offering of 8,000,000 shares of its common stock at a public offering price of $15.00 per share. Net cash proceeds from the initial public offering were approximately $108.3 million, after deducting underwriting discounts, commissions and estimated offering related transaction costs payable by the Company. In November 2013, the underwriters also exercised their overallotment option and purchased an additional 1,200,000 shares of the Company s common stock, from which the Company received cash proceeds, net of underwriting discounts and commissions, of approximately $16.7 million. In connection with the closing of the initial public offering, all of the Company s shares of convertible preferred stock outstanding at the time of the offering were automatically converted into 13,403,747 shares of common stock. In addition, all outstanding preferred stock warrants were automatically converted into warrants to purchase an aggregate of 1,171,352 shares of common stock.

Reverse Stock Splits

In October 2013, the Board of Directors approved a 1-for-1.6756 reverse stock split of the Company s common stock. All share and per share information included in the accompanying unaudited condensed financial statements and notes to the unaudited condensed financial statements give retroactive effect to this reverse stock split of the common stock.

Voluntary Recall

On January 10, 2014, the Company announced a voluntary recall of select lots of cartridges used with the t:slim that may be at risk of leaking. The cause of the recall was identified during the Company s internal product testing. The recall was expanded on January 20, 2014 to include additional lots of affected cartridges used with the t:slim. The Company incurred approximately $1.7 million in direct costs associated with the recall. The Company recorded a cost of sales charge of approximately $1.3 million in the fourth quarter of 2013 and recorded a cost of sales charge for the remainder in the first quarter of 2014 for affected cartridges shipped in 2014. The Company does not currently expect any further direct financial impact of the recall beyond these costs. The total cost of the recall consisted of approximately $0.7 million associated with the return and replacement of affected cartridges in the field and approximately $1.0 million for the write-off of affected cartridges within the Company s internal inventory.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities in the Company s financial statements and accompanying notes as of the date of the financial statements. Actual results could differ from those estimates and assumptions.

Restricted Cash

Restricted cash as of June 30, 2014 represents a $2.0 million minimum cash balance requirement in connection with the Capital Royalty Term Loan (see Note 6 Loan Agreements).

Accounts Receivable

The Company grants credit to various customers in the normal course of business. The Company maintains an allowance for doubtful accounts for potential credit losses. Provisions are made, generally, for receivables greater than 120 days past due and based upon a specific review of other outstanding invoices. Uncollectible accounts are written off against the allowance after appropriate collection efforts have been exhausted and when it is deemed that a balance is uncollectible.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents, short-term investments and accounts receivable. The Company maintains deposit accounts in federally insured financial institutions in excess of federally insured limits. The Company also maintains investments in money market funds that are not federally insured. Additionally, the Company has established guidelines regarding investment instruments and their maturities, which are designed to maintain preservation of principal and liquidity.

The following table summarizes customers who accounted for 10% or more of net accounts receivable:

	June 30, 2014	December 31, 2013
CCS Medical, Inc.	16.8%	21.4%
Edgepark Medical Supplies, Inc.	18.9%	13.1%

The following table summarizes customers who accounted for 10% or more of sales for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
CCS Medical, Inc.	14.6%	N/A	15.7%	N/A
Edgepark Medical Supplies, Inc.	16.5%	14.9%	16.0%	17.2%

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued expense, and employee-related liabilities are reasonable estimates of their fair value because of the short maturity of these items. Short-term investments are carried at fair value. Based on the borrowing rates currently available for loans with similar terms, the Company believes that the fair value of its long-term debt approximates its carrying value.

Revenue Recognition

Revenue is generated in the United States from the sale of the t:slim Pump, disposable cartridges and infusion sets to individual customers and third-party distributors that resell the product to insulin-dependent diabetes customers. The Company is paid directly by customers who use the products, distributors and third-party insurance payors.

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred and title passed, the price is fixed or determinable, and collectability is reasonably assured. These criteria are applied as follows:

The evidence of an arrangement generally consists of contractual arrangements with distributors or direct customers.

Transfer of title and risk and rewards of ownership are passed upon shipment of the pump to distributors or upon delivery to the customer.

The selling prices are fixed and agreed upon based on the contracts with distributors, the customer and contracted insurance payors, if applicable. For sales to customers associated with insurance providers with whom there is no contract, revenue is recognized upon collection of cash at which time the price is determinable. The Company generally does not offer rebates to its distributors and customers.

The Company considers the overall creditworthiness and payment history of the distributor, customer and the contracted insurance payor in concluding whether collectability is reasonably assured.

Prior to the first quarter of 2013, t:slim Pump sales were recorded as deferred revenue until the Company s 30-day right of return expired because it did not have sufficient history to be able to reasonably estimate returns. At December 31, 2012, $1.9 million was recorded as deferred revenue. Beginning in the first quarter of 2013, the Company began recognizing t:slim Pump revenue when all the revenue recognition criteria above are met, as it established sufficient history in order to reasonably estimate product returns. As a result of this change, a one-time adjustment was recorded during the six month period ended June 30, 2013, to recognize previously deferred revenue and cost of sales of $1.9 million and $1.1 million, respectively.

Revenue Recognition for Arrangements with Multiple Deliverables

The Company considers the deliverables in its product offering as separate units of accounting and recognizes deliverables as revenue upon delivery only if (i) the deliverable has standalone value and (ii) if the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is probable and substantially controlled by us. The Company allocates consideration to the separate units of accounting, unless the undelivered elements were deemed perfunctory and inconsequential. The Company uses the relative selling price method, in which allocation of consideration is based on vendor-specific objective evidence (VSOE) if available, third-party evidence (TPE), or if VSOE and TPE are not available, management s best estimate of a standalone selling price (ESP) for the undelivered elements.

In February 2013, the FDA cleared t:connect, the Company s cloud-based data management application, which is made available upon purchase by t:slim Pump customers. This service is deemed an undelivered element at the time of the t:slim sale. Because the Company has neither VSOE nor TPE for this deliverable, the allocation of revenue is based on the Company s ESP. The Company establishes its ESP based on estimated cost to provide such services, including consideration for a reasonable profit margin and corroborated by comparable market data. The Company allocates fair value based on management s ESP to this element at the time of sale and recognizes the revenue over the four year hosting period. Deferred revenue for the t:connect hosting services was $0.4 million and $0.2 million at June 30, 2014 and December 31, 2013, respectively. All other undelivered elements at the time of sale are deemed inconsequential or perfunctory.

Product Returns

The Company offers a 30-day right of return for its t:slim Pump customers from the date of shipment, provided a physician s confirmation of the medical reason for the return is received. Estimated allowances for sales returns are based on historical returned quantities as compared to t:slim Pump shipments in the same period. The return rate is then applied to the sales of the period to establish a reserve at the end of the period. The return rates used in the reserve are adjusted for known or expected changes in the marketplace when appropriate. The allowance for product returns at June 30, 2014 and December 31, 2013 was $0.2 million. Actual product returns have not differed materially from estimated amounts reserved.

Warranty Reserve

The Company generally provides a four-year warranty on its t:slim Pump to end user customers and may replace any pumps that do not function in accordance with the product specifications. Any pump returned to the Company may be refurbished and redeployed. Additionally, the Company offers a six month warranty on t:slim cartridges and infusion sets. Estimated warranty costs are recorded at the time of shipment. Warranty costs are estimated based on the current product cost considering a mix of new and refurbished pump costs, actual experience and expected failure rates from test studies performed in conjunction with the clearance of the Company s product with the FDA to support the longevity and reliability of its t:slim Pump. The Company evaluates the reserve quarterly and makes adjustments when appropriate. At June 30, 2014 and December 31, 2013, the warranty reserve was $0.9 million and $1.1 million, respectively. Of the total $0.9 million warranty reserve at June 30, 2014, $0.3 million was recorded as a component of other current liabilities and $0.6 million was recorded in other long-term liabilities. In addition, of the $1.1 million warranty reserve at December 31, 2013, $0.3 million was related to potential replacements associated with the voluntary product recall of selected lots of cartridges. The Company does not expect further replacements beyond June 30, 2014. As such, there was no warranty reserve at June 30, 2014 for such potential replacements. Actual warranty costs have not differed materially from estimated amounts reserved.

The following table provides a reconciliation of the change in product warranty liabilities through June 30, 2014 (in thousands):

Balance at December 31, 2013	$ 1,123
Provision for warranties issued during the period	1,396
Settlements made during the period	(1,617)
Balance at June 30, 2014	$ 902

Stock-Based Compensation

The Company estimates the fair value of stock options and shares issued to employees under the Employee Stock Purchase Plan (ESPP) using a Black-Scholes option-pricing model on the date of grant. The Black-Scholes option-pricing model requires the use of subjective assumptions including volatility, expected term, risk-free rate, and the fair value of the underlying common stock. For awards that vest based on service conditions, the Company recognizes expense using the straight-line method less estimated forfeitures. Prior to the Company s initial public offering, the estimated fair value of these awards was determined at the date of grant based upon the estimated fair value of the Company s common stock. Subsequent to the Company s initial public offering, the fair value of the common stock is based on observable market prices. As of June 30, 2014, there were no outstanding equity awards with market or performance conditions.

The Company records the expense for stock option grants to non-employees based on the estimated fair value of the stock option using the Black-Scholes option-pricing model. The fair value of non-employee awards is remeasured at each reporting period as the underlying awards vest unless the instruments are fully vested, immediately exercisable and nonforfeitable on the date of grant.

Warrant Liabilities

The Company issued freestanding warrants to purchase shares of common stock and convertible preferred stock in connection with the issuance of convertible notes payable in 2011 and 2012. The Company accounted for these warrants as a liability in the financial statements because either the Company did not have enough authorized shares to satisfy potential exercise of the common stock warrants and the number of shares to be issued upon their exercise was outside the control of the Company, or because the underlying instrument into which the warrants were exercisable (Series D convertible preferred stock) contained deemed liquidation provisions that were outside of the control of the Company. Upon the closing of the initial public offering, warrants to purchase shares of Series D Preferred Stock automatically converted into warrants to purchase shares of common stock. The Company reclassified the warrant liability to stockholders equity as the warrants met the definition of an equity instrument.

Prior to the warrants being converted to an equity instrument, the warrants were recorded at fair value using either the Black-Scholes option pricing model, or a binomial lattice model, depending on the characteristics of the warrants at the time of the valuation. The fair value of these warrants was remeasured at each financial reporting period with any changes in fair value being recognized as a component of other income (expense) in the accompanying statements of operations and comprehensive loss. For the three and six months ended June 30, 2013, costs of $0.5 million and $3.3 million were recorded as other expense from the revaluations, respectively. In connection with completion of the initial public offering in November 2013, the Company performed the final remeasurement of the warrant liability.

Net Loss Per Share

Basic net loss per share is calculated by dividing the net loss by the weighted average number of common shares that were outstanding for the period, without consideration for common stock equivalents. Diluted net loss per share is calculated by dividing the net loss by sum of the weighted-average number of dilutive common share equivalents outstanding for the period determined using the treasury-stock method. Dilutive common share equivalents are comprised of convertible preferred stock, preferred stock warrants, common stock warrants, potential ESPP awards, restricted common stock and options outstanding under the Company s equity incentive plans. Applicable accounting guidance provides that a contract that is reported as an asset or liability for accounting purposes may require an adjustment to the numerator of the diluted earnings per share calculation for any changes in income or loss that would result if the contract had been reported as an equity instrument during the period. Securities are assumed to be converted at the beginning of the period, and the resulting common shares are included in the denominator of the diluted earnings per share calculation for the entire period presented. For all periods presented, there is no difference in the number of shares used to calculate basic and diluted shares outstanding due to the Company s net loss position.

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Potentially dilutive securities not included in the calculation of diluted net loss per share (because inclusion would be anti-dilutive) are as follows (in common stock equivalent shares):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Convertible preferred stock outstanding		13,148,484		11,891,301
Warrants for convertible preferred stock		1,426,704		1,426,704
Warrants for common stock	1,009,170	271,834	1,009,170	249,306
Common stock options	4,352,181	1,114,453	4,350,888	560,305
ESPP	123,061		123,061	
Restricted common stock subject to repurchase		9,113		8,371
	5,484,412	15,970,588	5,483,119	14,135,987

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued an accounting standards update, which includes amendments that change the requirements for reporting discontinued operations and require additional disclosures about discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations - that is, a major effect on the organization s operations and financial results - should be presented as discontinued operations. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. Additionally, the update requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The guidance is effective prospectively for fiscal years beginning after December 15, 2014 and interim periods within annual periods beginning on or after December 15, 2015. The Company does not believe the adoption of this standard will have a material impact on its financial position, results of operations or related financial statement disclosures.

In May 2014, the FASB and the International Accounting Standards Board (IASB) issued a comprehensive new revenue recognition standard that will supersede existing revenue guidance under U.S. GAAP and International Financial Reporting Standards (IFRS). The standard s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The guidance is effective for annual periods beginning after December 15, 2016, including interim periods within that period. The Company is in the process of assessing the future impact of the adoption of the standard on its financial statements.

3. Short-Term Investments

The Company invests excess cash in investment securities, principally debt instruments of financial institutions and corporations with strong credit ratings. The following represents a summary of the estimated fair value of short-term investments at June 30, 2014 and December 31, 2013 (in thousands):

At June 30, 2014	Maturity (in years)	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Commercial paper	Less than 1	$ 28,582	$ 13	$	$ 28,595
Government-sponsored enterprise securities	1 to 2	1,503		(1)	1,502
Total		$ 30,085	$ 13	$ (1)	$ 30,097

At December 31, 2013	Maturity (in years)	Amortized cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Commercial paper	Less than 1	$ 5,095	$	$	$ 5,095
Total		$ 5,095	$	$	$ 5,095

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4. Inventory

Inventories, stated at the lower of cost or market, consisted of the following (in thousands):

	June 30, 2014	December 31, 2013
Raw materials	$ 5,831	$ 6,363
Work in process	3,413	2,169
Finished goods	2,307	3,535
	11,551	12,067
Less reserve	(430)	(1,737)
Total	$ 11,121	$ 10,330

The inventory reserve at December 31, 2013 included $0.9 million associated with the Company s voluntary product recall. There was no reserve associated with the product recall at June 30, 2014.

5. Fair Value Measurements

Authoritative guidance on fair value measurements defines fair value, establishes a consistent framework for measuring fair value, and expands disclosures for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the authoritative guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs such as quoted prices in active markets.

Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The following table presents information about the Company s financial assets measured at fair value on a recurring basis as of June 30, 2014 and December 31, 2013, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value (in thousands):

		Fair Value Measurements at June 30, 2014		
	June 30, 2014	Level 1	Level 2	Level 3
Assets				
Cash equivalents (1)	$ 60,470	$ 60,470	$	$

Restricted cash	2,000	2,000		
Commercial paper	28,595		28,595	
Government-sponsored enterprise securities	1,502		1,502	
Total assets	$ 92,567	$ 62,470	$ 30,097	$

(1) Cash equivalents as of June 30, 2014 included money market funds and commercial paper with a maturity of three months or less from the date of purchase.

	December 31, 2013	Fair Value Measurements at December 31, 2013 Level 1	Level 2	Level 3
Assets				
Money market funds	$ 115,112	$ 115,112	$	$
Restricted cash	2,050	2,050		
Commercial paper	5,095		5,095	
Total assets	$ 122,257	$ 117,162	$ 5,095	$

The Company s Level 2 financial instruments are valued using market prices on less active markets and model-derived valuations with observable valuation inputs such as interest rates and yield curves. The Company obtains the fair value of Level 2 financial instruments from quoted market price, calculated price or quotes from third-party pricing services. The Company validates through independent valuation testing and review of portfolio valuations provided by the Company s investment managers. There were no transfers between Level 1 and Level 2 securities during the six months ended June 30, 2014.

6. Loan Agreements

Silicon Valley Bank Loan

In March 2012, the Company entered into a Loan and Security Agreement with Silicon Valley Bank (SVB), drawing a bridge loan in the amount of $5.0 million (the SVB Bridge Loan). Subsequent to the closing of the Series D financing, the SVB Bridge Loan was converted into a 24-month term loan (the SVB Term Loan) in September 2012. The term loan accrued interest at an annual rate of 4%, with principal and accrued interest payments due monthly throughout the 24-month term. The SVB Term Loan also required a final payment of $0.3 million and a fee of $0.2 million if the loan was prepaid in its entirety prior to the end of the term of the loan.

In connection with the SVB Bridge Loan and SVB Term Loan, the Company issued an aggregate of 102,270 warrants to purchase shares of Series D convertible preferred stock at an exercise price of $4.40 per share. In November 2013, in connection with the closing of the initial public offering, all SVB Series D Preferred Stock warrants automatically converted into warrants to purchase 61,033 shares of our Common Stock at a weighted average exercise price of $7.37 per share.

In conjunction with the Capital Royalty Term Loan closing in January 2013, all principal, interest due and prepayment fee amounts due under the SVB Term Loan were paid by the Company.

Silicon Valley Bank Revolving Line of Credit

In January 2013, the Company entered into an amended loan agreement with Silicon Valley Bank, making available a revolving line of credit in an amount up to the lesser of $1.5 million or 75% of eligible accounts receivable, and expiring in January 2015. Interest-only payments at a rate of 6% per annum are payable monthly through the maturity date. Loans drawn under the agreement are secured by eligible accounts receivable and proceeds therefrom. Additionally, the terms of the revolving line of credit contain various affirmative and negative covenants. There were no amounts outstanding under this loan as of June 30, 2014 or December 31, 2013.

Capital Royalty Term Loan

In December 2012, the Company executed a Term Loan Agreement (the Original Term Loan Agreement) with Capital Royalty Partners II L.P. (Capital Royalty Partners) and Capital Royalty Partners II Parallel Fund A L.P. (CRPPF, together with Capital Royalty Partners, the Lenders), providing the Company access to up to $45.0 million under the arrangement, of which $30.0 million was available in January 2013. An additional amount up to $15.0 million became available upon achievement of a 2013 revenue-based milestone. In January 2013, $30.0 million was drawn under the Original Term Loan Agreement. The loan under the Original Term Loan Agreement accrued interest at an annual rate of 14%. Interest-only payments were due quarterly at March 31, June 30, September 30 and December 31 of each year through December 31, 2015. Thereafter, in addition to interest accrued during the period, quarterly payments were required to include an amount equal to the outstanding principal at December 31, 2015 divided by the remaining number of quarters prior to the maturity of the loan which is December 31, 2017. The Original Term Loan Agreement stipulated prepayment fees of 5% of the outstanding balance of the loan if the loan was repaid prior to April 1, 2014. The prepayment fee was reduced 1% per year for each subsequent year until maturity.

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In connection with the Original Term Loan Agreement, in January 2013, the Company issued warrants to purchase 271,834 shares of the Company s Common Stock at an exercise price of $0.02 per share. The warrants were immediately exercisable and expire in January 2023. Because the exercise price of these warrants is nominal, the Company used the fair value of the common stock of $1.61 at December 31, 2012 to value these warrants. The Company also paid a $0.4 million financing fee to the Lenders. The warrants fair value of approximately $0.4 million and the financing fee of $0.4 million were recorded as a debt discount. Additionally, the Company paid $0.7 million to a third party for sourcing the Capital Royalty Term Loan, which was recorded as debt issuance cost. The fees and the value of the warrants are amortized to interest expense over the remaining term using the effective interest method.

In April 2014, the Company entered into an Amended and Restated Term Loan Agreement (the Amended and Restated Term Loan Agreement) with the Lenders and other parties affiliated with Capital Royalty Partners. The Amended and Restated Term Loan Agreement primarily amends the terms of the Original Term Loan Agreement to reduce the borrowing limit to $30.0 million, to reduce the applicable interest rate from 14.0% to 11.5%, and to extend the interest only payment period from December 31, 2015 to March 31, 2018. Interest is payable, at the Company s option, (i) in cash at a rate of 11.5% per annum or (ii) 9.5% of the 11.5% per annum in cash and 2.0% of the 11.5% per annum is added to the principal of the loan and is subject to accruing interest. Interest-only payments are due quarterly on March 31, June 30, September 30 and December 31 of each year of the interest-only payment period. Thereafter, in addition to interest accrued during the period, the quarterly payments shall include an amount equal to the outstanding principal at March 31, 2018 divided by the remaining number of quarters prior to the end of the term of the loan which is March 31, 2020. The Amended and Restated Term Loan Agreement provides for prepayment fees of 3% of the outstanding balance of the loan if the loan is repaid prior to March 31, 2015. The prepayment fee is reduced by 1% per year for each subsequent year until maturity.

Certain affirmative and negative covenants were also amended. The principal financial covenants require that the Company attain minimum annual revenues of $30.0 million in 2014, $50.0 million in 2015, $65.0 million in 2016, $80.0 million in 2017 and $95.0 million thereafter.

Concurrently, the Company also entered into a new Term Loan Agreement (the New Tranche Term Loan Agreement) with the Lenders and other parties affiliated with Capital Royalty Partners, under which the Company may borrow up to an additional $30.0 million on or before March 31, 2015 at the same interest rate and on the same key terms as the Amended and Restated Term Loan Agreement.

Aggregate borrowings outstanding under the Amended and Restated Term Loan Agreement are $30.0 million. Borrowings under the Amended and Restated Term Loan Agreement were used to refinance amounts outstanding under the Original Term Loan Agreement. The present value of the future cash flows under the modified terms described above did not exceed the present value of the future cash flows under the original terms by more than 10%. The Company treated this amendment as a modification and the facility fee of approximately $0.1 million recorded as a discount to the Amended and Restated Term Loan. The facility fee and the remaining balance of debt issuance cost and debt discount of the Original Term Loan are amortized over the remaining term of the Amended and Restated Term Loan using the effective interest method.

7. Stockholders Equity

Shares Reserved for Future Issuance

The following shares of common stock are reserved for future issuance at June 30, 2014:

Common stock warrants outstanding	1,009,170
Stock options issued and outstanding	4,915,926
Authorized for future option grants	2,189,182
Employee stock purchase plan	659,863
	8,774,141

The Company issued 404,476 shares of common stock upon the exercise of stock options and warrants during the six months ended June 30, 2014, and issued 95,007 shares of common stock upon the exercise of stock options and warrants during the year ended December 31, 2013.

In October 2013, the Company adopted the 2013 ESPP. During the three and six months ended June 30, 2014, 125,393 shares of common stock were purchased under the ESPP.

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Stock-Based Compensation

The assumptions used in the Black-Scholes option-pricing model are as follows:

	Stock Option			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Risk-free interest rate	1.9%	0.8%	1.9%	0.9%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Expected volatility	78.6%	75.7%	78.7%	75.9%
Expected term (in years)	6.1	5.6	6.1	5.6

	ESPP			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Risk-free interest rate	0.2%		0.2%	
Expected dividend yield	0.0%		0.0%	
Expected volatility	62.9%		62.9%	
Expected term (in years)	1.3		1.3	

The following table summarizes the allocation of stock compensation expense (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Cost of sales	$ 263	$ 50	$ 626	$ 67
Selling, general & administrative	2,816	484	5,819	508
Research and development	452	54	857	69
Total	$ 3,531	$ 588	$ 7,302	$ 644

The total stock-based compensation capitalized as part of the cost of inventory was $0.2 million and $0.3 million at June 30, 2014 and December 31, 2013, respectively.

8. Collaborations

DexCom Development and Commercialization Agreement

In February 2012, the Company entered into a Development and Commercialization Agreement with DexCom, Inc. (the DexCom Agreement) for the purpose of collaborating on the development and commercialization of an integrated system which incorporates the t:slim Insulin Delivery System with DexCom s proprietary continuous glucose monitoring system. Under the DexCom Agreement, the Company paid DexCom $1.0 million at the commencement of the collaboration which was recorded as research and development cost in 2012 and will make two additional $1.0 million payments upon the achievement of certain milestones. Additionally, the Company will reimburse DexCom up to $1.0 million of its development costs and is solely responsible for its own development costs. The amount accrued for DexCom s development costs associated with the DexCom Agreement was not material at June 30, 2014 and December 31, 2013.

Upon commercialization of the integrated system, and as compensation for the non-exclusive license rights, the Company will also pay DexCom a royalty of $100 for each integrated system sold.

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Juvenile Diabetes Research Foundation Collaboration

In January 2013, the Company entered into a research, development and commercialization agreement (JDRF Agreement) with the Juvenile Diabetes Research Foundation (JDRF) to develop the t:dual Infusion System, a first-of-its-kind, dual-chamber infusion pump for the management of diabetes. According to the terms of the JDRF Agreement, JDRF will provide research funding of up to $3.0 million based on the achievement of research and development milestones, not to exceed research costs incurred by the Company. The research and development milestones are anticipated to be reached by September 2016. Payments the Company receives to fund the collaboration efforts under the terms of the JDRF Agreement will be recorded as restricted cash and current and long term liabilities, and recognized as an offset of research and development expenses straight-line over the remaining months until anticipated completion of the final milestone, only to the extent that the restricted cash is utilized to fund such development activities.

As of June 30, 2014, milestone payment achievements totaled $0.7 million, and research and development costs were offset by $0.3 million. The research and development costs were offset by $0.1 million for each of the six-month periods ended June 30, 2014 and 2013. The Company did not have any restricted cash balances related to the JDRF Agreement at June 30, 2014 or December 31, 2013.

9. Commitments and Contingencies

From time to time, the Company may be subject to legal or regulatory proceedings or other matters arising in the ordinary course of business, including proceedings with respect to intellectual property, employment, product liability, and contractual matters. The Company assesses, on a regular basis, the probability of a negative outcome and the range of possible loss based on the developments with respect to these matters. A liability is only recorded in the financial statements if it is believed to be probable that a loss has been incurred and that the amount of the loss can be reasonably estimated. Because of the uncertainties related to the occurrence, amount, and range of loss on any pending proceedings, the Company is currently unable to predict their ultimate outcome, and, with respect to any pending litigation or claim where no liability has been accrued, to make a meaningful estimate of the reasonably possible loss or range of loss that could result from an unfavorable outcome. At June 30, 2014 and December 31, 2013, there were no pending legal or regulatory proceedings for which a negative outcome was considered probable and for which the loss could be reasonably estimated. As a result, no amounts have been accrued with respect to any such proceedings at either date.

10. Subsequent Event

In July 2014, the Company paid DexCom $1.0 million as a milestone payment under the DexCom Agreement related to the Company s submission of a pre-market approval (PMA) application for the t:slim G4, which the Company has previously referenced as t:sensor, to the FDA.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed financial statements and related notes included in this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto as of and for the year ended December 31, 2013 included with our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission, or SEC. Operating results are not necessarily indicative of results that may occur in future periods.

Certain statements contained in this Quarterly Report on Form 10-Q, including statements regarding the development, growth and expansion of our business, our intent, belief or current expectations, primarily with respect to our projected financial and operating performance, and the products we expect to offer in the future, and other statements that are not statements of historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act, and are subject to the safe harbor created by these sections. Future filings with the SEC, future press releases and future oral or written statements made by us or with our approval, which are not statements of historical fact, may also contain forward-looking statements. Because such statements include risks and uncertainties, many of which are beyond our control, actual results may differ materially from those expressed or implied by such forward-looking statements. Some of the factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements can be found under the caption Risk Factors, and elsewhere in this Quarterly Report on Form 10-Q as well as in our other filings with the SEC. Readers are cautioned not to place undue reliance on forward-looking statements. The forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update such statements to reflect events that occur or circumstances that exist after the date on which they are made.

Overview

We are a medical device company with an innovative approach to the design, development and commercialization of products for people with insulin-dependent diabetes. We designed and commercialized our flagship product, the t:slim Insulin Delivery System, or t:slim, based on our proprietary technology platform and unique consumer-focused approach. Our technology platform features our patented Micro-Delivery Technology, a miniaturized pumping mechanism which draws insulin from a flexible bag within the pump s cartridge rather than relying on a syringe and plunger mechanism. It also features an easy-to-navigate embedded software architecture, a vivid color touchscreen and a micro-USB connection that supports both a rechargeable battery and t:connect, our data management application. Our innovative approach to product design and development is also consumer-focused and based on our extensive market research as we believe the user is the primary decision maker when purchasing an insulin pump. We also apply the science of human factors to our design and development process, which seeks to optimize our devices to the intended users, allowing users to successfully operate our devices in their intended environment. Leveraging our technology platform and consumer-focused approach, we develop products to address unmet needs of people in all segments of the large and growing insulin-dependent diabetes market.

The FDA cleared t:slim in November 2011. We commenced commercial sales of t:slim in the United States in the third quarter of 2012. We consider the number of units shipped per quarter to be an important metric for managing our business. Since the launch of t:slim, we have shipped approximately 11,500 pumps as of June 30, 2014, broken down by quarter as follows:

Units Shipped for Each of the Three Month Periods

	2012	2013	2014
March 31	N/A	852	1,723
June 30	9	1,363	2,235
September 30	204	1,851	N/A
December 31	844	2,406	N/A
Total	1,057	6,472	3,958

For the three months ended June 30, 2014 and 2013, our sales were $10.3 million and $5.5 million, respectively. For the three months ended June 30, 2014 and 2013, our net loss was $19.2 million and $15.3 million, respectively.

For the six months ended June 30, 2014 and 2013, our sales were $18.3 million and $11.0 million, respectively. For the six months ended June 30, 2014 and 2013, our net loss was $41.2 million and $26.5 million, respectively. Our accumulated deficit as of June 30, 2014 was $210.3 million.

We have derived nearly all of our revenue from the sale of t:slim in the United States and expect to continue to do so until we are able to commercialize our other products that are currently under development. A substantial portion of the purchase price of an insulin pump is typically paid for by third-party payors, including private insurance companies, preferred provider organizations and other managed care providers. Future sales of our current and future products will be limited unless our customers can rely on third-party payors to pay for all or part of the associated purchase cost. Access to adequate coverage and reimbursement for our current and future products by third-party payors is essential to the acceptance of our products by customers. In circumstances that we do not have contracts established with third-party payors, to the extent possible we utilize our network of national and regional distributors to service our customers.

We believe we can achieve profitability because our proprietary technology platform will allow us to maximize efficiencies in the development, production and sales of our products. By leveraging our core technology, we believe we can develop and bring to market products rapidly and greatly reduce our design and development costs. We expect to continue to increase production volume, and to reduce the per unit production cost for the t:slim Pump and its disposable cartridge over time. Further, due to shared product design features, our production system is adaptable to new products and we intend to leverage our shared manufacturing infrastructure to reduce our product costs and drive operational efficiencies. By expanding our product offerings to address people in all segments of the large and growing insulin-dependent diabetes market, we believe we can increase the productivity of our sales force, thereby improving our operating margin.

From inception through June 30, 2014, we have primarily financed our operations through sales of equity securities, and, to a lesser extent, debt financings. We expect to continue to incur net losses for the next several years and may require additional capital through equity financings and debt financings in order to fund our operations to a level of revenues adequate to support our cost structure.

We have experienced considerable revenue growth since the commercial launch of t:slim in the third quarter of 2012, while incurring operating losses since our inception. Our operating results may fluctuate on a quarterly or annual basis in the future and our growth or operating results may not be consistent with predictions made by securities analysts. We may not be able to achieve profitability in the future. For additional information about the risks and uncertainties associated with our business, see the section entitled Risk Factors in Part II, Item 1A of this Quarterly Report on Form 10-Q.

Voluntary Recall

On January 10, 2014, we announced a voluntary recall of select lots of cartridges used with the t:slim that may be at risk of leaking. The cause of the recall was identified during our internal product testing. The recall was expanded on January 20, 2014 to include additional lots of affected cartridges used with the t:slim. We incurred approximately $1.7 million in direct costs associated with the recall. We recorded a cost of sales charge of approximately $1.3 million in the fourth quarter of 2013 and recorded the cost of sales charge for the remainder in the first quarter of 2014 for affected cartridges shipped in the first quarter of 2014. We do not currently expect any further direct financial impact of the recall beyond these costs. The total cost of the recall consisted of approximately $0.7 million associated with the return and replacement of affected cartridges in the field and approximately $1.0 million for the write-off of affected cartridges within our internal inventory.

Subsequent Event

In July 2014, we paid DexCom $1.0 million as a milestone payment under the DexCom Agreement related to our submission of a pre-market approval (PMA) application for the t:slim G4, which we have previously referenced as t:sensor, to the FDA.

Components of Results of Operations

Sales

We commenced commercial sales of t:slim in the United States in the third quarter of 2012. The t:slim Insulin Delivery System is comprised of the t:slim Pump and pump-related supplies that include disposable cartridges and infusion sets. We also offer accessories including protective cases, belt clips, and power adapters. Sales of accessories since commercial launch have not been material. We primarily sell our products through national and regional distributors on a non-exclusive basis. These distributors are generally providers of medical equipment and supplies to individuals with diabetes. Our primary end customers are people with insulin-dependent diabetes. Similar to other durable medical equipment, the primary payor is generally a third-party insurance carrier and the customer is usually responsible for any medical insurance plan copay or co-insurance requirements.

We anticipate our sales will increase as we expand our sales and marketing infrastructure, increase awareness of our products and broaden third party reimbursement for our products. We also expect that our sales will fluctuate on a quarterly basis in the future due to a variety of factors, including seasonality and the impact of the buying patterns of our distributors and other customers. We believe that our sales are subject to seasonal fluctuation due to the impact of annual deductible and coinsurance requirements associated with most medical insurance plans utilized by our individual customers and the individual customers of our distributors. Our sales may also be influenced by the summer vacation period. Accordingly, we have experienced and expect to continue experience sequential growth of sales from the third quarter to the fourth quarter to be relatively higher than for other quarter-to-quarter growth, and we also expect sequential sales from the fourth quarter to the first quarter to be relatively flat or down.

Cost of Sales

We manufacture the t:slim Pump and its disposable cartridge at our manufacturing facility in San Diego, California. Infusion sets and t:slim accessories are manufactured by third-party suppliers. Cost of sales includes raw materials, labor costs, manufacturing overhead expenses, product training cost and reserves for expected warranty costs, scrap and inventory obsolescence. Due to our relatively low production volumes, compared to our potential capacitycategory as follows:

	2001 Restructuring Charge	Cash Payments	Other Reductions	Balance at December 31, 2001
Personnel related	$ 68	$ 11	$ 5	$ 52
Asset impairments and contract terminations	17	3	10	4
Facility related	25	1		24
Total	$ 110	$ 15	$ 15	$ 80

Personnel related costs primarily include severance resulting from the rightsizing of certain businesses and corporate functions. As of December 31, 2001, we formally communicated the termination of employment to approximately 3,000 employees, representing a wide range of employee groups, and approximately 2,100 employees were terminated. We anticipate the majority of the personnel related costs will be paid during first quarter 2002. All other costs were incurred primarily in connection with facility closures and lease obligations resulting from the consolidation of our operations. Cash payments made during 2001 were funded from operations and we anticipate funding remaining cash requirements from operations.

During first quarter 2000, we incurred restructuring charges of $60 million in connection with various strategic initiatives (such liability was reduced by $4 million during 2001 as a result of a change in the original estimate of costs to be incurred). These initiatives were generally aimed at improving the overall level of organizational efficiency, consolidating and rationalizing existing processes, and reducing cost structures in our underlying businesses. The initiatives primarily affected our Hospitality and Financial Services segments and were completed by the end of first quarter 2001. The initial recognition of the charge and the corresponding utilization from inception are summarized by category as follows:

	2000 Restructuring Charge	Cash Payments	Other Reductions	Balance at December 31, 2000	Cash Payments	Other Reductions	Balance at December 31, 2001
Personnel related	$ 25	$ 18	$ 1	$ 6	$ 4	$ 2	$
Asset impairments and contract terminations	26	1	25				
Facility related	9	2	1	6	4	2	
Total	$ 60	$ 21	$ 27	$ 12	$ 8	$ 4	$

Personnel related costs primarily included severance resulting from the consolidation of our operations and certain corporate functions. We formally communicated the termination of employment to approximately 970 employees, representing a wide range of employee groups, all of whom were terminated by March 31, 2001. Asset impairments and contract terminations were incurred in connection with the exit of our timeshare software development business. Facility related costs consisted of facility closures and lease obligations also resulting from the consolidation of our operations. All cash payments were funded from operations.

Other Unusual Charges. During 2001 and 2000, we incurred unusual charges of $273 million and $49 million, respectively. The 2001 charges primarily consisted of (i) $95 million related to the funding of an irrevocable contribution to the Real Estate Technology Trust, an independent technology trust responsible for providing technology initiatives for the benefit of certain of our current and future real estate franchisees, (ii) $85 million related to the funding of Trip Network, Inc., formerly, Travel Portal, Inc., (see discussion in "Liquidity and Capital Resources"), (iii) $41 million related to the rationalization of the Avis fleet in response to the September 11th terrorist attacks as a result of anticipated reduction in the volume of business (including the reduction in the fleet, as well as corresponding personnel reductions), (iv) $8 million related to the abandonment of financial software projects due to our decision to forego their implementation as a result of anticipated reduction in the volume of business in our rental car, travel distribution and timeshare businesses resulting from the September 11th terrorist attacks and (v) $7 million related to a charitable contribution of $1.5 million in cash and stock in a publicly traded company valued at $5.5 million (based upon its then-current fair value), to the Cendant Charitable Foundation, which we established in September 2000 to serve as a vehicle for making charitable contributions to worthy charitable causes that are of

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particular interest to our employees, customers and franchisees. The foundation is controlled by its Board of Directors, which is currently comprised of eight persons, all of whom are either our employees or employees of our affiliates. Although we may make contributions to the foundation from time to time, we are not under any obligation or otherwise committed to do so. No contributions were made to the foundation in 2000.

The 2000 charges primarily consisted of (i) $21 million of costs to fund an irrevocable contribution to the Hospitality Technology Trust, an independent technology trust responsible for completing the transition of our lodging franchisees to a common property management system, (ii) $11 million of executive termination costs, (iii) $7 million of costs primarily related to the abandonment of certain computer system applications, (iv) $3 million of costs related to stock option contract modifications and (v) $3 million of costs related to the postponement of the initial public offering of Move.com common stock.

The Real Estate Technology Trust and Hospitality Technology Trust are governed by trustees, none of whom are employees or affiliates of Cendant. Furthermore, we have no on-going requirement to fund these independent trusts.

Acquisition and Integration Related Costs

During 2001, we incurred acquisition and integration charges totaling $112 million. Such charges primarily represented (i) $78 million in connection with the outsourcing of our data operations, including Galileo's global distribution system and desktop support and other related services to a third party provider, (ii) $23 million in connection with the integration of our existing travel agency businesses with Galileo's computerized reservations system and (iii) $4 million of severance costs in connection with the rationalization of duplicative functions.

Mortgage Servicing Rights Impairment

As previously discussed, during fourth quarter 2001, we determined that an impairment of our mortgage servicing rights portfolio had occurred due to unprecedented interest rate reductions subsequent to the September 11th terrorist attacks that we deemed not to be in the ordinary course of business as the Federal Reserve reduced the Federal Funds Rate by 50 basis points twice within a 14-day period following the terrorist attacks. Additionally, during fourth quarter 2001, the U.S. Treasury Department announced the discontinuance of new sales of the 30-year treasury bond. The reductions in the Federal Funds Rate, which occurred between September 17th and December 11th of 2001, resulted in a 50% reduction to such rate which has never occurred over such a short period in the history of the Federal Funds Rate. The series of these actions resulted in a reduction of mortgage rates to a 30-year low during fourth quarter 2001, according to the Freddie Mac Home Loan Index. Such reductions resulted in increases to our forecasted loan prepayment rates, which negatively impacted the carrying value of the mortgage servicing rights assets. Accordingly, we recorded an impairment charge of $94 million to reduce the carrying value of our mortgage servicing rights portfolio to approximately $2.0 billion as of December 31, 2001.

Litigation Settlement and Related Costs

During 2001 and 2000, we recorded $86 million and $2 million, respectively, of litigation settlement and related charges net of credits discussed below. The 2001 charges are comprised of $67 million related to the settlement of litigation (outside of the principal common stockholder litigation) resulting from previously discovered accounting irregularities in the former business units of CUC International, Inc. and $33 million related to investigations into those accounting irregularities. Such charges were partially offset by a credit of $14 million related to an adjustment to the PRIDES class action litigation settlement charge we recorded in 1998 (see Note 18 Mandatorily Redeemable Trust Preferred Securities Issued by Subsidiary Holding Solely Senior Debentures Issued by the Company for a detailed discussion regarding the PRIDES settlement). The

2000 charges are comprised of $23 million related to investigations into the previously discovered accounting irregularities in the former business units of CUC and $20 million related to the settlement of litigation resulting from those accounting irregularities (outside of the principal common stockholder litigation). Such charges were partially offset by a credit of $41 million also related to an adjustment to the PRIDES class action litigation settlement charge we recorded in 1998.

Net Loss on Dispositions of Businesses and Impairment of Investments

During 2001, we recorded net losses on dispositions of businesses and impairment of investments of $24 million. Such amount comprises (i) losses of $19 million related to the sale of several non-strategic businesses, (ii) a gain of $436 million recorded on the sale of our real estate Internet portal and certain ancillary businesses to Homestore and (iii) impairment losses of $441 million recorded during fourth quarter 2001 as a result of an other-than-temporary decline in the value of our investment in Homestore ($407 million) and a lodging and an Internet-related investment ($34 million). At December 31, 2001, our investment in Homestore was recorded at zero and we had no future obligations relating to this investment.

During 2000, we recorded net losses on dispositions of businesses and impairment of investments of $8 million. Such amount comprises (i) losses of $43 million related to the sale of several non-strategic businesses and (ii) the recognition of $35 million of the deferred gain that resulted from the 1999 sale of our fleet management business (see Note 4 Dispositions of Businesses and Impairment of Investments).

RESULTS OF REPORTABLE SEGMENTS 2001 vs. 2000

Our discussion of each of our segment's operating results focuses on Adjusted EBITDA, which is defined as earnings before non-vehicle interest, income taxes, non-vehicle depreciation and amortization, minority interest and equity in Homestore.com, all of which are not measured in assessing segment performance or are not segment specific. In addition, Adjusted EBITDA also excludes items, which are of a non-recurring or unusual nature and are also not measured in assessing segment performance or are not segment specific. For specific details regarding the nature of excluded items, see the sections above entitled "Other Charges" and "Net Loss on Dispositions of Businesses and Impairment of Investments." Our management believes such discussions are the most informative representation of how management evaluates performance. However, our presentation of Adjusted EBITDA may not be comparable with similar measures used by other companies.

In connection with the acquisitions of Avis and Galileo and the disposition of our real estate Internet portal, we realigned the operations and management of certain of our businesses during 2001. Accordingly, our segment reporting structure now encompasses the following five reportable segments: Real Estate Services, Hospitality, Vehicle Services, Travel Distribution and Financial Services. The periods presented herein have been reclassified to reflect this change in our segment reporting structure.

	Revenues			Adjusted EBITDA		
	2001	2000	% Change	2001[(a)]	2000[(b)]	% Change
Real Estate Services[(c)]	$ 1,859	$ 1,461	27%	$ 939	$ 752	25%
Hospitality[(d)]	1,522	918	66	513	385	33
Travel Distribution[(f)]	437	99	*	108	10	*
Vehicle Services[(e)]	3,322	230	*	290	169	*
Financial Services	1,402	1,380	2	310	373	(17)
Total Reportable Segments	8,542	4,088		2,160	1,689	
Corporate and Other[(g)]	71	232	*	(73)	(104)	*
Total Company	$ 8,613	$ 4,320		$ 2,087	$ 1,585	

* Not meaningful.

(a) Excludes charges of $192 million primarily in connection with restructuring and other initiatives undertaken as a result of the September 11th terrorist attacks ($31 million, $51 million, $58 million, $7 million, $10 million and $35 million of charges were recorded within Real Estate Services, Hospitality, Vehicle Services, Travel Distribution, Financial Services and Corporate and Other, respectively).

(b)

Excludes charges of $109 million in connection with restructuring and other initiatives ($2 million, $63 million, $31 million and $13 million of charges were recorded within Real Estate Services, Hospitality, Financial Services and Corporate and Other, respectively).

(c) Adjusted EBITDA for 2001 excludes charges of $95 million related to the funding of an irrevocable contribution to an independent technology trust responsible for providing technology initiatives for the benefit of certain of our current and future franchisees and $94 million related to the impairment of our mortgage servicing rights portfolio.

(d) Adjusted EBITDA for 2001 excludes a charge of $11 million related to the impairment of certain of our investments in part due to the September 11th terrorist attacks. Adjusted EBITDA for 2000 excludes $12 million of losses related to the dispositions of businesses.

(e) Adjusted EBITDA for 2001 excludes charges of $5 million related to the acquisition and integration of Avis and $2 million related to the impairment of certain of our investments due to the September 11th terrorist attacks.

(f) Adjusted EBITDA for 2001 excludes charges of $23 million related to the acquisition and integration of Galileo and Cheap Tickets.

(g) Represents the results of operations of our non-strategic businesses, unallocated corporate overhead and the elimination of transactions between segments. Adjusted EBITDA for 2001 excludes charges of (i) $427 million primarily related to the impairment of our investment in Homestore, (ii) $86 million for net litigation settlement and related costs, (iii) $85 million related to the funding of Trip Network., (iv) $80 million related to the outsourcing of our information technology operations to IBM in connection with the acquisition of Galileo, (v) $19 million related the dispositions of certain non-strategic businesses in 1999, (vi) $7 million related to a non-cash contribution to the Cendant Charitable Foundation and (vii) $4 million related to the acquisition and integration of Avis. Such charges were partially offset by a gain of $436 million primarily related to the sale of our real estate Internet portal, move.com. Adjusted EBITDA for 2000 excludes a gain of $35 million, which represents the recognition of a portion of our previously recorded deferred gain from the sale of our former fleet business due to the disposition of VMS Europe by Avis in August 2000. Such amounts were partially offset by $31 million of losses related to the disposition of certain non-strategic businesses and $2 million of net litigation settlement and related costs.

Real Estate Services

Revenues and Adjusted EBITDA increased $398 million (27%) and $187 million (25%), respectively. The increase in operating results was primarily driven by substantial growth in mortgage loans sold due to increased refinancing activity and purchase volume. Higher franchise fees from our Century 21, Coldwell Banker and ERA franchise brands and increases in relocation services also contributed to the favorable operating results. Offsetting the revenue increases, operating and administrative expenses within this segment increased $208 million primarily to support the higher volume of mortgage originations and related servicing activities.

Collectively, mortgage loans sold increased $14.8 billion (70%) to $35.9 billion, generating incremental revenues of $367 million, a 117% increase. Closed mortgage loans increased $22.4 billion (101%) to $44.5 billion in 2001. Such growth consisted of a $17.6 billion increase (approximately ten-fold) in refinancings and a $4.8 billion increase (24%) in purchase mortgage closings. A significant portion of mortgage loans closed in any quarter will generate revenues in future periods as those loans closed are packaged and sold and revenue is recognized upon the sale of the loan, which is typically 45 to 60 days after closing. Beginning in January 2001, Merrill Lynch outsourced its mortgage origination and servicing operations to us, which accounted for 17% of our mortgage closings in 2001. Partially offsetting record production revenues was a $26 million (24%) decline in net loan servicing revenue. The average servicing portfolio grew $28 billion (45%) resulting from the high volume of mortgage loan originations and our outsourcing arrangement with Merrill Lynch; however, accelerated servicing amortization expenses during 2001, due primarily to refinancing activity, more than offset the increase in recurring servicing fees from the portfolio growth.

Franchise fees from our real estate franchise brands also contributed to revenue and Adjusted EBITDA growth. Royalties and other franchise fees increased $41 million (8%), despite only modest industry-wide growth and a year-over-year industry decline in California, principally due to a 4% increase in the average price of homes sold and a $16 million fee received from NRT in connection with the termination of a franchise agreement under which NRT operated our Century 21 real estate brand. Service-based fees from relocation activities also contributed to the increase in revenues and Adjusted EBITDA principally due to a $14 million increase in referral fees resulting from increased volume, which included the execution of new service contracts. In addition, asset-based relocation revenues decreased by $3 million, which was comprised of a $10 million revenue decline due to lower corporate and government homesale closings, partially offset by a $7 million increase in net interest income from relocation operations due to reduced debt levels in 2001.

Hospitality

Revenues and Adjusted EBITDA increased $604 million (66%) and $128 million (33%), respectively. While our April 2001 acquisition of Fairfield produced the bulk of this growth, our pre-existing timeshare exchange operations also made contributions. Prior to the acquisition of Fairfield, the results of this segment consisted principally of royalties earned on our lodging brands and exchange fees earned from our timeshare exchange business, Resorts Condominium International, LLC. Fairfield contributed revenues, expenses and Adjusted EBITDA of $568 million, $424 million and $144 million, respectively, during 2001. In addition, the first quarter 2001 acquisition of Holiday Cottages Group Limited, the leading UK brand in holiday cottage rentals, contributed incremental revenues and Adjusted EBITDA of $34 million and $13 million, respectively, in 2001. Notwithstanding the negative impact that the September 11th terrorist attacks had on the economy's travel sector, timeshare subscription and transaction fees increased $41 million supported by increases in both members and exchange transactions. A corresponding increase in timeshare-related staffing costs was incurred to support volume growth and meet anticipated service levels. Revenues and Adjusted EBITDA in this segment include a decline in preferred alliance fees of $8 million, principally due to the expiration of a vendor contract in 2000. Royalties and marketing fund revenues from our lodging franchise operations declined $13 million (6%) and $14 million (7%), respectively, due to a 7% decrease in revenue per available room. Lower marketing fund revenues received from franchisees were directly offset by lower expenses incurred on the marketing of our nine lodging brands. The September 11th terrorist attacks caused a decline in the occupancy levels and room rates of our franchised lodging properties in the fourth quarter of 2001. While we expect the events of September 11th to suppress the growth of this segment in the near term, we also expect that the percentage impact will continue to decline over time, absent any further negative events affecting the travel industry. Furthermore, since many of our timeshare operations and franchised lodging properties principally serve road travelers (rather than air travelers), we believe that the effects of September 11th on this segment's operations will be less severe than on the travel industry as a whole.

Vehicle Services

Revenues and Adjusted EBITDA increased $3.1 billion and $121 million, respectively, substantially due to the acquisition of Avis in March 2001. Prior to the acquisition of Avis, revenues and Adjusted EBITDA of this segment consisted principally of earnings from our 18% equity investment in Avis and franchise royalties received from Avis. The acquisition of Avis contributed incremental revenues, expenses and Adjusted EBITDA of $3.1 billion, $3.0 billion and $112 million, respectively, in 2001. Avis' results in 2001 were negatively impacted by reduced demand at airport locations due to a general decline in commercial travel throughout the year, which was further exacerbated by the September 11th terrorist attacks. In response to the slowdown in commercial travel and in the wake of the September 11th terrorist attacks, we believe that we have rightsized our car rental operations to meet anticipated business levels, which included reductions in workforce and fleet (fleet was downsized by approximately 10%). We expect that seasonally adjusted car rental volumes will continue to increase as air travel volumes rebound. Our fleet management and fuel card management businesses were not materially impacted by the September 11th terrorist attacks.

Travel Distribution

Prior to the acquisitions of Galileo and Cheap Tickets, revenue and Adjusted EBITDA for this segment principally comprised the operations of Cendant Travel, our travel agent subsidiary. Galileo contributed revenues, expenses and Adjusted EBITDA of $337 million, $233 million and $104 million, respectively, while Cheap Tickets contributed revenues and expenses of $8 million each and made no contribution to Adjusted EBITDA. The September 11th terrorist attacks caused a decline in demand for travel-related services and, accordingly, reduced the booking volumes for Galileo and our travel agency businesses below fourth quarter 2000 levels. Galileo worldwide booking volume for air travel declined 19% in fourth quarter 2001 compared with fourth quarter 2000 and other travel-related bookings (car, hotel, etc.) were down 23% for the comparable periods. Upon completing the acquisitions of Galileo and Cheap Tickets, in

response to the existing economic conditions, we not only moved aggressively to integrate these businesses and achieve expected synergies, but we also re-examined their cost structures and streamlined their operations through workforce reductions and other means to meet expected business volumes. Absent any further shock to the travel industry, we expect travel volumes to continue to improve over time.

Financial Services

Revenues increased $22 million (2%) while Adjusted EBITDA decreased $63 million (17%). While the royalties we will receive from Trilegiant will benefit segment results in future periods, the outsourcing of our individual membership business to Trilegiant caused a decrease in Adjusted EBITDA during 2001, largely due to $41 million of our transaction-related expenses and $66 million of marketing spending by Trilegiant, which we were contractually required to fund and, as such, expensed (see discussion in "Liquidity and Capital Resources Trilegiant Corporation"). The transaction related expenses are comprised of the $20 million write-off of the entire amount of our preferred stock investment due to operating losses incurred by Trilegiant in excess of the common equity and other expenses that include employee benefits and professional fees and a portion of the marketing advance that was expensed as Trilegiant incurred qualified marketing expenses pursuant to the contractual terms of the agreement. Membership volumes and revenues declined; however, commissions increased due to higher commission rates. Conversely, the cost savings from servicing fewer members, as well as Trilegiant's absorption of its share of fixed overhead expenses subsequent to the outsourcing, more than offset the lower membership revenues and higher commissions. In addition, we acquired Netmarket, an online membership business, during fourth quarter 2000, which was immediately integrated into our existing membership business. Netmarket contributed incremental revenues of $53 million in 2001. Jackson Hewitt, our tax preparation franchise business, contributed incremental revenues of $18 million, principally comprised of higher royalties due to a 22% increase in tax return volume, with relatively no corresponding increases in expenses due to the significant operating leverage within our franchise operations. Revenues and Adjusted EBITDA in 2000 included $8 million of fees recognized from the sale of certain referral agreements.

Corporate and Other

Revenues decreased $161 million while Adjusted EBITDA increased $31 million. Our real estate Internet portal and certain ancillary businesses, which were sold to Homestore in February 2001, collectively accounted for a decline in revenues of $87 million and an improvement to Adjusted EBITDA of $82 million because we were investing in the development and marketing of the portal during 2000. Revenues and Adjusted EBITDA were negatively impacted by $36 million less income from financial investments. In addition, revenues recognized from providing electronic reservation processing services to Avis ceased coincident with our acquisition of Avis, contributing to a reduction in revenues of $43 million with no Adjusted EBITDA impact since Avis had been billed for such services at cost. In December 2001, we entered into a ten-year, information technology services relationship with IBM whereby IBM will manage all of our data center operations. Adjusted EBITDA in 2001 benefited from the absence of $13 million of costs incurred in 2000 to pursue Internet initiatives and also reflects increased unallocated corporate overhead costs principally due to infrastructure expansion to support company growth.

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RESULTS OF CONSOLIDATED OPERATIONS 2000 vs. 1999

Our consolidated results from continuing operations comprised the following:

	2000	1999	Change
Net revenues	$ 4,320	$ 5,755	$ (1,435)
Expenses, excluding other charges and non-vehicle interest, net	3,056	4,299	(1,243)
Other charges	111	3,032	(2,921)
Non-vehicle interest, net	152	201	(49)
Total expenses	3,319	7,532	(4,213)
Net loss (gain) on dispositions of businesses and impairment of investments	8	(1,109)	1,117
Income (loss) before income taxes and minority interest	993	(668)	1,661
Provision (benefit) for income taxes	341	(422)	763
Minority interest, net of tax	83	61	22
Income (loss) from continuing operations	$ 569	$ (307)	$ 876

Net revenues decreased primarily as a result of the impact of businesses we disposed of during 1999 (primarily our former fleet management and entertainment publications businesses), which resulted in a $1.55 billion reduction in net revenues, despite growth in recurring business activities, including higher relocation service-based fees of $33 million, increased mortgage production and loan servicing revenues aggregating $27 million and greater royalty fees of $31 million generated from our real estate franchised brands, which resulted in an increase in net revenues of approximately $100 million. A detailed discussion of revenue trends is included in "Results of Reportable Segments 2000 vs. 1999." Total expenses decreased primarily due to other charges (discussed below), as well as the impact of businesses we disposed of during 1999, which also resulted in a $1.5 billion reduction in expenses, and a decrease in net non-vehicle interest expense primarily resulting from a decrease in our average debt balance outstanding, which was partially offset by interest expense accrued on our stockholder litigation settlement liability during 2000.

Our provision for income taxes was $341 million in 2000, or an effective tax rate of 34.3%, compared to a benefit of $422 million in 1999, or an effective tax rate of 63.2%. The effective tax rate variance represents the impact of the disposition of our fleet businesses in 1999, which was accounted for as a tax-free merger.

As a result of the above-mentioned items, income from continuing operations increased $876 million.

Other Charges

Restructuring and Other Unusual Charges

Restructuring Costs. During 2000, we incurred restructuring charges of $60 million. A detailed discussion of such charges is included in "Results of Consolidated Operations 2001 vs. 2000."

Other Unusual Charges. During 2000 and 1999, we incurred unusual charges of $49 million and $117 million, respectively. A detailed discussion of the 2000 unusual charges is included in "Results of Consolidated Operations 2001 vs. 2000." The 1999 charge primarily consisted of (i) $85 million incurred in connection with the creation of Netmarket Group, Inc., a then-independent company that was created to pursue the development and expansion of interactive businesses, which is contingently repayable to us only if certain financial targets related to NGI are achieved, (ii) $23 million primarily related to an irrevocable contribution to an independent technology trust responsible for completing the transition of our lodging franchisees to a common property management system and (iii) $7 million primarily related to the termination of a proposed acquisition.

Litigation Settlement and Related Costs

During 2000 and 1999, we recorded net charges of $2 million and $2.9 billion, respectively, for litigation settlement and related costs. A detailed discussion of the 2000 charge is included in "Results of Consolidated Operations 2001 vs. 2000." The 1999 charge primarily represented the settlement of our principal common stockholder class action lawsuit, as well as $21 million of charges related to investigations into previously discovered accounting irregularities in the former business units of CUC.

Net Gain (Loss) on Dispositions of Businesses

During 2000 and 1999, we recorded a net loss of $8 million and a gain of $1.1 billion, respectively, related to the dispositions of businesses. A detailed discussion of the 2000 net loss is included in "Results of Consolidated Operations 2001 vs. 2000." The 1999 gain was recognized primarily in connection with the disposal of our fleet and entertainment publications businesses.

RESULTS OF REPORTABLE SEGMENTS 2000 vs. 1999

For specific details regarding the nature of excluded items, see the sections above entitled "Other Charges" and "Net Gain (Loss) on Dispositions of Businesses."

	Revenues			Adjusted EBITDA		
	2000	**1999**	**% Change**	**2000[a]**	**1999**	**% Change**
Real Estate Services	$ 1,461	$ 1,383	6%	$ 752	$ 727	3%
Hospitality[b]	918	920		385	420	(8)
Travel Distribution	99	91	9	10	7	43
Vehicle Services	230	1,109	*	169	246	*
Financial Services[c]	1,380	1,518	(9)	373	305	22
Total Reportable Segments	4,088	5,021		1,689	1,705	
Corporate and Other[d]	232	734	*	(104)	89	*

	Revenues		Adjusted EBITDA	
Total Company	$ 4,320	$ 5,755	$ 1,585	$ 1,794

(*) Not meaningful

(a) Excludes a charge of $109 million in connection with restructuring and other initiatives ($2 million, $63 million, $31 million and $13 million of charges were recorded within Real Estate Services, Hospitality, Financial Services and Corporate and Other, respectively).

(b) Adjusted EBITDA for 2000 excludes $12 million of losses related to the dispositions of businesses. Adjusted EBITDA for 1999 excludes a charge of $23 million related to the funding of an irrevocable contribution to an independent technology trust responsible for providing technology initiatives for the benefit of certain of our current and future franchisees.

(c) Adjusted EBITDA for 1999 excludes $131 million of gains related to the dispositions of businesses and a charge of $85 million associated with the creation of Netmarket.

(d) Represents the results of operations of our non-strategic businesses, unallocated corporate overhead and the elimination of transactions between segments. Adjusted EBITDA for 2000 excludes a gain of $35 million, which represents the recognition of a portion of our previously recorded deferred gain from the sale of our former fleet business due to the disposition of VMS Europe by Avis in August 2000. Such amounts were partially offset by $31 million of losses related to the disposition of certain non-strategic businesses and $2 million of net litigation settlement and related costs. Adjusted EBITDA for 1999 excludes charges of (i) $2,915 million primarily related to the settlement of the principal common stockholder class action lawsuit and (ii) $7 million related to the termination of a proposed acquisition. Such charges were partially offset by a net gain of $978 million related to the dispositions of businesses.

Real Estate Services

Revenues and Adjusted EBITDA increased $78 million (6%) and $25 million (3%), respectively. The increase in operating results was principally due to increased royalties from our real estate franchise brands and growth in service-based fees generated from client relocations. Royalty fees for the CENTURY 21®, Coldwell Banker®, and ERA® franchise brands collectively increased $31 million (7%) resulting from an 11% increase in the average price of homes sold (net of a 3% reduction in the volume of homes sold). Increases in royalties and franchise fees are recognized with minimal corresponding increases in expenses due to the significant operating leverage within our franchise operations. Service-based fees from relocation related operations also significantly contributed to the increase in revenues and Adjusted EBITDA. Service-based relocation fees increased $33 million and are reflective of increased penetration into both destination and departure markets and expanded services provided to our clients.

Revenues from mortgage loans closed increased $16 million as the impact of favorable production margins exceeded the effect of a reduction in mortgage loan closings. The average production fee increased 25 basis points (21%) due to a reduction in the direct costs per loan. Mortgage loan closings declined $3.4 billion (13%) to $22.1 billion, consisting of $20.2 billion in purchase mortgages and $1.9 billion in refinancing mortgages. The decline in loan closings was primarily the result of a $4.2 billion reduction in mortgage refinancings due to the continued high volume of industry-wide refinancing activity in 1999. Lower loan origination volume during the first half of 2000 contributed to a reduction in the Adjusted EBITDA margin in 2000. Purchase mortgage closings in our retail lending business (where we interact directly with the consumer) increased $1.0 billion to $16.6 billion. Retail mortgage lending has been our primary focus and accounted for more than 80% of loan volume in 2000.

Loan servicing revenues in 1999 included an $8 million gain on the sale of servicing rights. Excluding such gain, recurring loan servicing revenue increased $19 million (20%). The increase in loan servicing revenue was principally attributable to a corresponding increase in the average servicing portfolio, which grew approximately $14.3 billion (31%).

The aforementioned increases in our core business operations were partially offset by a reduction of $10 million in gains recognized from the sale of portions of our preferred stock investments in NRT Incorporated, a $7 million gain recognized in 1999 on the sale of a minority interest in an insurance subsidiary, an $8 million gain on the sale of mortgage servicing rights and a $9 million increase in corporate overhead allocations due to a refinement of allocation methods used in 2000. Excluding the aforementioned gains on asset sales and increase in corporate overhead allocations, revenues and Adjusted EBITDA increased $103 million (8%) and $59 million (8%), respectively, and the Adjusted EBITDA margin (Adjusted EBITDA as a percentage of revenue) remained constant at 52%.

Hospitality

Revenues remained relatively constant while Adjusted EBITDA decreased $35 million, or 8%. However, the primary drivers impacting our franchise and timeshare operations reflected growth. Royalties from our lodging business increased $8 million (4%) principally due to a 3% increase in available rooms. Timeshare exchange revenues grew $12 million (6%) primarily due to a 6% growth in memberships and a 6% increase in the average exchange fee. Timeshare subscription revenues remained constant, despite the membership growth, due to the impact of the January 1, 2000 implementation of Staff Accounting Bulletin No. 101, which modified and extended the timing of revenue recognition for subscriptions and certain other fees. Accounting under SAB No. 101 resulted in non-cash reductions in timeshare subscription revenues and preferred alliance revenues of $11 million and $6 million, respectively. Also during 2000, Adjusted EBITDA declined in part due to $24 million of incremental overhead allocations due to a refinement of allocation methods used in 2000. During 1999, revenues and Adjusted EBITDA benefited by $11 million from the execution of a bulk timeshare exchange transaction and also by $6 million from the generation of a master license agreement and joint venture.

Vehicle Services

Prior to the acquisition of Avis on March 1, 2001, revenues and Adjusted EBITDA of this segment consisted principally of earnings from our equity investment in Avis and royalties received from Avis. Revenues and Adjusted EBITDA decreased $879 million and $77 million, respectively. Such decreases are significantly due to the disposition of our fleet businesses in June 1999 which contributed revenues, expenses and Adjusted EBITDA of $881 million, $800 million and $81 million, respectively, to our 1999 operating results, prior to its disposition. Excluding the impact of fleet operations in 1999, revenues and Adjusted EBITDA increased $2 million (1%) and $4 million (2%), respectively. Franchise royalties increased $4 million (3%) primarily due to a 4% increase in the volume of car rental transactions at Avis. Additionally, an increase in revenues and Adjusted EBITDA of $10 million, due to incremental dividend income recognized on our preferred stock investment in Avis, was offset by $11 million of gains recognized in 1999 on the sale of a portion of our common equity interest in Avis.

Travel Distribution

Revenues and Adjusted EBITDA increased $8 million (9%) and $3 million (43%), respectively. Prior to the acquisitions of Galileo and Cheap Tickets in October 2001, revenues and Adjusted EBITDA of this segment consisted of our travel services business.

Financial Services

Revenues decreased $138 million (9%), while Adjusted EBITDA increased $68 million (22%). During 1999, we disposed of four individual membership businesses, which had contributed revenues, expenses and Adjusted EBITDA losses of $174 million, $190 million and $16 million, respectively, in 1999 prior to their disposals. Excluding the operating results of these businesses, revenues and Adjusted EBITDA increased $36 million (3%) and $52 million (16%), respectively. During 2000, our membership solicitation strategy was to focus on profitability by targeting our marketing efforts and reducing expenses incurred to reach potential new members. Accordingly, a favorable mix of products and programs with marketing partners in 2000 positively impacted revenues and Adjusted EBITDA. Additionally, we acquired and integrated Netmarket Group, an online membership business, in the fourth quarter of 2000, which contributed $12 million to revenues but also decreased Adjusted EBITDA by $7 million. Such increases were partially offset by a decrease in membership expirations during 2000 (revenue is generally recognized upon expiration of the membership), which was partially mitigated by a reduction in operating and marketing expenses, including commissions, which directly related to servicing fewer members.

Jackson Hewitt, our tax preparation franchise business, contributed incremental revenues of $16 million, which were recognized with minimal corresponding increases in expenses due to our significant operating leverage within our franchise operations. Jackson Hewitt experienced a 33% increase in tax return volume and a 10% increase in the average price of a return. Additionally, we incurred costs of approximately $9 million during 2000 to consolidate our domestic insurance wholesale business operations in Tennessee. The majority of such costs were offset by economies and related cost savings realized from such consolidation.

Corporate and Other

Revenues and Adjusted EBITDA decreased $502 million and $193 million, respectively. Revenues decreased primarily as a result of the 1999 dispositions of several businesses, the operating results of which were included through their respective disposition dates in 1999. The absence of such divested businesses from 2000 operations resulted in a reduction in revenues, expenses and Adjusted EBITDA of $502 million, $424 million and $78 million, respectively. Excluding the impact of divested businesses on 1999 operating results, revenues remained constant while Adjusted EBITDA decreased $115 million in 2000. Our real estate Internet portal, move.com, which was sold during first quarter 2001, contributed incremental revenues of $41 million, with a reduction in Adjusted EBITDA of $72 million. The increase in revenues principally reflects an increase in sponsorship revenues resulting from the launch of the move.com[SM]

portal. The decline in Adjusted EBITDA primarily reflects our increased investment in marketing and development of the move.com network. Additionally, revenues and Adjusted EBITDA in 2000 were negatively impacted by $30 million less income recognized from financial investments and $19 million of costs incurred to pursue Internet initiatives.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Within our car rental, vehicle management, relocation, mortgage services and timeshare development businesses, we purchase assets or finance the purchase of assets on behalf of our clients. Assets generated in this process are classified as assets under management and mortgage programs. We seek to offset the interest rate exposures inherent in these assets by matching them with financial liabilities that have similar term and interest rate characteristics. As a result, we minimize the interest rate risk associated with managing these assets and create greater certainty around the financial income that they produce. Fees generated from our clients are used, in part, to repay the interest and principal associated with the financial liabilities. Funding for our assets under management and mortgage programs is also provided by both unsecured borrowings and secured financing arrangements, which are classified as liabilities under management and mortgage programs, as well as securitization facilities with special purpose entities. Cash inflows and outflows relating to the generation or acquisition of assets and the principal debt repayment or financing of such assets are classified as activities of our management and mortgage programs.

Financial Condition

	2001	2000	Change
Total assets exclusive of assets under management and mortgage programs	$ 21,676	$ 12,292	$ 9,384
Assets under management and mortgage programs	11,868	2,861	9,007
Total liabilities exclusive of liabilities under management and mortgage programs	15,207	7,805	7,402
Liabilities under management and mortgage programs	10,894	2,516	8,378
Mandatorily redeemable preferred securities	375	2,058	(1,683)
Stockholders' equity	7,068	2,774	4,294

Total assets exclusive of assets under management and mortgage programs increased primarily due to an increase in goodwill resulting from the acquisitions of Avis and Galileo, various other increases in assets also due to the impact of acquired businesses and cash proceeds received from debt and equity issuances during 2001 (including the Upper DECS). Assets under management and mortgage programs increased primarily due to vehicles acquired in the acquisition of Avis, as well as vehicles acquired during 2001 for use in our car rental and fleet management operations.

Total liabilities exclusive of liabilities under management and mortgage programs increased primarily due to $4.8 billion of debt issued during 2001 (including the Upper DECS), approximately $600 million of debt assumed in the acquisition of Avis and various other increases in liabilities due to the impact of acquired businesses. Liabilities under management and mortgage programs increased primarily due to $5.1 billion of debt assumed in the acquisition of Avis and $2.2 billion of debt issued during 2001, as well as $750 million of borrowings in 2001 under a revolving credit facility.

Mandatorily redeemable securities decreased due to the settlement of the purchase contracts underlying the FELINE PRIDES during 2001, whereby we issued 61 million shares of CD common stock in satisfaction of our obligation under the forward purchase contracts and received, in exchange, the trust preferred securities forming a part of the PRIDES.

Stockholders' equity increased primarily due to the issuance of approximately 117 million shares of CD common stock valued at $12.72 per share to fund a portion of the purchase price of Galileo, the above-mentioned issuance of approximately 61 million shares of CD common stock, the issuance during first quarter 2001 of 46 million shares of CD common stock at $13.20 per share for aggregate proceeds of approximately $607 million and net income of $385 million generated during 2001.

Liquidity and Capital Resources

Our principal sources of liquidity are cash on hand, our ability to generate cash through operations and financing activities, as well as available credit and securitization facilities.

Cash Flows

At December 31, 2001, we had approximately $1.9 billion of cash on hand, an increase of approximately $1.1 billion from $856 million at December 31, 2000. The following table summarizes such increase:

	2001	2000	Change
Net cash provided by (used in):			
Operating activities	$ 2,737	$ 1,336	$ 1,401
Investing activities	(6,407)	(1,142)	(5,265)
Financing activities	4,643	(483)	5,126
Effects of exchange rate changes on cash and cash equivalents	(8)	(6)	(2)
Cash provided by discontinued operations	121	89	32
Net change in cash and cash equivalents	$ 1,086	$ (206)	$ 1,292

Net cash provided by operating activities increased primarily due to cash generated by acquired operations, as well as growth in our mortgage business. We used more cash in 2001 for investing activities primarily to fund the acquisitions of Avis, Fairfield, Galileo and Cheap Tickets and a portion of our stockholder litigation settlement liability. Additionally, we used $1.6 billion of cash during 2001 to acquire vehicles used in our car rental and fleet management programs. We also generated cash from financing activities during 2001 as compared to using cash in financing activities during 2000 primarily due to proceeds received from debt and equity issuances, the issuance of the Upper DECS and borrowings under our revolving credit facilities. Capital expenditures during 2001 amounted to $329 million and were utilized to support operational growth, enhance marketing opportunities and develop operating efficiencies through technological improvements. We anticipate capital expenditure investments during 2002 of approximately $375 million. Such amount represents an increase from 2001 primarily due to capital expenditures related to businesses we acquired during 2001. During February 2002, we used $390 million of available cash to redeem all our outstanding 3% convertible notes. During first quarter 2002, we used $36 million of available cash to repurchase approximately 2.0 million shares of our CD common stock. We anticipate using cash on hand and operating cash flow generated in 2002 to continue repurchasing our CD common stock in order to offset the impact of employee stock option exercises. We currently have approximately $226 million of remaining availability under our board-authorized CD common stock repurchase program. We also anticipate using cash on hand, operating cash flow generated in 2002 and, if necessary, revolving credit facility borrowings to fund the remainder of our stockholder litigation settlement liability during 2002. Our net funding obligation for the stockholder litigation settlement liability was $1.44 billion at December 31, 2001. We intend to make quarterly payments of $250 million to this trust until mid-July 2002, at which time we will fund the remaining obligation.

Available Credit Facilities

At December 31, 2001, we had $2.8 billion of available credit facilities (including availability of $1.7 billion at the corporate level and $1.1 billion at our PHH subsidiary). The credit facilities at the corporate level comprise a $1.75 billion revolving credit facility maturing in August 2003 and a $1.15 billion revolving credit facility maturing in February 2004. Borrowings under the $1.75 billion facility bear interest at LIBOR plus a margin of 60 basis points. In addition, we are required to pay a per annum facility fee of 15 basis points under this facility and a per annum utilization fee of 12.5 basis points if usage under the facility exceeds 33% of aggregate commitments. In the event that the credit ratings assigned to us by nationally recognized debt rating agencies are downgraded to a level below our ratings as of December 31, 2001 but still above investment grade, the interest rate and facility fees on our $1.75 billion facility are subject to incremental upward adjustments of 10 and 2.5 basis points, respectively. In the event that such credit ratings are downgraded below investment grade, the interest rate and facility fees are subject to further

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upward adjustments of 47.5 and 15 basis points, respectively. This facility also contains the committed capacity to issue up to $1.75 billion in letters of credit. As of December 31, 2001, there were no borrowings outstanding under this facility; however, letters of credit of $1.1 billion were outstanding under this facility, of which $865 million were used as collateral for our stockholder litigation settlement liability. Under the terms of this facility, in August 2002, the revolving line will be reduced by $500 million to $1.25 billion. The $1.15 billion facility contains the committed capacity to issue up to $300 million in letters of credit, of which $82 million were outstanding as of December 31, 2001. Borrowings under this facility bear interest at LIBOR plus a margin of 82.5 basis points. In addition, we are required to pay a per annum facility fee of 17.5 basis points under this facility and a per annum utilization fee of 25 basis points if usage under the facility exceeds 33% of aggregate commitments. In the event that the credit ratings assigned to us by nationally recognized debt rating agencies are downgraded below investment grade, the interest rate and facility fees on our $1.15 billion facility are subject to upward adjustments of 35 and 15 basis points, respectively.

The credit facilities at our PHH subsidiary are comprised of two $750 million revolving credit facilities maturing in February 2004 and February 2005, a $100 million revolving credit facility maturing in December 2002 and $275 million of other revolving credit facilities maturing in November 2002. Borrowings under these facilities currently bear interest at LIBOR plus a margin of approximately 62.5 basis points. In addition, we are currently required to pay a per annum facility fee of approximately 12.5 basis points under these facilities and a per annum utilization fee of approximately 25 basis points if usage under the facilities exceeds 25% of aggregate commitments. In the event that the credit ratings assigned to PHH by nationally recognized debt rating agencies are downgraded to a level below PHH's ratings as of December 31, 2001, the interest rate and facility fees on these facilities are subject to incremental upward adjustments of approximately 12.5 basis points. In the event that the credit ratings are downgraded below investment grade, the interest rate and facility fees are subject to further upward adjustments of approximately 62.5 basis points. At December 31, 2001, we had outstanding borrowings of $750 million under our facility maturing in February 2005. There were no borrowings outstanding under any of these other facilities at December 31, 2001.

We also currently have $3.0 billion of availability for public debt or equity issuances under a shelf registration statement at the corporate level and $2.4 billion of availability for public debt issuances under shelf registration statements at the PHH level.

Outstanding Corporate Debt

At December 31, 2001, we had approximately $17.2 billion of indebtedness (including corporate indebtedness of $7.0 billion, debt related to our management and mortgage programs of $9.8 billion and our mandatorily redeemable interest of $375 million). Our net debt (excluding the Upper DECS and net of cash and cash equivalents) to total capital (including debt and the Upper DECS) ratio was 36% and the ratio of Adjusted EBITDA to net non-vehicle interest expense was 9 to 1 for 2001.

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The following table summarizes the components of our corporate indebtedness:

	Earliest Redemption Date	Final Maturity Date	2001	2000	Change
3% convertible subordinated notes[(a)]	February 2002	February 2002	$ 390	$ 548	$ (158)
$7^3/_4$% notes	December 2003	December 2003	1,150	1,149	1
6.875% notes	August 2006	August 2006	850		850
11% senior subordinated notes	May 2009	May 2009	584		584
$3^7/_8$% convertible senior debentures	November 2004	November 2011	1,200		1,200
Zero coupon senior convertible contingent notes	February 2004	February 2021	920		920
Zero coupon convertible debentures	May 2002	May 2021	1,000		1,000
Term loan facility				250	(250)
Other			38	1	37
Total long-term debt, excluding Upper DECS			6,132	1,948	4,184
Upper DECS	May 2004	August 2006	863		863
			$ 6,995	$ 1,948	$ 5,047

(a) On February 15, 2002, we redeemed the entire outstanding balance of 3% convertible subordinated notes.

During 2001, we generated cash of $4.8 billion from the issuance of contingently convertible debt securities, the 6.875% notes and the Upper DECS. The proceeds from these issuances were used, in part, to prepay a portion of our stockholder litigation settlement liability, reduce or extinguish certain borrowings, fund a portion of the purchase price of certain acquisitions and for general corporate purposes. During 2001, we used $160 million of cash to redeem a portion of our 3% convertible subordinated notes. We redeemed the remaining balance at maturity on February 15, 2002. Our $7^3/_4$% notes are due in December 2003 and may be redeemed by us, in whole or in part, at any time at our option. Our 6.875% notes, which were issued during 2001 for net proceeds of $843 million, are due in August 2006. Our $7^3/_4$% and 6.875% notes are senior unsecured obligations and rank equally in right of payment with all our existing and future unsecured senior indebtedness. The interest rates on these notes are subject to upward adjustments of 150 basis points in the event that the credit ratings assigned to us by nationally recognized debt rating agencies are downgraded below investment grade. Our 11% senior subordinated notes are due in May 2009 and may be redeemed by us in part prior to May 2002 upon the occurrence of specific events, or at any time, in whole or in part, after May 2004. These notes are subordinated in the right of payment to all our existing and future senior indebtedness of Avis and are unconditionally guaranteed on a senior subordinated basis by certain of our car rental subsidiaries.

Contingently Convertible Debt Securities

Our contingently convertible debt securities, which were all issued during 2001, comprised the following:

	Earliest Redemption Date	Principal Amount	Gross Proceeds Received	Conversion Rate	Shares Potentially Issuable
$3^7/_8$% convertible senior debentures	November 2004	$ 1.2 billion	$ 1.2 billion	41.58	49.9 million
Zero coupon senior convertible contingent notes	February 2004	$ 1.5 billion	$ 0.9 billion	33.40	49.4 million
Zero coupon convertible debentures	May 2002	$ 1.0 billion	$ 1.0 billion	39.08	39.1 million

$3^7/_8$% Convertible Senior Debentures. We may be required to pay additional interest on these notes commencing in November 2004 if the average of the sales prices of our CD common stock is less than or equal to 45% of the accreted conversion price of the debentures for any 20 of the 30 trading days during the applicable measurement period. Thereafter, the interest rate will be adjusted upward for the subsequent six-month period to the rate at which a hypothetical issue of our senior, non-convertible, fixed-rate, callable debt securities would trade, at that time, at par, provided that the reset rate shall not exceed 10% per year. The accreted conversion price of the debentures would increase (ratably with the accreted value of debentures) if an upward interest adjustment occurs. The applicable measurement period for determining whether an upward interest adjustment will occur ends five business days prior to each May 30 and

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November 30 after November 27, 2004. In the event of an upward interest adjustment, no more than 0.25% per year, incrementally, will be paid in cash; the remaining additional interest will accrue and be paid at maturity. Through December 31, 2001, there was no upward interest adjustment to the notes.

These notes may be converted prior to maturity (i) during each three-month period following issuance of the notes if the closing sale price of our CD common stock exceeds 120%, declining ratably to 110% in November 2011, of the accreted conversion price per share for at least 20 trading days in the period of 30 trading days ending on the first day of such three-month period; (ii) if the notes have been called for redemption; or (iii) in the event of certain material distributions to holders of CD common stock, excluding payments of dividends in the normal course. We expect that, if these debentures are indeed convertible immediately prior to maturity due to the price of our CD common stock exceeding the contingent-conversion threshold, holders of such debentures will elect to convert them into shares of our CD common stock. The conversion threshold at maturity is 110% of the accreted conversion price per share. The accreted conversion price is subject to change as a result of any upward interest adjustment as it is calculated as 100% of the principal amount of the notes, plus accrued and unpaid cash interest (which will only result from an upward adjustment to the interest) divided by the number of shares of CD common stock issued for each note, or 41.58. At December 31, 2001, the accreted conversion price was $24.05.

The notes are not redeemable by us prior to November 27, 2004, but will be redeemable thereafter. In addition, holders of the notes may require us to repurchase the notes on November 27, 2004 and 2008. In such circumstance, we have the option of paying the repurchase price in cash, shares of our CD common stock, or any combination thereof. These debentures are senior unsecured obligations and rank equally in right of payment with all our existing and future senior unsecured indebtedness.

Zero Coupon Senior Convertible Contingent Notes. These notes were issued at a discount representing a yield-to-maturity of 2.5%. We will not make periodic payments of interest on the notes, but may be required to make nominal interest payments commencing in February 2004 if the average market price of the zero coupon senior convertible contingent notes equals 120% or more of the sum of the issue price and accrued original issue discount for the notes during the applicable measurement period, then we will make contingent interest payments on the notes. The contingent interest payments for any six-month period will equal (a) the lesser of (i) 2% of our estimated borrowing rate, at that time, for our senior, non-convertible, fixed-rate indebtedness with a maturity date comparable to these notes and (ii) 0.25% times (b) the sum of the issue price of $608.41 and accrued original issuance discount for the notes as of the day immediately preceding the relevant six-month period. The applicable measurement period for determining whether contingent interest payments will be made is the five trading days ending on the second trading day preceding each February 13 and August 13, commencing February 13, 2004.

These notes may be converted prior to maturity (i) during each three-month period following issuance of the notes if the closing sale price of our CD common stock exceeds 110% of the accreted conversion price per share for at least 20 trading days in the period of 30 trading days ending on the first day of such three-month period; (ii) if the notes have been called for redemption; (iii) if Moody's Investors Service and Standard & Poor's Corporation no longer have investment-grade ratings assigned to the notes; or (iv) in the event of certain material distributions to holders of CD common stock, excluding payments of dividends in the normal course. We expect that, if these notes are indeed convertible immediately prior to maturity due to the price of our CD common stock exceeding the contingent-conversion threshold, holders of such notes will elect to convert them into shares of our CD common stock. The conversion threshold at maturity is 110% of the accreted conversion price per share. The accreted conversion price is calculated as the issue price of $608.41 and accrued original discount divided by the number of shares of CD common stock issued for each note, or 33.4. At December 31, 2001, the accreted conversion price was $18.62.

The notes are not redeemable by us prior to February 13, 2004, but will be redeemable thereafter at the issue price of $608.41 per note plus accrued original discount through the redemption date. In addition, holders of the notes may require us to repurchase the notes on February 13, 2004 for $655.49 per note, February 13, 2009 for $742.20 per note or February 13, 2014 for $840.37 per note. In such circumstance, we have the option of paying the repurchase price in cash, shares of our CD common stock, or any

combination thereof. These notes are senior unsecured obligations and rank equally in right of payment with all our existing and future senior unsecured and unsubordinated indebtedness.

Zero Coupon Convertible Debentures. We may be required to pay interest on these notes commencing in May 2004 if the average of the sales prices of our CD common stock is less than or equal to 60% of the accreted conversion price of the debentures for any 20 of the 30 trading days during the applicable measurement period, then the interest rate will be adjusted to 7% per year. The applicable measurement period for determining whether contingent interest payments will be made ends five business days prior to each May 4 and November 4, commencing May 4, 2004. In the event of an upward interest adjustment, 0.25% per year will be paid in cash; the remaining additional interest will accrue and be paid at maturity. Through December 31, 2001, there was no upward interest adjustment to the notes. These notes may be converted prior to maturity (i) during each three-month period following issuance of the notes if the closing sale price our CD common stock exceeds 110% of the accreted conversion price per share for at least 20 trading days in the period of 30 trading days ending on the first day of such three-month period; (ii) if the notes trade at less than 95% of the value of the shares into which the notes are convertible; (iii) if the notes have been called for redemption; (iv) if Moody's Investors Service and Standard & Poor's Corporation no longer have investment-grade ratings assigned to the notes; or (v) in the event of certain material distributions to holders of CD commons stock, excluding payments of dividends in the normal course. We believe that, if these debentures are indeed convertible immediately prior to maturity due to the price of our CD common stock exceeding the contingent-conversion threshold, holders of such notes and debentures will elect to convert them into shares of our CD common stock. The conversion threshold at maturity is 110% of the accreted conversion price per share. The accreted conversion price is subject to change as a result of any upward interest adjustment as it is calculated as 100% of the principal amount of the notes, plus accrued and unpaid cash interest (which will only result from an upward adjustment to the interest) divided by the number of shares of CD common stock issued for each note, or 39.08. At December 31, 2001, the accreted conversion price was $25.59. The conversion threshold at maturity is 110% of the accreted conversion price per share, or approximately $28.15.

The notes will not be redeemable by us prior to May 4, 2004, but will be redeemable thereafter. In addition, holders of the notes may require us to repurchase the notes on May 4, 2002, 2004, 2006, 2008, 2011 and 2016. In such circumstance, we have the option of paying the repurchase price in cash, shares of our CD common stock, or any combination thereof. These debentures are senior unsecured obligations and rank equally in right of payment with all our existing and future senior unsecured indebtedness.

Upper DECS

The Upper DECS each consist of both a senior note and a forward purchase contract. The senior notes initially bear interest at an annual rate of 6.75%, which will be reset based upon a remarketing in either May or August 2004. The senior notes have a term of five years and represent senior unsecured debt, which ranks equally in right of payment with all our existing and future unsecured and unsubordinated debt and ranks senior to any future subordinated indebtedness.

In August 2004, the forward purchase contract component of each Upper DECS security requires the holder to purchase $50 of CD common stock. The price at which Upper DECS holders will be required to purchase CD common stock will be the average closing price of our CD common stock during the twenty consecutive trading days ending on the third trading day immediately preceding August 17, 2004, but no less than $21.53 and no more than $28.42. The minimum and maximum number of shares to be issued under the forward purchase contracts are 30.3 million and 40.1 million, respectively. The forward purchase contracts also require quarterly cash distributions to each holder at an annual rate of 1.00% through August 2004 (the date the forward purchase contracts are required to be settled).

Upon settlement of the forward purchase contracts in August 2004, we expect to receive gross proceeds in cash of approximately $863 million. Upon maturity in August 2006, of the senior notes that are currently a component of the Upper DECS, we would be required to repay $863 million.

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Because the Upper DECS obligate holders to purchase CD common stock at a price determined by the average closing price of CD common stock during a 20-trading-day period ending in August 2004, the Upper DECS are functionally equivalent to issuing shares of CD common stock subject to an issue-price collar, with a delay in issuance until 2004. At the time of issuance of the Upper DECS, we believed that the economic impact of issuing the Upper DECS would be favorable compared to an equivalent immediate issuance of common stock. The proceeds from the offering were to be used for general corporate purposes, including acquisitions.

Outstanding Debt Related to Management and Mortgage Programs

The following table summarizes the components of our debt related to management and mortgage programs:

	December 31,	
	2001	**2000**
Secured Borrowings:		
Term notes	$ 6,237	$
Short-term borrowings	582	292
Commercial paper	120	
Other	295	
Unsecured Borrowings:		
Medium-term notes	679	117
Short-term borrowings	983	
Commercial paper	917	1,556
Other	31	75
	$ 9,844	$ 2,040

Debt related to our management and mortgage programs increased $7.8 billion during 2001 primarily resulting from the assumption of Avis debt aggregating $5.1 billion (principally comprising $4.7 billion of secured term notes and $415 million of secured commercial paper and other borrowings), debt issuances during 2001 aggregating approximately $2.2 billion and unsecured borrowings under our revolving credit facility during 2001 aggregating $750 million. The proceeds from these issuances were used to fund the purchase of assets under management and mortgage programs and retire maturing debt under management and mortgage programs.

Secured Borrowings

Secured borrowings primarily represent asset-backed funding arrangements whereby we or our wholly-owned and consolidated special purpose entities issue debt or enter into loans supported by the cash flows derived from specific pools of assets classified as assets under management and mortgage programs. These borrowings are primarily issued under our AESOP Funding or Greyhound Funding programs. AESOP Funding is a domestic financing program that provides for the issuance of up to $4.45 billion of variable rate notes to support our car rental operations.

Greyhound Funding is also a domestic financing program that provides for the issuance of up to $3.19 billion of variable rate notes, preferred membership interests and term notes to support our fleet leasing operations. Under both programs, the debt issued is collateralized by vehicles owned by either our car rental subsidiary or our fleet leasing subsidiary. In the AESOP Funding program, the vehicles financed are generally covered by agreements where manufacturers guarantee a specified repurchase price for the vehicles. However, the program will allow funding for 25% of vehicles not covered by such agreements. The titles to all the vehicles supporting these facilities is held in bankruptcy remote trusts and we act as a servicer of all the vehicles. For the Greyhound Funding facility, the bankruptcy remote trust also acts as lessor under both operating and financing lease agreements. At December 31, 2001, we had $3.5 billion of term notes outstanding under the AESOP Funding program. At December 31, 2001, we had $2.9 billion of outstanding debt under the Greyhound Funding program, of which $2.6 billion and $295 million were included as components of secured term notes and other secured borrowings, respectively, in the above table. All debt issued under these programs is classified as liabilities under management and mortgage programs on our Consolidated Balance Sheet. Also included in secured

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term notes are $450 million of variable-rate notes maturing in 2011 and $285 million of variable-rate notes maturing in 2006. These notes are collaterized by vehicles owned by our fleet leasing subsidiary.

Secured short-term borrowings primarily consist of financing arrangements to sell mortgage loans under a repurchase agreement, which is renewable on an annual basis at the discretion of the lender. Such loans are collateralized by underlying mortgage loans held in safekeeping by the custodian to the agreement. The total commitment under this agreement is $500 million. Secured commercial paper matures within 270 days and is supported by rental vehicles owned by our car rental subsidiary.

Unsecured Borrowings

Unsecured medium-term notes primarily bear interest at a rate of 8$^{1}/_{8}$% per annum. Such interest rate is generally subject to incremental upward adjustments of 50 basis points in the event that the credit ratings assigned to PHH by nationally recognized credit rating agencies are downgraded to a level below PHH's ratings as of December 31, 2001. In the event that the credit ratings are downgraded below investment grade, the interest rate is subject to an upward adjustment not to exceed 300 basis points. Unsecured short-term borrowings primarily represent borrowings under revolving credit facilities. Unsecured commercial paper matures within 270 days and is fully supported by the committed revolving credit agreements described above.

Mandatorily Redeemable Interest

Also included in out total indebtedness in addition to corporate indebtedness and debt related to our management and mortgage program, is a $375 million mandatorily redeemable senior preferred interest, which is mandatorily redeemable by the holder in 2015 and may not be redeemed by us prior to March 2005, except upon the occurrence of specified circumstances. We are required to pay distributions on the senior preferred interest based on three-month LIBOR plus a margin of 1.77%. In the event of default, or other specified events, including a downgrade in our credit ratings below investment grade, holders of the senior preferred interest have certain remedies and liquidation preferences, including the right to demand payment by us.

Off-Balance Sheet Financing Arrangements

In addition to our on-balance sheet borrowings and available credit facilities, we enter into transactions where special purpose entities are used as a means of securitizing financial assets generated or acquired in the normal course of business under our management and mortgage programs. We utilize these special purpose entities because they are highly efficient for the sale of financial assets and represent conventional practice in the securitization industry. In accordance with generally accepted accounting principles, the assets sold to the special purpose entities and the related liabilities are not reflected on our balance sheet as such assets are legally isolated from creditor claims and removed from our control.

At the corporate level, we sell timeshare receivables in securitizations to bankruptcy remote qualifying special purpose entities under revolving sales agreements in exchange for cash. Our maximum funding capacity under these securitization facilities is $500 million. These facilities are non-recourse to us. However, we retain a subordinated residual interest and the related servicing rights and obligations in the transferred timeshare receivables. We receive monthly servicing fees of approximately 100 basis points of the outstanding balance of the transferred timeshare receivables. At December 31, 2001, we were servicing approximately $492 million of timeshare receivables transferred under these agreements.

Additionally, our PHH subsidiary customarily sells all mortgage loans we originate into the secondary market, primarily to government-sponsored entities, in exchange for cash. These mortgage loans are placed into the secondary market either by PHH or through an unaffiliated bankruptcy remote special purpose entity, Bishop's Gate Residential Mortgage Trust, the equity (currently in excess of 4%) of which is held by independent third parties who bear the credit risk of the assets. Our maximum funding capacity through the special purpose entity is $3.2 billion. The loans sold to the secondary market are generally non-recourse to us and to PHH. However, we generally retain the servicing rights on the mortgage loans

sold and receive an annual servicing fee of approximately 47 basis points on such loans. At December 31, 2001, we were servicing $96.3 billion of mortgage loans sold to the secondary market and $2.5 billion sold to the special purpose entity.

Bishop's Gate has entered into a swap with several banks, the net effect of which is that the banks have agreed to bear certain interest rate risks, non-credit related market risks and prepayment risks related to the mortgage loans held by Bishop's Gate. Additionally, PHH has entered into a separate corresponding swap with the banks, the net effect of which is that PHH has agreed to bear the interest rate risks, non-credit related market risks and prepayment risks related to the mortgage loans held by Bishop's Gate assumed by the banks under their swap with Bishop's Gate. We in turn offset the interest rate risks associated with the swap by entering into forward delivery contracts for mortgage backed securities. Both the swap and the forward delivery commitments are derivatives under SFAS No. 133 and are marked-to-market through earnings in the current period. The fair value and changes in fair value of the swap and forward delivery committments have substantially offsetting effects.

Our PHH subsidiary also sells relocation receivables in securitizations to a bankruptcy remote qualifying special purpose entity in exchange for cash. Our maximum funding capacity under this securitization facility is $650 million. This facility is non-recourse to us and to PHH. However, we retain a subordinated residual interest and the related servicing rights and obligations in the relocation receivables and receive an annual servicing fee of approximately 75 basis points on the outstanding balance of relocation receivables transferred. At December 31, 2001, we were servicing $620 million of relocation receivables transferred under this agreement.

None of our affiliates, officers, directors or employees hold any equity interest in any of the above special purpose entities, nor do we or our affiliates provide any financial support or financial guarantee arrangements to the above special purpose entities. None of our affiliates, officers, directors or employees receive any remuneration from any of the above special purpose entities.

PHH also sells interests in operating leases and the underlying vehicles to two independent Canadian third parties. PHH repurchases the leased vehicles and leases such vehicles under direct financing leases to the Canadian third parties. The Canadian third parties retain the lease rights and prepay all the lease payments except for an agreed upon residual amount, which is typically 0% to 8% of the total lease payments. The residual amounts represent our only exposure in connection with these transactions. At December 31, 2001, the balance of outstanding lease receivables which were sold to the Canadian third parties was $341 million. The total outstanding prepaid rent and our subordinated residual interest under these leasing arrangements were $320 million and $21 million, respectively, as of December 31, 2001. We recognized $108 million of revenues related to these leases during 2001.

Additionally, PHH leases certain office buildings on an annual basis from an unaffiliated finance company which holds the title to the property. PHH has the option to renew this lease each year through 2004. At the end of each annual renewal period, we have the option to either purchase the property under a fixed price purchase option of approximately $80 million or sell the office buildings, on behalf of the lessor, to an unrelated third party. If the office buildings are sold and the proceeds from the sale are less than the amount of the fixed price purchase option, we are required to make a payment to the lessor for any deficiency, up to a maximum payment of approximately $68 million.

Liquidity Risk

Our liquidity position may be negatively affected by unfavorable conditions in any one of the industries in which we operate as we may not have the ability to generate sufficient cash flows from operating activities due to those unfavorable conditions. Additionally, our liquidity as it relates to both management and mortgage programs could be adversly affected by a deterioration in the performance of the underlying assets of such programs. Access to the principal financing program for our car rental subsidiary may also be impaired should General Motors Corporation not be able to honor its obligations to repurchase a substantial number of our vehicles. Our liquidity as it relates to mortgage programs is highly dependent on the secondary markets for mortgage loans. Access to certain of our securitization facilities and our ability to act as servicer thereto also may be limited in the event that our or PHH's credit ratings are downgraded below investment grade and, in certain circumstances, where we or PHH fail to meet certain financial ratios. However, we do not believe that our or PHH's credit ratings are likely to fall below such thresholds. Additionally, we monitor the maintenance of these financial ratios and as of December 31, 2001, we were in compliance with all covenants under these facilities. When securitizing assets under management and mortgage programs, we make representations and warranties customary to the securitization markets, including eligibility characteristics of the assets transferred and servicing responsibilties.

Currently our credit ratings are as follows:

	Moody's Investors Service	Standard & Poor's	Fitch
Cendant			
Senior unsecured debt	Baa1	BBB	BBB+
Subordinated debt	Baa2	BBB-	BBB
PHH			
Senior debt	Baa1	A-	BBB+
Short-term debt	P-2	A-2	F-2

In February 2002, the credit ratings assigned to us and to PHH by Moody's Investors Service and Standard & Poor's were affirmed. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time.

Affiliated Entities

We also maintain certain relationships with affiliated entities principally to support our business model of growing earnings and cash flow with minimal asset risk. We do not have the ability to control the operating and financial policies of these entities and, accordingly, do not consolidate these entities in our results of operations, financial position or cash flows. Certain of our officers serve on the Board of Directors of these entities, but in no instances do they constitute a majority of the Board, nor do they receive any economic benefits.

NRT Incorporated

NRT Incorporated is a joint venture between us and Apollo Management, L.P. NRT acquires independent real estate brokerages, converts them to one of our real estate brands and operates the brand under a 50-year franchise agreement with us. The original business purpose of this relationship was to permit us to maintain and expand our original business purpose as a franchisor in the lodging and residential real estate brokerage industries without directly competing with our existing franchisees. This structure permitted us to receive a royalty stream on NRT's revenues consistent with other franchisees and to receive a market rate return on the preferred investment. Upon NRT's formation, we committed to participate in acquisitions made by NRT by acquiring intangible assets and, in some cases, mortgage operations of the real estate brokerage firms acquired by NRT, which result in us recording franchise agreements or other intangible assets on our Consolidated Balance Sheets. As of December 31, 2001, we had committed to participate in additional NRT acquisitions for which we would fund up to $592 million ($500 million of which will not be funded prior to February 2004).

Franchise agreements of $854 million and other intangible assets of $29 million, which resulted from the acquisition of mortgage operations through NRT, are recorded on our Consoldiated Balance Sheet as of December 31, 2001. Except for the term and the lack of a royalty rebate provision, these franchise agreements are similar to those of our other real estate franchisees. NRT pays us royalty and advertising fees in connection with these franchise agreements based on the real estate commissions earned by NRT, which approximated $220 million, $198 million and $172 million during 2001, 2000 and 1999, respectively. Additionally, during 2001, we received $16 million of other fees from NRT, which included a fee paid in

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connection with the termination of a franchise agreement under which NRT operated our Century 21 real estate brand. The mortgage operations we acquired through NRT were immediately integrated into our existing mortgage operations. We also receive real estate referral fees from NRT in connection with clients referred to NRT by our relocation business. These fees are based on a standard real estate brokerage agreement, in which the franchisor receives approximately 40% of the commission. During 2001, 2000 and 1999, such fees were approximately $37 million, $25 million and $15 million, respectively. These fees are also paid to us by all other real estate brokerages (both affiliates and non-affiliates) who receive referrals from our relocation business. In February 1999, we advanced $35 million to NRT for services to be provided related to the identification of potential acquisition candidates, the negotiation of agreements and other services in connection with future brokerage acquisitions by NRT. As NRT makes acquisitions, we capitalize a proportionate share of this advance, which is then amortized over the term of the franchise agreement. As of December 31, 2001, the remaining balance of this advance was $12 million. Such amount is refundable in the event that services are not provided and therefore is accounted for as a prepaid asset until services are rendered by NRT.

Apollo's original investment in NRT consisted of a $20 million investment in NRT's common stock and a $54 million investment in NRT's preferred stock, which was subsequently redeemed in 1999. As of December 31, 2001, we owned all of NRT's preferred stock, which approximated $384 million as of December 31, 2001. This ownership entitles us to preferred dividends at 5% to 9% of our investment, which we negotiated with NRT and Apollo. We have the option, upon the occurrence of certain events, to convert a portion of our preferred stock investment into no more than 50% of NRT's common stock. As of December 31, 2001, none of the events that would have caused the preferred stock to be currently convertible had occurred and there was no common management between us, Apollo and NRT. We also have the option to purchase all of NRT's common stock from Apollo for $20 million. This option is not exercisable until August 11, 2002 and is conditional upon NRT's payment of $166 million to Apollo. We may exercise the option prior to August 11, 2002 if we satisfy NRT's obligation. If NRT is unable to make the $166 million payment to Apollo, we would be required to make the payment on behalf of NRT and would receive additional NRT preferred stock in exchange. As of December 31, 2001, NRT had $291 million in debt, which is non-recourse to us. NRT has ten seats on its board of directors, four of which were under our control as of December 31, 2001. In addition, without the consent of both Cendant and Apollo, NRT cannot make capital expenditures over $500,000; approve its business plan; engage in any affiliate transactions; acquire a brokerage for more than $2 million; appoint or terminate an officer; amend the by-laws, charter or material agreements; incur debt over $500,000; issue or redeem equity, sell assets or combine with any business; file a registration statement; settle any litigation or pay a dividend.

Trip Network, Inc.

During March 2001, we funded the creation of Trip Network with a contribution of assets valued at approximately $20 million in exchange for all of the common and preferred stock of Trip Network. We transferred all the common shares of Trip Network to the Hospitality Technology Trust, an independent technology trust that is controlled by three independent trustees who are not officers, directors or employees of Cendant or relatives of officers, directors or employees of Cendant. The trust was established in 1997 for purposes of enhancing and promoting the use of advanced technology for our lodging brands, its beneficiaries, including providing financial and technology support services and investing in Internet related activities for the benefit of its beneficiaries. The hotel franchise chains have agreed to link their brand and property Web sites to Trip.com, for among other reasons because of their beneficial interest in the trust. Management believes that the enhanced functionality for the brand and property Web pages to be provided by Trip.com links will help build customer loyalty and avoid the problem of viewers leaving the brand and property web sites for the sites of competitors. Additionally, management believes that the aggregate links of all franchisee properties creates critical mass and web-traffic for Trip Network further enhancing its ablility to be successful. If Trip Network is successful, then management believes the common shares will likely appreciate in value and upon a liquidation of shares, will provide the trust with further resources to pursue its stated objectives. Further, as Trip Network provides travel services to both our franchisees as well as non-franchisees, our contribution of the Trip Network common stock to the

Hospitality Technology Trust supported to maintain and further expand our business model as a franchisor whereby we were not directly involved in a business which would compete with our franchisees.

The preferred stock investment, which is convertible into approximately 80% of Trip Network's common stock on a fully diluted basis, is not convertible prior to March 31, 2003, except upon a change of control of Trip Network. Subsequently, we contributed $85 million, including $45 million in cash and 1.5 million shares of Homestore common stock, then-valued at $34 million, to Trip Network to pursue the development of an online travel business for the benefit of certain of our current and future franchisees. Such amount was expensed during 2001. We also received warrants to purchase up to 28,250 shares of Trip Network's common stock, which are exercisable, at our option, upon the achievement of certain valuations beginning on March 31, 2003 or upon a change of control at Trip Network at an exercise price of $0.01 per share. This arrangement is consistent with our strategy of creating a single platform to research and develop Internet related products within an integrated business plan. Since we do not have the in-house expertise to manage and develop Internet travel Web sites, we outsourced the management of our Internet travel assets to Trip Network through the existing arrangement.

During October 2001, we entered into two separate lease and licensing agreements with Trip Network, whereby, Trip Network was granted a license to operate the online businesses of Trip.com, Inc. and Cheap Tickets (both wholly-owned subsidiaries of Cendant) and a lease or sublease, as applicable, to all the assets of these companies necessary to operate such businesses. The Trip.com license agreement has a one-year term and is renewable at Trip Network's option for 40 additional one-year periods. The Cheaptickets.com license agreement has a 40-year term. Under these agreements, we receive a license fee of 3% of revenues generated by Trip.com and Cheaptickets.com during the term of the agreements. We also received warrants to purchase up to 46,000 shares of Trip Network common stock, which are exercisable upon achievement of certain financial results beginning in October 2003 or upon a change of control of Trip Network. The royalty rate and warrants were negotiated with and approved by Trip Network's board of directors. We proposed our royalty rate based upon market rate analysis of similar licensing type agreements. Also during October 2001, we entered into a travel services agreement with Trip Network, whereby we provide Trip Network with call center services. In addition, we process and support Trip Network's booking and fulfillment of travel transactions and provide travel-related products and services to maintain and develop relationships, discounts and favorable commissions with travel vendors. For these services, we receive a fee of cost plus an applicable mark-up, which was determined based upon our understanding of profit margins in the travel agency industry. During 2001, the revenue we received in connection with these agreements was not material. Additionally, during October 2001, we entered into a 40-year global distribution services subscriber agreement with Trip Network, whereby we provide all global distribution services for Trip Network. We are not obligated or contingently liable for any debt incurred by Trip Network. We recorded a prepaid asset of approximately $40 million in connection with this agreement, which is being amortized over 40 years. The $40 million was computed as the present value of the expected benefit we would realize in lieu of paying financial assistance at market rates for expected volumes at an appropriate discount rate. Amortization of the asset is calculated in direct proportion to the expected cash flow benefits.

FFD Development Company, LLC

Prior to our acquisition of Fairfield in April 2001, Fairfield contributed approximately $60 million of timeshare inventory and $4 million of cash to FFD Development Company LLC, a company created by Fairfield to acquire real estate for construction of vacation ownership units, which are sold to Fairfield upon completion. Fairfield previously operated its own property acquisition, planning, design and construction function. This function was transferred to FFD immediately prior to our acquisition of Fairfield. Former Fairfield employees who were responsible for the timeshare property development became employed by FFD as part of the spin-off. Given the extensive knowledge of Fairfield's standards and specifications as it related to the procurement of property and the planning and construction of the timeshares, we continue to rely on the relationship between Fairfield and FFD.

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In exchange for the contribution of timeshare inventory and cash, Fairfield received all of the common and preferred equity interests of FFD. Fairfield then contributed all the common equity interest to an independent trust and retained a convertible preferred equity interest, which is convertible at any time, and a warrant to purchase FFD's common equity. The warrant is not exercisable until April 2004, except upon the occurrence of specified events, including our conversion of more than half of our preferred equity interest into common equity interests. In connection with our acquisition of Fairfield in April 2001, we, through our Fairfield subsidiary, now own the preferred equity interest, which approximated $59 million as of December 31, 2001, and the warrant to purchase a common equity interest in FFD. The warrant is exercisable in whole or in increments of 25% upon payment in cash or in kind of an amount per percentage of common interest exercised, which is equal to the lower of 80% of the book value per common interest as of April 2, 2001 and 90% of the book value per common interest as of the warrant exercise date. During 2001, we recognized dividend income on our preferred interest of $6 million, which was paid-in-kind on a quarterly basis based on an 18% annual return on our preferred equity interest in FFD. The dividend rate was agreed upon in FFD's amended operating agreement among Fairfield, FFD and the independent trust. Upon the conversion of such preferred equity interests and the exercise of such warrant, we would own approximately 75% of FFD's common equity interests on a fully diluted basis. Additionally, we are now obligated to fulfill Fairfield's purchase commitments with FFD. However, under the development contracts with FFD, we are not obligated to purchase a resort property until construction is completed to the contractual specifications, a certificate of occupancy is delivered and clear title is obtained. Fairfield also leases office space to FFD and provides various services to FFD in exchange for a fee, including general management services, information and technology support and human resources administration. During 2001, we purchased $40 million of timeshare interval inventory and land from FFD and as of December 31, 2001 are obligated to purchase an additional $98 million. FFD is obligated to finance, plan, design and construct vacation ownership units according to Fairfield's specifications and deliver those units according to an agreed schedule and at agreed purchase prices. The schedule and prices allow for FFD to charge cost plus an applicable mark-up, which was 17.4% in 2001. Such fee arrangement is provided by in the operating agreement between Fairfield and FFD. The purchase price, which includes FFD's fee, is agreed upon by Fairfield and FFD based upon the cost of construction. The delivery date is agreed upon by Fairfield and FFD based upon the time necessary to complete construction and when Fairfield requires the completed inventory for sale and deeding to its customers. Subsequent to December 31, 2001, as is customary in "build to suit" agreements, when we contract with FFD for the development of a property, we will issue a letter of credit for up to 20% of our purchase price for such property. Drawing under all such letters of credit will only be permitted if we fail to meet our obligation under any purchase commitment. While we intend to issue such letters of credit in 2002, no such letters of credit were outstanding at December 31, 2001. We are not obligated or contingently liable for any obligations incurred by FFD.

Trilegiant Corporation. On July 2, 2001, we entered into an agreement with Trilegiant Corporation, a newly-formed company owned by the former management of our Cendant Membership Services and Cendant Incentives subsidiaries, whereby we outsourced our individual membership and loyalty business to Trilegiant. Trilegiant operates membership-based clubs and programs and other incentive-based programs. As part of this agreement, Trilegiant provides fulfillment services (including collecting cash, paying commissions, processing refunds, providing membership services and benefits and maintaining specified service level standards) to members of our individual membership business that existed as of the transaction date in exchange for a servicing fee pursuant to the Third Party Administrator agreement, which is cost plus 10%. During 2001, we paid Trilegiant $106 million in connection with services provided under the Third Party Administrator agreement and

Trilegiant collected $212 million of cash on our behalf in connection with membership renewals. Additionally, as of December 31, 2001, Trilegiant owed us $7 million in connection with services provided under the Third Party Administrator agreement.

Additionally, Trilegiant is licensing and/or leasing from us the assets of our individual membership business in order to service these members and also to obtain new members. The assets licensed to Trilegiant include various tradenames, trademarks, logos, service marks and other intellectual property relating to its membership business. Upon expiration of the licensing term (40 years), Trilegiant will have the option to

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purchase any or all of the intellectual property licenses at their then-fair market values. Real property owned by us was leased to Trilegiant on a monthly basis at rates that approximated our depreciation expense. In connection with the licensing and leasing arrangements, Trilegiant paid us $7 million in 2001 and owed us an additional $2 million as of December 31, 2001.

We continue to collect membership fees from, and are obligated to provide membership benefits to, existing members as of July 2, 2001, including their renewals. Trilegiant collects the membership fees from, and is obligated to provide membership benefits to, those new members who join the membership based clubs and programs and all other incentive programs subsequent to July 2, 2001 and will recognize the related revenue and expenses. Beginning in third quarter 2002 and throughout the remainder of the 40-year term of the licensing agreement, we will recognize as revenue the related royalty income received from Trilegiant for membership fees generated by the new members (initially 5%, increasing to approximately 16% over 10 years). We also licensed various tradenames, trademarks, logos, service marks, and other intellectual property relating to our membership business to Trilegiant for 40 years. Upon expiration of the 40-year term, Trilegiant will have the option to purchase any or all of the intellectual property licenses at their then-fair market values.

In connection with the foregoing arrangements, we advanced approximately $100 million in cash and $33 million of prepaid assets to Trilegiant to support their marketing activities and also made a $20 million convertible preferred stock investment in Trilegiant, which is convertible, at our option, into approximately 20% of Trilegiant's common stock on a fully diluted basis. We accounted for the entire advance to Trilegiant as a prepaid expense at the date of advance. The purpose of the advance was to help Trilegiant fund qualified marketing costs associated with obtaining new members whose revenue would become subject to royalties paid to us. We expense such advance as Trilegiant incurs qualified marketing expenses pursuant to the terms of the advance. During 2001, we expensed $66 million of the advance. As of December 31, 2001, the remaining balance of this prepaid expense approximated $67 million.

The preferred stock investment is mandatorily redeemable and, therefore, accounted for as an available-for-sale debt security at fair value, convertible at any time at our option and we are entitled to receive a 12% cumulative non-cash dividend annually through July 2006. During third quarter 2001, we wrote-off the entire amount of our preferred stock investment due to operating losses incurred by Trilegiant and the fact that this entity had relatively thin common equity capitalization since inception.

We also provide Trilegiant with a $35 million revolving line of credit under which advances are at our sole and unilateral discretion. As of December 31, 2001, Trilegiant had not drawn on this line. During August 2001, Trilegiant entered into marketing agreements with a third party, whereby Trilegiant will provide certain marketing services to the third party in exchange for a commission. As part of our royalty arrangement with Trilegiant, we will receive 13% of the commissions paid by the third party to Trilegiant. In connection with these marketing agreements, we provided Trilegiant with a $75 million loan facility bearing interest at a rate of 9% under which we will advance funds to Trilegiant for marketing performed by Trilegiant on behalf of the third party. As of December 31, 2001, the outstanding loan balance under this facility was $24 million. Such amount is accounted for as a note receivable. We evaluate the collectibility of the note at the end of each reporting period. We will collect the receivable as commissions are received by Trilegiant from the third party.

Additionally, we maintain warrants to purchase up to 2.1 million shares of Trilegiant's common stock, which are exercisable, at our option, at an exercise price of $0.01 per share, upon the achievement of certain business valuations ranging from $200 million to $750 million, into a majority ownership interest in Trilegiant. We are not obligated or contingently liable for any debt incurred by Trilegiant.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Goodwill and Other Intangible Assets. On January 1, 2002, we adopted SFAS No. 142, "Goodwill and Other Intangible Assets" in its entirety. SFAS No. 142 addresses the financial accounting and reporting standards for the acquisition of intangible assets outside of a business combination and for goodwill and other intangible assets subsequent to their acquisition. This standard eliminates the amortization of

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goodwill and indefinite lived intangible assets. Intangible assets with finite lives will continue to be amortized over their estimated useful lives. We will be required to assess goodwill and indefinite lived intangible assets for impairment annually, or more frequently if circumstances indicate impairment may have occurred. We have reassessed the useful lives assigned to our intangible assets acquired in transactions consummated prior to July 1, 2001 and the related amortization methodology. Accordingly, we identified those intangible assets that have indefinite lives, adjusted the future amortization periods of certain intangible assets appropriately and changed our amortization methodology where appropriate.

In accordance with SFAS No. 142, we did not amortize goodwill and indefinite lived intangible assets acquired after June 30, 2001. As of January 1, 2002, we discontinued the amortization of all goodwill and indefinite lived intangible assets. Based upon a preliminary assessment, we expect that the increase in net income from the application of the non-amortization provisions of SFAS No. 142 would have approximated $154 million, $76 million and $83 million for 2001, 2000 and 1999, respectively.

As previously described, the initial implementation of this standard will not impact our results of operations during 2002.

Impairment or Disposal of Long-Lived Assets. During October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and replaces the accounting and reporting provisions of APB Opinion No. 30, "Reporting Results of Operations Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," as it relates to the disposal of a segment of a business. SFAS No. 144 requires the use of a single accounting model for long-lived assets to be disposed of by sale, including discontinued operations, by requiring those long-lived assets to be measured at the lower of carrying amount or fair value less cost to sell. The impairment recognition and measurement provisions of SFAS No. 121 were retained for all long-lived assets to be held and used with the exception of goodwill. We adopted this standard on January 1, 2002.

FORWARD-LOOKING STATEMENTS

Forward-looking statements in our public filings or other public statements are subject to known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements were based on various factors and were derived utilizing numerous important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements. Forward-looking statements include the information concerning our future financial performance, business strategy, projected plans and objectives.

Statements preceded by, followed by or that otherwise include the words "believes", "expects", "anticipates", "intends", "project", "estimates", "plans", "may increase", "may fluctuate" and similar expressions or future or conditional verbs such as "will", "should", "would", "may" and "could" are generally forward-looking in nature and not historical facts. You should understand that the following important factors and assumptions could affect our future results and could cause actual results to differ materially from those expressed in such forward-looking statements:

- the impacts of the September 11, 2001 terrorist attacks on New York City and Washington, D.C. on the travel industry in general, and our travel businesses in particular, are not fully known at this time, but are expected to include negative impacts on financial results due to reduced demand for travel in the near term; other attacks, acts of war; or measures taken by governments in response thereto may negatively affect the travel industry, our financial results and could also result in a disruption in our business;

- the effect of economic conditions and interest rate changes on the economy on a national, regional or international basis and the impact thereof on our businesses;

- the effects of a decline in travel, due to political instability, adverse economic conditions or otherwise, on our travel related businesses;

- the effects of changes in current interest rates, particularly on our real estate franchise and mortgage businesses;

- the resolution or outcome of our unresolved pending litigation relating to the previously announced accounting irregularities and other related litigation;

our ability to develop and implement operational, technological and financial systems to manage growing operations and to achieve enhanced earnings or effect cost savings;

competition in our existing and potential future lines of business and the financial resources of, and products available to, competitors;

failure to reduce quickly our substantial technology costs in response to a reduction in revenue, particularly in our computer reservations and global distribution systems businesses;

our failure to provide fully integrated disaster recovery technology solutions in the event of a disaster;

our ability to integrate and operate successfully acquired and merged businesses and risks associated with such businesses, including the acquisitions of Trendwest Resorts, Inc., NRT Incorporated, Galileo International, Inc. and Cheap Tickets, Inc., the compatibility of the operating systems of the combining companies, and the degree to which our existing administrative and back-office functions and costs and those of the acquired companies are complementary or redundant;

our ability to obtain financing on acceptable terms to finance our growth strategy and to operate within the limitations imposed by financing arrangements and to maintain our credit ratings;

competitive and pricing pressures in the vacation ownership and travel industries, including the car rental industry;

changes in the vehicle manufacturer repurchase arrangements in our Avis car rental business in the event that used vehicle values decrease and

changes in laws and regulations, including changes in accounting standards and privacy policy regulation.

Other factors and assumptions not identified above were also involved in the derivation of these forward-looking statements, and the failure of such other assumptions to be realized as well as other factors may also cause actual results to differ materially from those projected. Most of these factors are difficult to predict accurately and are generally beyond our control.

You should consider the areas of risk described above in connection with any forward-looking statements that may be made by us and our businesses generally. Except for our ongoing obligations to disclose material information under the federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless required by law. For any forward-looking statements contained in any document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We use various financial instruments, particularly swap contracts, forward delivery commitments and futures and options contracts to manage and reduce the interest rate risk related specifically to our committed mortgage pipeline, mortgage loan inventory, mortgage servicing rights, mortgage-backed securities, debt and certain other interest bearing liabilities. Foreign currency forwards are also used to manage and reduce the foreign currency exchange rate risk associated with our foreign currency denominated receivables and forecasted royalties, forecasted earnings of foreign subsidiaries and forecasted foreign currency denominated acquisitions.

We are exclusively an end user of these instruments, which are commonly referred to as derivatives. We do not engage in trading, market-making, or other speculative activities in the derivatives markets. More detailed information about these financial instruments is provided in Note 23 Financial Instruments to our Consolidated Financial Statements.

Our principal market exposures are interest and foreign currency rate risks.

Interest rate movements in one country, as well as relative interest rate movements between countries can materially impact our profitability. Our primary interest rate exposure is to interest rate fluctuations in the United States, specifically long-term U.S. Treasury and mortgage interest rates due to their impact on mortgage-related assets and commitments and also LIBOR and commercial paper interest rates due to their impact on variable rate borrowings and other interest rate sensitive liabilities. We anticipate that such interest rates will remain a primary market exposure for the foreseeable future.

Our primary foreign currency rate exposure is to exchange rate fluctuations in the British pound sterling. We anticipate that such foreign currency exchange rate risk will remain a primary market exposure for the foreseeable future.

We assess our market risk based on changes in interest and foreign currency exchange rates utilizing a sensitivity analysis. The sensitivity analysis measures the potential loss in earnings, fair values and cash flows based on a hypothetical 10% change (increase and decrease) in interest and currency rates.

We use a discounted cash flow model in determining the fair values of relocation receivables, timeshare receivables, equity advances on homes, mortgage loans, commitments to fund mortgages, mortgage servicing rights, mortgage-backed securities and our retained interests in securitized assets. The primary assumptions used in these models are prepayment speeds, estimated loss rates, and discount rates. In determining the fair value of mortgage servicing rights and mortgage-backed securities, the models also utilize credit losses and mortgage servicing revenues and expenses as primary assumptions. In addition, for commitments to fund mortgages, the borrower's propensity to close their mortgage loan under the commitment is used as a primary assumption. For mortgage loans, commitments to fund mortgages, forward delivery contracts and options, we rely on prices sourced from Bloomberg in determining the impact of interest rate shifts. We also utilize an option-adjusted spread ("OAS") model to determine the impact of interest rate shifts on mortgage servicing rights and mortgage-backed securities. The primary assumption in an OAS model is the implied market volatility of interest rates and prepayment speeds and the same primary assumptions used in determining fair value.

We use a duration-based model in determining the impact of interest rate shifts on our debt portfolio, certain other interest bearing liabilities and interest rate derivatives portfolios. The primary assumption used in these models is that a 10% increase or decrease in the benchmark interest rate produces a parallel shift in the yield curve across all maturities.

We use a current market pricing model to assess the changes in the value of the U.S. dollar on foreign currency denominated monetary assets and liabilities and derivatives. The primary assumption used in these models is a hypothetical 10% weakening or strengthening of the U.S. dollar against all our currency exposures at December 31, 2001, 2000 and 1999.

Our total market risk is influenced by a wide variety of factors including the volatility present within the markets and the liquidity of the markets. There are certain limitations inherent in the sensitivity analyses presented. While probably the most meaningful analysis permitted, these "shock tests" are constrained by several factors, including the necessity to conduct the analysis based on a single point in time and the inability to include the complex market reactions that normally would arise from the market shifts modeled.

We used December 31, 2001, 2000 and 1999 market rates on our instruments to perform the sensitivity analyses separately for each of our market risk exposures interest and currency rate instruments. The estimates are based on the market risk sensitive portfolios described in the preceding paragraphs and assume instantaneous, parallel shifts in interest rate yield curves and exchange rates.

We have determined that the impact of a 10% change in interest and foreign currency exchange rates and prices on our earnings, fair values and cash flows would not be material.

While these results may be used as benchmarks, they should not be viewed as forecasts.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Financial Statements and Financial Statement Index commencing on Page F-1 hereof.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained in the Company's Annual Proxy Statement under the sections titled "Executive Officers", "Election of Directors", "Executive Officers" and "Compliance with Section 16(a) of the Exchange Act" are incorporated herein by reference in response to this item.

ITEM 11. EXECUTIVE COMPENSATION

The information contained in the Company's Annual Proxy Statement under the section titled "Executive Compensation and Other Information" is incorporated herein by reference in response to this item.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information contained in the Company's Annual Proxy Statement under the section titled "Security Ownership of Certain Beneficial Owners and Management" is incorporated herein by reference in response to this item.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information contained in the Company's Annual Proxy Statement under the section titled "Certain Relationships and Related Transactions" is incorporated herein by reference in response to this item.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

ITEM 14(A)(1) FINANCIAL STATEMENTS

See Financial Statements and Financial Statements Index commencing on page F-1 hereof.

ITEM 14(A)(3) EXHIBITS

See Exhibit Index commencing on page G-1 hereof.

ITEM 14(B) REPORTS ON FORM 8-K

On October 2, 2001, we filed a current report on Form 8-K to report under Item 5 the issuance of a press release updating our operations, estimating the impact of the September 11, 2001 terrorist attacks on our financial results and to provide an update on our planned acquisitions of Galileo International, Inc. and Cheap Tickets, Inc.

On October 15, 2001, we filed a current report on Form 8-K to report under Item 5 the acquisition of Galileo International, Inc.

On October 18, 2001, we filed a current report on Form 8-K to report under Item 5 third quarter 2001 results.

On October 23, 2001, we filed a current report on Form 8-K to report under Item 5 consolidated free cash flows for the nine months and twelve months ended September 30, 2001 and 2000, respectively.

On December 6, 2001, we filed a current report on Form 8-K to report under Item 5 the sale of $1 billion aggregate principal amount of $3^7/_8$% convertible senior debentures due 2011.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

CENDANT CORPORATION

By: /s/ JAMES E. BUCKMAN

James E. Buckman
Vice Chairman and General Counsel
Date: August 19, 2002

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ HENRY R. SILVERMAN (Henry R. Silverman)	Chairman of the Board, President, Chief Executive Officer and Director	August 19, 2002
/s/ JAMES E. BUCKMAN (James E. Buckman)	Vice Chairman, General Counsel and Director	August 19, 2002
/s/ STEPHEN P. HOLMES (Stephen P. Holmes)	Vice Chairman and Director	August 19, 2002
/s/ KEVIN M. SHEEHAN (Kevin M. Sheehan)	Senior Executive Vice President and Chief Financial Officer	August 19, 2002
/s/ TOBIA IPPOLITO (Tobia Ippolito)	Executive Vice President and Chief Accounting Officer	August 19, 2002
/s/ MYRA J. BIBLOWIT (Myra J. Biblowit)	Director	August 19, 2002
/s/ THE HONORABLE WILLIAM S. COHEN (The Honorable William S. Cohen)	Director	August 19, 2002
(Leonard S. Coleman)	Director	August 19, 2002
(Martin L. Edelman)	Director	August 19, 2002
(Dr. John C. Malone)	Director	August 19, 2002

(Cheryl D. Mills)	Director	August 19, 2002
/s/ BRIAN MULRONEY	Director	August 19, 2002
(The Rt. Hon. Brian Mulroney, P.C., L.L.D.)		
/s/ ROBERT E. NEDERLANDER	Director	August 19, 2002
(Robert E. Nederlander)		
/s/ ROBERT W. PITTMAN	Director	August 19, 2002
(Robert W. Pittman)		
/s/ SHELI Z. ROSENBERG	Director	August 19, 2002
(Sheli Z. Rosenberg)		
	Director	August 19, 2002
(Robert F. Smith)		

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Cendant Corporation

We have audited the accompanying consolidated balance sheets of Cendant Corporation and subsidiaries (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the three years in the period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 consolidated financial position of the Company at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, in 2001, the Company modified the accounting treatment relating to securitization transactions and the accounting for derivative instruments and hedging activities. Also, as discussed in Note 1, in 2000, the Company revised certain revenue recognition policies.

As discussed in Notes 1 and 5 to the consolidated financial statements, in connection with the disposition of the Company's National Car Parks subsidiary ("NCP") in May 2002, the account balances and activities of NCP have been segregated and reported as a discontinued operation for all periods presented.

/s/ Deloitte & Touche LLP
New York, New York
February 7, 2002
(April 1, 2002 as to the subsequent events described in Note 28)
(August 12, 2002 as to the effects of the discontinued
operation described in Notes 1 and 5 and as to the
pro forma effect of the non-amortization of goodwill described in Note 1)

Cendant Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)

	Year Ended December 31,		
	2001	**2000**	**1999**
Revenues			
Service fees and membership-related, net	$ 5,434	$ 4,191	$ 4,831
Vehicle-related	3,134	11	758
Other	45	118	166
Net revenues	8,613	4,320	5,755
Expenses			
Operating	2,658	1,176	1,572
Vehicle depreciation, lease charges and interest, net	1,789		674
Marketing and reservation	1,114	896	1,009
General and administrative	965	663	706
Non-vehicle depreciation and amortization	477	321	338
Other charges:			
Restructuring and other unusual charges	379	109	117
Acquisition and integration related costs	112		
Mortgage servicing rights impairment	94		
Litigation settlement and related costs, net	86	2	2,915
Non-vehicle interest (net of interest income of $91, $73 and $38)	252	152	201
Total expenses	7,926	3,319	7,532
Net gain (loss) on dispositions of businesses and impairment of investments	(24)	(8)	1,109

	Year Ended December 31,		
Income (loss) before income taxes, minority interest and equity in Homestore.com	663	993	(668)
Provision (benefit) for income taxes	220	341	(422)
Minority interest, net of tax	24	83	61
Losses related to equity in Homestore.com, net of tax	77		
Income (loss) from continuing operations	342	569	(307)
Income from discontinued operations, net of tax	81	91	78
Gain on disposal of discontinued operations, net of tax			174
Income (loss) before extraordinary loss and cumulative effect of accounting changes	423	660	(55)
Extraordinary loss, net of tax		(2)	
Income (loss) before cumulative effect of accounting changes	423	658	(55)
Cumulative effect of accounting changes, net of tax	(38)	(56)	
Net income (loss)	$ 385	$ 602	$ (55)
CD common stock income (loss) per share			
Basic			
Income (loss) from continuing operations	$ 0.37	$ 0.79	$ (0.41)
Net income (loss)	0.42	0.84	(0.07)
Diluted			
Income (loss) from continuing operations	$ 0.36	$ 0.77	$ (0.41)
Net income (loss)	0.41	0.81	(0.07)

See Notes to Consolidated Financial Statements.

Cendant Corporation and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

	December 31, 2001	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,942	$ 856
Receivables (net of allowance for doubtful accounts of $104 and $74)	1,313	746
Stockholder litigation settlement trust	1,410	
Deferred income taxes	697	174
Assets of discontinued operations	1,310	1,401
Other current assets	1,045	756
Total current assets	7,717	3,933
Property and equipment, net	1,394	735
Stockholder litigation settlement trust		350
Deferred income taxes	771	1,191

	December 31,	
Franchise agreements (net of accumulated amortization of $322 and $264)	1,656	1,462
Goodwill (net of accumulated amortization of $483 and $341)	7,360	2,524
Other intangibles, net	1,210	647
Other noncurrent assets	1,568	1,450
Total assets exclusive of assets under programs	21,676	12,292
Assets under management and mortgage programs:		
Mortgage loans held for sale	1,244	879
Relocation receivables	292	329
Vehicle-related, net	8,073	
Timeshare receivables	222	
Mortgage servicing rights, net	2,037	1,653
	11,868	2,861
Total assets	$ 33,544	$ 15,153
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other current liabilities	$ 3,468	$ 1,350
Current portion of long-term debt	401	
Stockholder litigation settlement	2,850	
Liabilities of discontinued operations	172	176
Deferred income	900	1,007
Total current liabilities	7,791	2,533
Long-term debt, excluding Upper DECS	5,731	1,948
Upper DECS	863	
Stockholder litigation settlement		2,850
Deferred income	297	411
Other noncurrent liabilities	525	63
Total liabilities exclusive of liabilities under programs	15,207	7,805
Liabilities under management and mortgage programs:		
Debt	9,844	2,040
Deferred income taxes	1,050	476
	10,894	2,516
Mandatorily redeemable preferred interest in a subsidiary	375	375
Mandatorily redeemable preferred securities issued by subsidiary holding solely senior debentures issued by the Company		1,683
Commitments and contingencies (Note 19)		
Stockholders' equity:		
Preferred stock, $.01 par value authorized 10 million shares; none issued and outstanding		
CD common stock, $.01 par value authorized 2 billion shares; issued 1,166,492,626 and 914,655,918 shares	11	9
Move.com common stock, $.01 par value authorized 500 million shares; issued and outstanding none and 2,181,586 shares; notional issued shares with respect to Cendant Group's retained interest 22,500,000		
Additional paid-in capital	8,676	4,540
Retained earnings	2,412	2,027

	December 31,	
Accumulated other comprehensive loss	(264)	(234)
CD treasury stock, at cost 188,784,284 and 178,949,432 shares	(3,767)	(3,568)
Total stockholders' equity	7,068	2,774
Total liabilities and stockholders' equity	$ 33,544	$ 15,153

See Notes to Consolidated Financial Statements.

Cendant Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Year Ended December 31,		
	2001	**2000**	**1999**
Operating Activities			
Net income (loss)	$ 385	$ 602	$ (55)
Adjustments to arrive at income (loss) from continuing operations	(43)	(33)	(252)
Income (loss) from continuing operations	342	569	(307)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:			
Non-vehicle depreciation and amortization	477	321	338
Non-cash portion of other charges	298	24	2,869
Net loss (gain) on dispositions of businesses and impairment of investments	24	8	(1,109)
Proceeds from sales of trading securities	110		180
Purchases of trading securities			(147)
Deferred income taxes	394	25	260
Net change in operating assets and liabilities, excluding the impact of acquisitions and dispositions:			
Receivables	10	198	(214)
Income taxes	(177)	319	(702)
Accounts payable and other current liabilities	232	(213)	38
Deferred income	(162)	(79)	(83)
Other, net	(150)	(221)	(181)
Net cash provided by operating activities exclusive of management and mortgage programs	1,398	951	942
Management and mortgage programs:			
Depreciation and amortization	1,659	153	698
Origination of mortgage loans	(40,963)	(24,196)	(25,025)
Proceeds on sale of and payments from mortgage loans held for sale	40,643	24,428	26,328

	Year Ended December 31,		
	1,339	385	2,001
Net cash provided by operating activities	2,737	1,336	2,943
Investing Activities			
Property and equipment additions	(329)	(192)	(239)
Funding of stockholder litigation settlement trust	(1,060)	(350)	
Proceeds from sales of available-for-sale securities	36	379	741
Purchases of available-for-sale securities	(35)	(441)	(672)
Purchases of non-marketable securities	(101)	(90)	(18)
Net assets acquired (net of cash acquired of $308 in 2001) and acquisition-related payments	(2,757)	(106)	(205)
Net proceeds from dispositions of businesses	109	4	3,509
Other, net	(69)	(24)	8
Net cash provided by (used in) investing activities exclusive of management and mortgage programs	(4,206)	(820)	3,124

Management and mortgage programs:			
Investment in vehicles	(14,906)		(2,378)
Payments received on investment in vehicles	13,324		1,604
Origination of timeshare receivables	(497)		
Principal collection of timeshare receivables	538		
Equity advances on homes under management	(6,306)	(7,637)	(7,608)
Repayment on advances on homes under management	6,340	8,009	7,688
Net additions to mortgage servicing rights and related hedges	(752)	(778)	(727)
Proceeds from sales of mortgage servicing rights	58	84	156
	(2,201)	(322)	(1,265)
Net cash provided by (used in) investing activities	(6,407)	(1,142)	1,859
Financing Activities			
Proceeds from borrowings	5,608		1,719
Principal payments on borrowings	(2,213)	(897)	(2,213)

Issuances of common stock	877	603	127
Repurchases of common stock	(254)	(381)	(2,863)
Proceeds from mandatorily redeemable preferred interest in a subsidiary		375	
Proceeds from mandatorily redeemable preferred securities issued by subsidiary holding solely senior debentures issued by the Company		91	
Other, net	(153)		
Net cash provided by (used in) financing activities exclusive of management and mortgage programs	3,865	(209)	(3,230)
Management and mortgage programs:			
Proceeds from borrowings	9,460	4,133	5,263
Principal payments on borrowings	(8,798)	(5,320)	(7,838)
Net change in short-term borrowings	116	913	(2,000)
Proceeds received for debt repayment in connection with disposal of fleet businesses			3,017
	778	(274)	(1,558)
Net cash provided by (used in) financing activities	4,643	(483)	(4,788)
Effect of changes in exchange rates on cash and cash equivalents	(8)	(6)	36
Cash provided by discontinued operations	121	89	79
Net increase (decrease) in cash and cash equivalents	1,086	(206)	129
Cash and cash equivalents, beginning of period	856	1,062	933
Cash and cash equivalents, end of period	$ 1,942	$ 856	$ 1,062
Supplemental Disclosure of Cash Flow Information			
Interest payments	$ 609	$ 263	$ 450
Income tax payments (refunds), net	$ 40	$ (73)	$ (46)

See Notes to Consolidated Financial Statements.

Cendant Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In millions)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance at January 1, 1999	861	$ 9	$ 3,863	$ 1,480	$ (49)	(27)	$ (467)	$ 4,836
Comprehensive loss:								
Net loss				(55)				
Currency translation adjustment					(69)			
Unrealized gain on available-for-sale securities, net of tax of $22					37			
Reclassification adjustments, net of tax of $13					39			
Total comprehensive loss								(48)
Exercise of stock options	9		81			4	42	123
Tax benefit from exercise of stock options			52					52
Repurchases of CD common stock						(141)	(2,863)	(2,863)
Modifications of stock option plans due to dispositions of businesses			83					83
Rights issuable			22					22
Other			1					1
Balance at December 31, 1999	870	9	4,102	1,425	(42)	(164)	(3,288)	2,206
Comprehensive income:								
Net income				602				
Currency translation adjustment					(107)			
Unrealized loss on available-for-sale securities, net of tax of ($40)					(65)			
Reclassification adjustments, net of tax of ($12)					(20)			
Total comprehensive income								410
Issuances of CD common stock	28		476					476
Issuances of Move.com common stock	4		93					93
Exercise of stock options	17		56			2	26	82
Tax benefit from exercise of stock options			66					66
Repurchases of CD common stock						(17)	(306)	(306)
Repurchases of Move.com common stock	(2)		(100)					(100)
Mandatorily redeemable preferred securities issue by subsidiary holding solely senior debentures issued by the Company			(108)					(108)
Rights issuable			(41)					(41)
Other			(4)					(4)
Balance at December 31, 2000	917	$ 9	$ 4,540	$ 2,027	$ (234)	(179)	$ (3,568)	$ 2,774

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	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance at January 1, 2001	917	$ 9	$ 4,540	$ 2,027	$ (234)	(179)	$ (3,568)	$ 2,774
Comprehensive income:								
Net income				385				
Currency translation adjustment					(65)			
Unrealized losses on cash flow hedges, net of tax of $22					(33)			
Minimum pension liability adjustment					(21)			
Unrealized gain on available-for-sale securities, net of tax of $21					33			
Reclassification adjustments,net of tax of $29					56			
Total comprehensive income								355
Issuances of CD common stock	108	1	2,342					2,343
Exercise of stock options	26		237			2	27	264
Tax benefit from exercise of stock options			59					59
Repurchases of CD common stock						(12)	(226)	(226)
Repurchases of Move.com common stock	(2)		(75)					(75)
Present value of forward purchase contract distributions and related costs			(48)					(48)
Modifications to stock options			25					25
Issuance of CD common stock and conversion of stock options for acquisitions	117	1	1,604					1,605
Other			(8)					(8)
Balance at December 31, 2001	1,166	$ 11	$ 8,676	$ 2,412	$ (264)	(189)	$ (3,767)	$ 7,068

See Notes to Consolidated Financial Statements.

Cendant Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unless otherwise noted, all amounts are in millions, except per share amounts)

1. Summary of Significant Accounting Policies

Basis of Presentation

Cendant Corporation is a global provider of a wide range of complementary consumer and business services. The Consolidated Financial Statements include the accounts of Cendant Corporation and its subsidiaries (collectively, "the Company"). The Consolidated Financial Statements also include affiliates that the Company directly or indirectly controls. In determining whether the Company directly or indirectly controls affiliates, consideration is given to various factors, including common stock ownership, possession of securities convertible into common stock and the related conversion terms, voting rights, representation on the board of directors, rights or obligations to purchase additional ownership interests as well as the existence of contracts or agreements that provide control features.

For those affiliates that the Company does not have the ability to control the operating and financial policies thereof, the investments are classified as available-for-sale debt securities or accounted for using the equity or cost method, as appropriate. The Company applies the equity method of accounting when it has the ability to exercise significant influence over operating and financial policies of an investee in accordance with APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." In determining whether the Company has the ability to exercise significant influence, consideration is given to various factors including the nature and significance of the investment, the capitalization structure of the investee, representation on the board of directors, voting rights, veto rights and other protective and participating rights held by investors and contractual arrangements.

Additionally, the Company applies generally accepted accounting principles and interpretations when evaluating whether it should consolidate securitization entities. Typically, if the Company does not retain both control of the assets transferred to the securitization entities, as well as the risks and rewards of those assets, the Company will not consolidate such entities. In determining whether the securitization entity should be consolidated, the Company considers whether the entity is a qualifying special purpose entity, as defined by SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125."

In presenting the Consolidated Financial Statements, management makes estimates and assumptions that affect the amounts reported and related disclosures. Estimates, by their nature, are based on judgment and available information. Accordingly, actual results could differ from those estimates. Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

The Company segregates the financial data related to its management and mortgage programs as such activities are autonomous and distinct from the Company's other activities. Assets classified under management and mortgage programs are assets generated in the operations of the Company's car rental, vehicle management, relocation, mortgage services and timeshare development businesses. The Company seeks to offset the interest rate exposures inherent in these assets by matching them with financial liabilities that have similar term and interest rate characteristics. Fees generated from these assets are used, in part, to repay the interest and principal associated with the financial liabilities. Funding for the Company's assets under management and mortgage programs is also provided by both unsecured borrowings and secured financing arrangements, which are classified as liabilities under management and mortgage programs, as well as securitization facilities with special purpose entities. Cash inflows and outflows relating to the generation or acquisition of assets and the principal debt repayment or financing of such assets are classified as activities of the Company's management and mortgage programs.

On May 22, 2002, the Company sold its car parking facility business, the National Car Parks Subsidiary ("NCP"). In connection with the disposition, the account balances and activities of NCP have been segregated and reported as a discontinued operation for all periods presented (see Note 5 Discontinued Operations).

Cash and Cash Equivalents

The Company considers highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Investments

Management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determination at each balance sheet date. The Company's non-marketable preferred stock investments are classified as available-for-sale debt securities or accounted for at cost, as appropriate. All other non-marketable securities are carried at cost. Common stock investments in affiliates over which the Company has the ability to exercise significant influence but not a controlling interest are carried on the equity method of accounting. Available-for-sale securities are carried at current fair value with unrealized gains or losses reported net of taxes as a separate component of stockholders' equity. During 2000 and 1999, the Company reported net realized gains of $32 million and $65 million, respectively, related to its available-for-sale securities. Trading securities are recorded at fair value with unrealized gains and losses reported currently in earnings. During 2001, 2000 and 1999, the Company reported net realized gains of $77 million, $5 million and $8 million, respectively, related to its trading securities.

All of the Company's short-term investments are included in other current assets on the Company's Consolidated Balance Sheets and all long-term investments are included in other noncurrent assets. All realized gains and losses and preferred dividend income are recorded within other revenues in the Consolidated Statements of Operations. Gains and losses on securities sold are based on the specific identification method. Declines in market value that are judged to be "other than temporary" are recorded as a component of net gain (loss) on dispositions of businesses and impairment of investments.

Property and Equipment

Property and equipment are recorded at cost. Depreciation, recorded as a component of non-vehicle depreciation and amortization on the Consolidated Statements of Operations, is computed utilizing the straight-line method over the estimated useful lives of the related assets. Useful lives range from 5 to 50 years for buildings and improvements and 2 to 11 years for furniture, fixtures and equipment. Amortization of leasehold improvements, also recorded as a component of non-vehicle depreciation and amortization, is computed utilizing the straight-line method over the estimated benefit period of the related assets or the lease term, if shorter, generally ranging from 2 to 15 years.

Goodwill and Identifiable Intangible Assets

All intangible assets acquired prior to July 1, 2001 and intangible assets with finite lives acquired after June 30, 2001 were amortized on a straight-line basis over their estimated periods to be benefited. Franchise agreements are generally amortized over a period ranging from 12 to 40 years, while all other intangible assets with finite lives are generally amortized over a period ranging from 5 to 40 years. Goodwill resulting from purchase business combinations consummated prior to June 30, 2001 was amortized on a straight-line basis over the estimated periods to be benefited, substantially ranging from 25 to 40 years. For business combinations consummated after June 30, 2001, goodwill and indefinite-lived intangible assets were not amortized during 2001 in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." Pursuant to SFAS No. 142, as of January 1, 2002, the Company will not amortize any goodwill or indefinite-lived intangible assets. The recoverability of goodwill and intangible assets was evaluated on a separate basis for each acquisition by comparing the respective carrying value to the current and expected

future cash flows, on an undiscounted basis. Pursuant to SFAS No. 142, as of January 1, 2002, the Company will be required to assess goodwill and indefinite-lived intangible assets for impairment annually, or more frequently if circumstances indicate impairment may have occurred.

Asset Impairments

The Company periodically evaluates the recoverability of its long-lived assets, with the exception of goodwill and identifiable intangible assets, by comparing the respective carrying values of the assets to the current and expected future cash flows, on an undiscounted basis, to be generated from such assets. Property and equipment is evaluated separately within each business.

Derivative Instruments

The Company uses derivative instruments as part of its overall strategy to manage its exposure to market risks associated with fluctuations in interest rates, foreign currency exchange rates, prices of mortgage loans held for sale, anticipated mortgage loan closings arising from commitments issued and changes in the fair value of its mortgage servicing rights. As a matter of policy, the Company does not use derivatives for trading or speculative purposes.

All derivatives are recorded at fair value either as assets or liabilities.

Changes in fair value of derivatives not designated as hedging instruments and of derivatives designated as fair value hedging instruments are recognized currently in earnings and included either as a component of net revenues or net non-vehicle interest expense, based upon the nature of the hedged item, in the Consolidated Statement of Operations.

Changes in fair value of the hedged item in a fair value hedge are recorded as an adjustment to the carrying amount of the hedged item and recognized currently in earnings as a component of net revenues or net non-vehicle interest expense, based upon the nature of the hedged item, in the Consolidated Statement of Operations.

The effective portion of changes in fair value of derivatives designated as cash flow hedging instruments is recorded as a component of other comprehensive income. The ineffective portion is reported currently in earnings as a component of net revenues or net non-vehicle interest expense, based upon the nature of the hedged item.

Amounts included in other comprehensive income are reclassified into earnings in the same period during which the hedged item affects earnings.

The Company is also party to certain contracts containing embedded derivatives. As required by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," certain embedded derivatives have been bifurcated from their host contracts and are recorded at fair value in the Consolidated Balance Sheet. The total fair value of the Company's embedded derivatives and changes in fair value during 2001 were not material to the Company's financial position or results of operations.

Securitizations

The Company sells a significant portion of its residential mortgage loans, its relocation receivables and its timeshare receivables into securitization entities as part of its financing strategy. The Company retains the servicing rights and, in some instances, subordinated residual interests in the mortgage loans and relocation and timeshare receivables. The investors have no recourse to the Company's other assets for failure of debtors to pay when due. The retained interests are classified as either trading or available-for- sale securities. Gains or losses relating to the assets sold are allocated between such assets and the retained interests based on their relative fair values at the date of transfer. The Company estimates fair value of retained interests based upon the present value of expected future cash flows. The value of these retained interests is subject to the prepayment risks, expected credit losses and interest rate risks of the transferred financial assets.

Revenue Recognition

Franchising. Franchise revenue principally consists of royalties, as well as marketing and reservation fees, which are primarily based on a percentage of franchisee commissions and/or gross revenue. Royalty, marketing and reservation fees are accrued as the underlying franchisee revenue is earned. Annual rebates given to certain franchisees on royalty fees are recorded as a reduction to revenues and are accrued for in direct proportion to the recognition of the underlying gross franchise revenue. Franchise revenue also includes initial franchise fees, which are recognized as revenue when all material services or conditions relating to the sale have been substantially performed, which is generally when a franchised unit is opened.

Mortgage. Loan origination fees, commitment fees paid in connection with the sale of loans and certain direct loan origination costs associated with loans are deferred until such loans are sold. Mortgage loans are recorded at the lower of cost or market value on an aggregate basis. Sales of mortgage loans are generally recorded on the date a loan is delivered to an investor. Gains or losses on sales of mortgage loans are recognized based upon the difference between the selling price and the carrying value of the related mortgage loans sold. Fees received for servicing loans are recognized for servicing mortgage loans owned by investors upon receipt and are recorded net of guaranty fees. Costs associated with loan servicing are charged to expense as incurred.

A mortgage servicing right ("MSR") is the right to receive a portion of the interest coupon and fees collected from the mortgagor for performing specified servicing activities. The total cost of loans originated or acquired is allocated between the MSR and the mortgage loan, without the servicing rights, based on relative fair values. Gains or losses on the sale of MSRs are recognized when title and all risks and rewards have irrevocably passed to the buyer and there are no significant unresolved contingencies. MSRs are initially recorded at relative fair value and subsequently amortized over the estimated life of the related loan portfolio in proportion to projected net servicing revenues. Such amortization, which is recorded as a reduction of net servicing revenue in the Consolidated Statements of Operations, was $237 million, $153 million and $118 million during 2001, 2000 and 1999, respectively. For purposes of performing its impairment evaluation, the Company stratifies its portfolio on the basis of interest rates of the underlying mortgage loans. The Company measures impairment for each stratum by comparing estimated fair value to the carrying amount. Fair value is estimated based on expected cash flows considering market prepayment estimates, historical prepayment rates, portfolio characteristics, interest rates and other economic factors. The Company estimates future prepayment rates based on current interest rate levels, other economic conditions and market forecasts, as well as relevant characteristics of the servicing portfolio, such as loan types, interest rate stratification and recent prepayment experience. Temporary impairment is recorded through a valuation allowance in the period of occurrence. During 2001, the Company recorded net aggregate write-downs of $144 million through a valuation allowance (net of qualifying hedging gains). Approximately $50 million of this write-down was related to changes in estimates of interest rates in the ordinary course of business, which were the direct result of the continued lowering of interest rates that occurred during 2001 prior to the September 11th terrorist attacks. These rate reductions caused a decline in the value of the mortgage servicing rights portfolio, hence requiring the write-down. The remaining $94 million of aggregate write-down was directly related to interest rate reductions subsequent to the September 11th terrorist attacks, whereby the Federal Reserve reduced the Federal Funds Rate by 50 basis points twice within a 14-day period following the terrorist attacks and the U.S. Treasury Department announced thereafter the discontinuance of new sales of the 30-year treasury bond. The reductions in the Federal Funds Rate, which occurred between September 17th and December 11th of 2001, resulted in a 50% reduction to such rate which has never occurred over such a short period in the history of the Federal Funds Rate. The series of these actions resulted in a reduction of mortgage rates to a 30-year low during fourth quarter 2001, according to the Freddie Mac Home Loan Index. Such reductions resulted in increases to the Company's forecasted loan prepayment speeds, which negatively impacted the carrying value of the mortgage servicing rights asset, hence requiring a write-down of $94 million.

Relocation. Revenues and related costs associated with the purchase and resale of a transferee's residence are recognized as services are provided. Relocation services revenue is generally recorded net of costs reimbursed by client corporations and interest expense incurred to fund the purchase of a transferee's residence. Such interest expense totaled $1 million, $2 million and $40 million during 2001, 2000 and 1999, respectively. Revenue for other fee-based programs, such as home marketing assistance, household goods moves and destination services, are recognized over the periods in which the services are provided and the related expenses are incurred.

Timeshare Exchange. Timeshare exchange revenue principally consists of exchange fees and subscription revenue. Exchange fees are recognized as revenue when the exchange request has been confirmed to the subscribing members. Subscription revenue represents the fees from subscribing members. As of January 1, 2000, the Company recognized subscription revenue on a straight-line basis over the subscription period during which delivery of publications and other services are provided to the subscribing members. Costs to procure the subscriptions are expensed as incurred. Prior to January 1, 2000, refundable subscription revenue was recognized over the subscription period, except for the portion that was equal to procurement costs, which was recognized upon initiation of a subscription.

Timeshare Sales and Marketing. Vacation ownership interests sold by the Company consist of either undivided fee simple interests or specified fixed week interval ownership in fully furnished vacation units. The Company recognizes sales of vacation ownership interests on a full accrual basis after a binding sales contract has been executed, a 10% minimum down payment has been received, the statutory rescission period has expired and title to the real estate inventory has passed to the Company.

Subsequent to the preliminary construction phase and upon assurance that the property will not revert to a rental property, the Company recognizes revenues using the percentage-of-completion method of accounting as inventory is purchased. The preliminary stage is deemed to be complete when the engineering and design work is complete, the construction contracts have been executed, the site has been cleared, prepared and excavated and the building foundation is complete. The completion percentage is determined by the proportion of real estate inventory and certain sales and marketing costs incurred to total estimated costs. These estimated costs are based upon historical experience and the related contractual terms. The remaining revenue and related costs of sales, including commissions and direct expenses, are deferred and recognized as the remaining costs are incurred. Revenue recognition commences once the statutory recission period has expired and 10% of the contract price has been received. Until a contract for sale qualifies for revenue recognition, all payments received are accounted for as deposits. Commissions and other direct costs are deferred until the sale is recorded. If a contract is cancelled before qualifying as a sale, non-recoverable expenses are charged to the current period and deposits forfeited are credited to income.

Car Rental. Revenue is recognized over the period the vehicle is rented.

Fleet Leasing. The Company leases its vehicles under three standard arrangements: open-end operating leases, closed-end operating leases or open-end finance leases (direct financing leases). Each lease is either classified as an operating lease or a direct financing lease, as appropriate. The lease term under the open-end lease agreement provides for a minimum lease term of twelve months and after the minimum term, the lease may be continued at the lessee's election for successive monthly renewals. For operating leases, lease revenues, which contain a depreciation component, an interest component and a management fee component, are recognized based on the lease term of the vehicle, which generally ranges from 48 to 72 months. For direct financing leases, lease revenue contains an interest component, which is recognized using an interest method based on the lease term of the vehicle, which generally ranges from 48 to 72 months. Amounts charged to the lessees for interest are determined in accordance with the pricing supplement to the respective lease agreement and are generally calculated on a floating rate basis and can vary month to month in accordance with changes in the floating rate index. Amounts charged to lessees for interest may also be based on a fixed rate that would remain constant for the life of the lease. Amounts charged to the lessees for depreciation are based on the straight-line depreciation of the vehicle over its expected lease term. Management fees are recognized on a straight-line basis over the life of the lease. Revenue for other services is recognized when such services are provided to the lessee.

Travel Distribution. Revenues generated from fees charged to airline, car rental, hotel and other travel suppliers for bookings made through the Company's computerized reservation system are recognized at the time the reservation is made for air bookings, at the time of pick-up for car bookings and at the time of check-out for hotel bookings.

Individual Membership. In July 2001, the Company outsourced its individual membership business to Trilegiant Corporation (see Note 25 Related Party Transactions for a detailed description of this transaction). Prior to this transaction, the Company generally recognized membership revenue upon the expiration of the membership period, as memberships are generally cancelable for a full refund of the membership fee during the entire membership period, which is generally one year. Revenues generated from certain memberships, which were subject to a pro rata refund were recognized ratably over the membership period. Subsequent to the outsourcing of the individual membership business, the Company continued to recognize revenue in the same manner for its members that existed as of the transaction date. Royalties pursuant to the outsourcing agreement are calculated based upon Trilegiant revenues, which are recognized on a basis consistent with the Company.

Insurance/Wholesale. Commissions received from the sale of third party accidental death and dismemberment insurance are recognized over the underlying policy period. The Company also receives a share of the excess of premiums paid to insurance carriers less claims experience to date, claims incurred but not reported and carrier management expenses. The Company's share of this excess is accrued based on claims experience to date, including an estimate of claims incurred but not reported.

Vehicle Depreciation, Lease Charges and Interest, net

Vehicles are stated at cost, net of accumulated depreciation. Rental vehicles are depreciated on a straight-line basis at rates ranging from 11% to 28% per annum based on manufacturer repurchase programs. Such depreciation rates are based on the contracted residual values which are guaranteed to be paid for the vehicles when returned to the manufacturers and are a function of the number of months between the original purchase date of the vehicle and the sale date of the vehicle back to the manufacturers as determined by the Company. Leased vehicles are depreciated on a straight-line basis over their estimated useful lives, ranging from 3 to 6 years. Gains or losses on the sale of vehicles are reflected as an adjustment to depreciation. Interest expense directly associated with the funding of vehicles was $329 million and $90 million during 2001 and 1999, respectively, and recorded as a component of vehicle depreciation, lease charges and interest, net on the Consolidated Statements of Operations. Such interest expense is net of vehicle interest income of $11 million and $1 million in 2001 and 1999, respectively.

Advertising Expenses

Advertising costs, including direct response advertising related to membership and timeshare sales programs, are generally expensed in the period incurred. Advertising expenses in 2001, 2000 and 1999 were $632 million, $549 million and $582 million, respectively.

Stock-Based Compensation

The Company utilizes the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and applies Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock option plans to employees.

Changes in Accounting Policies

Business Combinations. On July 1, 2001, the Company adopted SFAS No. 141, "Business Combinations," which prohibits the use of the pooling of interests method of accounting for all business combinations initiated after June 30, 2001. SFAS No. 141 also addresses the initial recognition and measurement of

goodwill and other intangible assets acquired in a business combination and requires additional disclosures for material business combinations completed after such date. Upon adoption of SFAS No. 142 on January 1, 2002, intangible assets required to be reclassified to goodwill were not material.

Recognition of Interest Income and Impairment on Purchased and Retained Interests in Securitized Financial Assets. On January 1, 2001, the Company adopted the provisions of the Emerging Issues Task Force ("EITF") Issue No. 99-20, "Recognition of Interest

Income and Impairment on Purchased and Retained Interests in Securitized Financial Assets." Prior to the adoption of EITF Issue No. 99-20, the Company accounted for impairment of beneficial interests in securitizations in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and EITF Issue No. 93-18, "Recognition of Impairment for an Investment in a Collateralized Mortgage Obligation Instrument or in a Mortgage-Backed Interest-Only Certificate." EITF Issue No. 99-20 modified the accounting for interest income and impairment of beneficial interests in securitization transactions, whereby beneficial interests determined to have an other-than-temporary impairment are required to be written down to fair value. The adoption of EITF Issue No. 99-20 resulted in the recognition of a non-cash charge of $46 million ($27 million, after tax) during first quarter 2001 to account for the cumulative effect of the accounting change.

Accounting for Derivative Instruments and Hedging Activities. On January 1, 2001, the Company adopted the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended and interpreted, establishes accounting and reporting standards for derivative instruments and hedging activities. As required by SFAS No. 133, the Company has recorded all such derivatives at fair value in the Consolidated Balance Sheet. The adoption of SFAS No. 133 resulted in the recognition of a non-cash charge of $16 million ($11 million, after tax) in the Consolidated Statement of Operations on January 1, 2001 to account for the cumulative effect of the accounting change relating to derivatives designated in fair value type hedges prior to adopting SFAS No. 133, to derivatives not designated as hedges and to certain embedded derivatives. As provided for in SFAS No. 133, the Company also reclassified certain financial investments as trading securities at January 1, 2001, which resulted in a pre-tax net benefit of $10 million recorded in other revenues within the Consolidated Statement of Operations.

Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. On December 31, 2000, the Company adopted the disclosure requirements of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125." On April 1, 2001, the Company adopted the remaining provisions of this standard, as required. SFAS No. 140 revised the criteria for accounting for securitizations, other financial asset transfers and collateral and introduced new disclosures, but otherwise carried forward most of the provisions of SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" without amendment. The impact of adopting the remaining provisions of this standard was not material to the Company's financial position or results of operations.

Revenue Recognition. On January 1, 2000, the Company revised its revenue recognition policies regarding the recognition of non-refundable one-time fees and the recognition of pro rata refundable subscription revenue as a result of the adoption of Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." The Company previously recognized non-refundable one-time fees at the time of contract execution and cash receipt. This policy was changed to the recognition of non-refundable one time fees on a straight-line basis over the life of the underlying contracts. The Company previously recognized pro rata refundable subscription revenue equal to procurement costs upon initiation of a subscription period. (See "Revenue Recognition Timeshare Exchange" for a more detailed description of this revenue recognition policy). This change in accounting policy resulted in a non-cash charge of approximately $89 million ($56 million, after tax) on January 1, 2000 to account for the cumulative effect of the accounting change.

The impact of adopting these standards was not material to the Company's consolidated results of operations or financial position.

Recently Issued Accounting Pronouncements

Goodwill and Other Intangible Assets. On January 1, 2002, the Company adopted SFAS No. 142 in its entirety. SFAS No. 142 addresses the financial accounting and reporting standards for the acquisition of intangible assets outside of a business combination and for goodwill and other intangible assets subsequent to their acquisition. This standard eliminates the amortization of goodwill and indefinite-lived intangible assets. Intangible assets with finite lives will continue to be amortized over their estimated useful lives. The Company will be required to assess goodwill and indefinite-lived intangible assets for impairment annually, or more frequently if circumstances indicate impairment may have occurred. The Company has reassessed the useful lives assigned to its intangible assets acquired in transactions consummated prior to July 1, 2001 and the related amortization methodology. Accordingly, the Company identified those intangible assets that have indefinite lives, adjusted the future amortization periods of certain intangible assets appropriately and changed amortization methodologies where appropriate.

The Company reviewed the carrying value of all its goodwill and other intangible assets by comparing such amounts to their fair value and determined that the carrying amounts of such assets did not exceed their respective fair values. Accordingly, the initial implementation of this standard will not result in a charge and, as such, will not impact the Company's results of operations during

2002.

Had the Company applied the non-amortization provisions of SFAS No. 142, net income and per share data for CD common stock would have been as follows:

	Year Ended December 31,		
	2001	2000	1999
Reported net income	$ 385	$ 602	$ (55)
Add back: Goodwill amortization, net of tax	145	67	74
Add back: Trademark amortization, net of tax	9	9	9
Pro forma net income	$ 539	$ 678	$ 28
Net income per share:			
Basic			
Reported net income	$ 0.42	$ 0.84	$ (0.07)
Add back: Goodwill amortization, net of tax	0.17	0.09	0.10
Add back: Trademark amortization, net of tax	0.01	0.01	0.01
Pro forma net income	$ 0.60	$ 0.94	$ 0.04
Diluted			
Reported net income	$ 0.41	$ 0.81	$ (0.07)
Add back: Goodwill amortization, net of tax	0.16	0.09	0.10
Add back: Trademark amortization, net of tax	0.01	0.01	0.01
Pro forma net income	$ 0.58	$ 0.91	$ 0.04

Impairment or Disposal of Long-Lived Assets. During October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and replaces the accounting and reporting provisions of APB Opinion No. 30, "Reporting Results of Operations Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," as it relates to the disposal of a segment of a business. SFAS No. 144 requires the use of a single accounting model for long-lived assets to be disposed of by sale, including discontinued operations, by requiring those long-lived assets to be measured at the lower of carrying amount or fair value less cost to sell. The impairment recognition and measurement provisions of SFAS No. 121 were retained for all long-lived assets to be held and used with the exception of goodwill. The Company adopted this standard on January 1, 2002.

2. Earnings Per Share

On March 21, 2000, the Company's stockholders approved a proposal authorizing a new series of common stock to track the performance of the Move.com Group. The Company's existing common stock was reclassified as CD common stock, which reflects the performance of the Company's other businesses and also a retained interest in the Move.com Group (collectively referred to as the "Cendant Group").

Earnings per share ("EPS") for periods after March 31, 2000, the date of the original issuance of Move.com common stock, has been calculated using the two-class method. The two-class method is an earnings allocation formula that determines EPS for each class of common stock according to the related earnings participation rights. Under the two-class method, basic EPS for Move.com common stock is calculated by dividing earnings attributable to Move.com common stockholders by the weighted average number of Move.com shares outstanding during the period. Earnings attributable to Move.com common stockholders is calculated as the percentage of the number of shares of Move.com common stock outstanding compared to the number of shares that, if issued, would represent 100% of the equity (and would include the 22,500,000 notional shares of Move.com common stock representing Cendant Group's retained interest in Move.com Group) in the earnings or losses of Move.com Group.

Income (loss) per common share from continuing operations for each class of common stock was computed as follows:

	Year Ended December 31,		
	2001	2000	1999
CD Common Stock			
Income (loss) from continuing operations:			
Cendant Group	$ 87	$ 631	$ (293)
Cendant Group's retained interest in Move.com Group	238	(56)	(14)
Income (loss) from continuing operations for basic EPS	325	575	(307)
Convertible debt interest, net of tax	11	11	
Adjustment to Cendant Group's retained interest in Move.com Group[(a)]	(3)		
Income (loss) from continuing operations for diluted EPS	$ 333	$ 586	$ (307)
Weighted average shares outstanding:			
Basic	869	724	751
Stock options, warrants and non-vested shares	30	20	
Convertible debt	18	18	
Diluted	917	762	751
Income (loss) per share:			
Basic			
Income (loss) from continuing operations	$ 0.37	$ 0.79	$ (0.41)
Income from discontinued operations	0.10	0.13	0.11
Gain on disposal of discontinued operations			0.23
Cumulative effect of accounting changes	(0.05)	(0.08)	
Net income (loss)	$ 0.42	$ 0.84	$ (0.07)
Diluted			
Income (loss) from continuing operations	$ 0.36	$ 0.77	$ (0.41)
Income from discontinued operations	0.09	0.12	0.11
Gain on disposal of discontinued operations			0.23
Cumulative effect of accounting changes	(0.04)	(0.08)	
Net income (loss)	$ 0.41	$ 0.81	$ (0.07)

(a) Represents the change in Cendant Group's retained interest in Move.com Group due to the dilutive impact of Move.com common stock options.

Year Ended December 31,

	2001	2000
Move.com Common Stock		
Income (loss) from continuing operations:		
Move.com Group	$ 255	$ (62)
Less: Cendant Group's retained interest in Move.com Group	238	(56)
Income (loss) from continuing operations for basic EPS	17	(6)
Adjustment to Cendant Group's retained interest in Move.com Group[a]	3	
Income (loss) from continuing operations for diluted EPS	$ 20	$ (6)
Weighted average shares outstanding:		
Basic and Diluted	2	3
Income (loss) per share:		
Basic		
Income (loss) from continuing operations	$ 9.94	$ (1.76)
Cumulative effect of accounting changes	(0.07)	
Net income (loss)	$ 9.87	$ (1.76)
Diluted		
Income (loss) from continuing operations	$ 9.81	$ (1.76)
Cumulative effect of accounting changes	(0.07)	
Net income (loss)	$ 9.74	$ (1.76)

(a) Represents the change in Cendant Group's retained interest in Move.com Group due to the dilutive impact of Move.com common stock options.

The following table summarizes the Company's outstanding common stock equivalents which were antidilutive and therefore excluded from the computation of diluted EPS:

	December 31, 2001	2000	1999
CD Common Stock			
Options[a]	98	110	183
Warrants[b]	2	2	2
Convertible debt			18
FELINE PRIDES		63	41
Upper DECS[c]	40		
Move.com Common Stock			
Options[d]		6	

(a) The weighted average exercise prices for antidilutive options at December 31, 2001, 2000 and 1999 were $22.59, $22.27 and $15.24, respectively.

(b) The weighted average exercise prices for antidilutive warrants at December 31, 2001, 2000 and 1999 were $21.31, $21.31 and $16.77, respectively.

(c) The appreciation price for antidilutive Upper DECS at December 31, 2001 was $28.42.

(d) The weighted average exercise price for antidilutive options at December 31, 2000 was $18.60.

The Company's contingently convertible debt securities, which provide for the potential issuance of approximately 138 million shares of CD common stock, were not included in the computation of diluted EPS for 2001 as the related contingency provisions were not satisfied during such period (see Note 15 Long-term Debt and Borrowing Arrangements for a detailed discussion of the contingency provisions).

3. Acquisitions

Avis Group Holdings, Inc. On March 1, 2001, the Company acquired all of the outstanding shares of Avis Group Holdings, Inc. ("Avis"), one of the world's leading service and information providers for comprehensive automotive transportation and vehicle management solutions, for approximately $994 million. The allocation of the purchase price is summarized as follows:

	Amount
Cash consideration	$ 937
Fair value of converted options	17
Transaction costs and expenses	40
Total purchase price	994
Book value of Cendant's existing net investment in Avis	409
Cendant's basis in Avis	1,403
Less: Historical value of liabilities assumed in excess of assets acquired	(207)
Less: Fair value adjustments*	(258)
Excess purchase price over fair value of assets acquired and liabilities assumed	$ 1,868

(*) Primarily represents the establishment of liabilities associated with pre-acquisition contingencies and costs associated with exiting activities assumed as part of the acquisition, as well as fair value adjustments to long-term liabilities, offset, in part, by the allocation of the purchase price to identifiable intangible assets.

Fairfield Resorts, Inc. On April 2, 2001, the Company acquired all of the outstanding shares of Fairfield Resorts, Inc., formerly Fairfield Communities, Inc. ("Fairfield"), one of the largest vacation ownership companies in the United States, for approximately $760 million in cash, including $20 million of transaction costs and expenses and $46 million related to the conversion of Fairfield employee stock options into CD common stock options. As part of the acquisition, the Company also assumed approximately $146 million of Fairfield debt, $125 million of which has been repaid. This acquisition was not significant on a pro forma basis.

Galileo International, Inc. On October 1, 2001, the Company acquired all of the outstanding shares of Galileo International, Inc. ("Galileo"), a leading provider of electronic global distribution services for the travel industry, for approximately $1.9 billion, including approximately $36 million of estimated transaction costs and expenses and approximately $32 million related to the conversion of Galileo employee stock options into CD common stock options. The Company expects the acquisition to enhance its growth prospects in the global market for travel services due to Galileo's global presence in air travel bookings. Approximately $1.5 billion of the merger consideration was funded through the issuance of approximately 117 million shares of CD common stock, with the remainder being financed from available cash. As part of the acquisition, the Company also assumed approximately $586 million of Galileo debt, $555 million of which has been repaid. The preliminary allocation of the purchase price is summarized as follows:

	Amount
Cash consideration	$ 358
Issuance of CD common stock	1,482
Fair value of converted options	32
Transaction costs and expenses	36
Total purchase price	1,908
Less: Historical value of assets acquired in excess of liabilities assumed	253
Less: Fair value adjustments(*)	(471)
Excess purchase price over fair value of assets acquired and liabilities assumed	$ 2,126

(*) Primarily represents deferred tax liabilities for book-tax basis differences, costs associated with exiting activities assumed as part of the acquisition and pre-acquisition contingencies, offset, in part, by the allocation of the purchase price to identifiable intangible assets.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Total current assets	$ 293
Property and equipment, net	330
Intangible assets	444
Goodwill	2,126
Other noncurrent assets	175
Total assets acquired	3,368
Total current liabilities	741
Long-term debt	453
Other noncurrent liabilities	266
Total liabilities assumed	1,460
Net assets acquired	$ 1,908

The intangible assets acquired comprised customer lists of $300 million, which are being amortized over 25 years, and a registered trademark of $125 million, which is not subject to amortization as its useful life is indefinite. The goodwill was assigned to the Company's Travel Distribution segment. The Company expects $162 million of such goodwill to be deductible for tax purposes.

Cheap Tickets, Inc. On October 5, 2001, the Company acquired all of the outstanding common stock of Cheap Tickets, Inc. ("Cheap Tickets"), a leading provider of discount leisure travel products, for approximately $313 million, net of cash acquired (approximately $286 million in cash), including $18 million of estimated transaction costs and expenses and $27 million related to the conversion of Cheap Tickets employee stock options into CD common stock options. This acquisition was not significant on a pro forma basis.

Other. The Company also completed the acquisitions of certain other businesses during 2001, 2000 and 1999 for approximately $241 million, $58 million and $46 million primarily in cash, respectively. These acquisitions were not significant on a pro forma basis.

These acquisitions were accounted for using the purchase method of accounting; accordingly, assets acquired and liabilities assumed were recorded in the Company's Consolidated Balance Sheets as of the respective acquisition dates based upon their estimated fair values at such date. The excess of the purchase price over the estimated fair value of the underlying assets acquired and liabilities assumed was allocated to goodwill. Goodwill resulting from the acquisitions of Avis and Fairfield was being amortized over 40 years on a straight-line basis until the adoption of SFAS No. 142 on January 1, 2002.

In certain circumstances, the allocations of the excess purchase price are based upon preliminary estimates and assumptions and are subject to revision when appraisals have been finalized. Accordingly, revisions to the allocations, which may be significant, will be recorded by the Company as further adjustments to the purchase price allocations. The results of operations of these businesses have been included in the Company's Consolidated Statements of Operations since their respective dates of acquisition.

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Pro forma net revenues, income from continuing operations, net income and the related per share data would have been as follows had the acquisitions of Avis and Galileo occurred on January 1st of each period presented:

	Year Ended December 31,	
	2001	**2000**
Net revenues	$ 10,520	$ 9,828
Income from continuing operations	560	1,001
Net income	596	1,034
CD common stock income per share:		
Basic		
Income from continuing operations	$ 0.55	$ 1.20
Net income	0.59	1.24
Diluted		
Income from continuing operations	$ 0.53	$ 1.16
Net income	0.57	1.20

These pro forma results do not give effect to any synergies expected to result from the acquisitions of Avis and Galileo and are not necessarily indicative of what actually would have occurred if the acquisitions had been consummated on January 1st of each period, nor are they necessarily indicative of future consolidated results.

The Company is in the process of integrating the operations of its acquired businesses and expects to incur transition costs relating to such integrations. Transition costs may result from integrating operating systems, relocating employees, closing facilities, reducing duplicative efforts and exiting and consolidating certain other activities. These costs will be recorded on the Company's Consolidated Balance Sheet as adjustments to the purchase price or on the Company's Consolidated Statement of Operations as expenses, as appropriate.

4. Dispositions of Businesses and Impairment of Investments

Dispositions of Businesses

Homestore.com, Inc. On February 16, 2001, the Company completed the sale of its real estate Internet portal, move.com, along with certain ancillary businesses to Homestore.com, Inc. ("Homestore") in exchange for approximately 21 million shares (representing a

20.2% ownership interest) of Homestore common stock, then-valued at $718 million. The Company accounts for its investment in Homestore on the equity method of accounting based upon its ability to influence Homestore, as evidenced by its ownership percentage of Homestore common stock, representation by Company management on the board of directors of Homestore and the existence of contractual agreements that were entered into as part of the sale our former Internet real estate portal, move.com. The Company's initial relationship originated on June 30, 1998 when it and RealSelect, the predecessor to Homestore, entered into a four year listing license agreement, whereby Cendant, among other things, licensed to RealSelect the exclusive rights to display the listings of the Century 21®, ERA® and Coldwell Banker® brands on the realtor.com website. The exclusive listing license was extended an additional forty (40) years as part of the October 26, 2000 Master Operating Agreement entered into between Cendant and Homestore. The operations of these businesses were not material to the Company's financial position, results of operations or cash flows. The Company recorded a gain of $548 million on the sale of these businesses, of which $436 million ($262 million, after tax) was recognized at the time of closing. The Company deferred $112 million of the gain, which represented the portion that was equivalent to its common equity ownership percentage in Homestore at the time of closing. The deferred gain was being recognized into income over five years as a component of equity in Homestore.com within the

Consolidated Statement of Operations. During 2001, the Company recognized $35 million of this deferred gain. The difference between the value of the Company's investment in Homestore and the underlying equity in the net assets of Homestore was $431 million, which was also being amortized over five years as a component of equity in Homestore.com within the Consolidated Statement of Operations. Such difference was reduced by $135 million during 2001, of which $67 million represented amortization. The remaining $68 million primarily related to (i) the contribution of approximately 1.5 million shares of Homestore common stock to Trip Network, Inc. ("Trip Network"), formerly Travel Portal, Inc. and (ii) the distribution of 1.7 million shares of Homestore common stock to former Move.com common stockholders in exchange for then-outstanding shares of Move.com common stock (see Note 25 Related Party Transactions for a detailed discussion of the Company's relationship with Trip Network).

In connection with a protracted decline in the value of Homestore's common stock since July 2001, the Company reviewed its investment in Homestore for other-than-temporary impairment during fourth quarter 2001. After consideration of several indicators, including the extent to which the market value of Homestore had declined, the Company determined that an other-than-temporary impairment had occurred and, as a result, revalued its investment to the Company's estimate of Homestore's fair value. Accordingly, the Company recorded a net impairment charge of $407 million ($244 million, after tax) during fourth quarter 2001 in connection with this revaluation. During fourth quarter 2001, the Company also recorded its proportionate share of Homestore's estimated fourth quarter 2001 losses to the extent that such amount did not reduce the Company's investment in Homestore beyond zero. Such amount is included as a component of losses related to equity in Homestore.com on the Consolidated Statement of Operations. At December 31, 2001, the Company's investment in Homestore was recorded at zero.

Fleet Businesses. During 1999, the Company sold its fleet businesses to Avis for aggregate consideration of $5.2 billion. Such consideration partially consisted of Avis' acquisition of the net assets of the fleet businesses through the assumption and subsequent repayment of $1.44 billion of intercompany debt, approximately $400 million of intercompany payables and the issuance to the Company of $360 million of non-voting convertible preferred stock of Avis Fleet Leasing and Management Corporation, a wholly-owned subsidiary of Avis. Coincident with the closing of the transaction, Avis refinanced the assumed debt which was payable to the Company. Accordingly, the Company received additional consideration of $3.0 billion in cash and a $30 million receivable from Avis, which was repaid by Avis during 2000.

The Company realized a net gain of $881 million ($866 million, after tax) on the sale of its fleet businesses, of which $715 million ($702 million, after tax) was recognized at the time of closing and $166 million ($164 million, after tax) was deferred at the date of disposition. The realized gain was net of approximately $90 million of transaction costs. The Company deferred the portion of the realized net gain equivalent to its common equity ownership percentage in Avis (18.9%) at the time of closing, which was included in deferred income in the Consolidated Balance Sheet at December 31, 2000. The deferred gain was being recognized into income over 40 years (from the date of sale through March 1, 2001, the date the Company acquired Avis), which was consistent with the period Avis was amortizing the goodwill generated from the transaction. During 2000, the Company recognized $35 million of the deferred gain due to the sale by Avis of its European vehicle management services business in 2000. During 1999, the Company recognized $9 million of the deferred gain due to the sale of a portion of the Company's equity ownership in Avis in 1999. On March 1, 2001, in connection with the Company's acquisition of Avis, the common and preferred stock held by the Company, which approximated $522 million, and the unamortized deferred gain, which approximated $113 million, were accounted for as components of Cendant's net investment in Avis aggregating $409 million (see Note 25 Related Party Transactions).

Other. During 2001 and 2000, the Company recorded net losses of $19 million and $43 million related to the disposition of certain non-strategic businesses. The Company also reviewed its other investments during 2001 and determined that other-than-temporary impairments had occurred for certain of these investments and, as a result, recorded impairment charges of $34 million ($21 million, after tax) primarily related to a lodging and an Internet-related investment.

During 1999, the Company also completed the sale of its Green Flag business unit and approximately 85% of its Entertainment Publications, Inc. business unit for cash of $401 million and $281 million, respectively. The Company realized a net gain of approximately $27 million and $156 million ($8 million and $78 million, after tax), respectively, on the sale of these businesses. Additionally, during 1999, the Company completed the dispositions of certain other businesses, including North American Outdoor Group, Central Credit, Inc., Global Refund Group, Spark Services, Inc., Match.com, National Leisure Group and National Library of Poetry. Aggregate consideration received on such dispositions was comprised of approximately $407 million in cash. The Company realized a net gain of $202 million ($81 million, after tax) on the dispositions of these businesses.

5. Discontinued Operations

As previously discussed in Note 1, on May 22, 2002, the Company sold NCP, a wholly-owned subsidiary within its Vehicle Services segment, for approximately $1.2 billion in cash. In connection with the sale, the Company will recognize a net loss of $256 million during second quarter 2002. NCP operates off-street commercial parking facilities and manages on-street parking and related operations on behalf of town and city administration in England. Pursuant to SFAS No. 144, the account balances and activities of NCP have been segregated and reported as a discontinued operation for all periods presented.

During 1999, the Company completed the sale of Cendant Software Corporation ("CSC"), which was classified as a discontinued operation during 1998, for net cash proceeds of $770 million.

Summarized statement of operations data for the years ended December 31, consisted of:

	NCP			CSC
	2001	**2000**	**1999**	**1999**
Net revenues	$ 337	$ 339	$ 321	$
Income from discontinued operations:				
Income before income taxes and minority interest	$ 96	$ 113	$ 94	$
Provision for income taxes	15	21	16	
Minority interest		1		
Income from discontinued operations, net of tax	$ 81	$ 91	$ 78	$
Gain on disposal of discontinued operations:				
Gain on disposal of discontinued operations	$	$	$	$ 299
Provision for income taxes				125
Gain on disposal of discontinued operations, net of tax	$	$	$	$ 174

Summarized balance sheet data as of December 31, consisted of:

	NCP	
	2001	**2000**

	NCP	
Assets of discontinued operations:		
Current assets	$ 85	$ 139
Property and equipment	599	610
Goodwill	618	652
Other assets	8	
Total assets of discontinued operations	$ 1,310	$ 1,401
Liabilities of discontinued operations:		
Current liabilities	$ 69	$ 79
Other liabilities	103	97
Total liabilities of discontinued operations	$ 172	$ 176

6. Franchising and Marketing/Reservation Activities

Franchising revenues received from lodging properties, car rental locations, tax preparation offices and real estate brokerage offices were $787 million, $857 million and $839 million for 2001, 2000 and 1999, respectively. Such amounts include initial franchise fees of $24 million, $31 million and $37 million for 2001, 2000 and 1999, respectively.

The number of Company-owned and franchised outlets in operation as of December 31, are as follows:

	2001	2000	1999
Lodging properties	6,624	6,456	6,315
Car rental locations	1,714	1,745	1,642
Tax preparation offices	4,013	3,365	2,845
Real estate brokerage offices	12,361	12,169	11,917

The balance at December 31, 2001 for car rental locations includes 867 Company-owned locations as a result of the March 1, 2001 acquisition of Avis. The increases and decreases in the number of outlets in operation for the Company's lodging properties, tax preparation offices and real estate brokerage offices during 2001, 2000 and 1999 were not material.

The Company also receives marketing and reservation fees primarily from its lodging and real estate franchisees, which are calculated based on a specified percentage of gross room revenues or based on a specified percentage of gross closed commissions earned on the sale of real estate, subject to certain minimum and maximum payments. Such fees totaled $222 million, $290 million and $280 million during 2001, 2000 and 1999, respectively, and were included within service fees and membership-related revenues on the Consolidated Statements of Operations. During 2001, 2000 and 1999, these fees were net of annual rebates of $55 million, $45 million and $43 million, respectively. As provided for in the franchise agreements and generally at the Company's discretion, all of these fees are to be expended for marketing purposes and the operation of a centralized brand-specific reservation system for the respective franchisees and are controlled by the Company until disbursement.

In connection with ongoing fees the Company receives from its franchises pursuant to the franchise agreements, the Company is required to provide certain services, such as training, marketing and the operation of reservation systems.

7. Other Charges

Restructuring and Other Unusual Charges

2001 Restructuring Charge. As a result of changes in business and consumer behavior following the September 11th terrorist attacks, the Company's management formally committed to various strategic initiatives during fourth quarter 2001, which were generally aimed at aligning cost structures in the Company's underlying businesses in response to anticipated levels of volume. The major areas of cost reductions include call center operations, field locations for car rental operations and back office support functions. To achieve these reductions, the Company will redirect call traffic, consolidate processes, reduce staffing levels and close offices. Accordingly, the Company incurred restructuring charges of $110 million, of which $21 million were non-cash ($40 million, $30 million, $22 million, $8 million, $7 million and $3 million of charges were recorded within Hospitality, Real Estate

Services, Corporate and Other, Financial Services, Vehicles Services and Travel Distribution, respectively). The Company anticipates that these initiatives will be completed by the end of fourth quarter 2002. Liabilities associated with these initiatives are classified as a component of accounts payable and other current liabilities. The initial recognition of the charge and the corresponding utilization from inception are summarized by category as follows:

	2001 Restructuring Charge	Cash Payments	Other Reductions	Balance at December 31, 2001
Personnel related	$ 68	$ 11	$ 5	$ 52
Asset impairments and contract terminations	17	3	10	4
Facility related	25	1		24
Total	$ 110	$ 15	$ 15	$ 80

Personnel related costs primarily include severance resulting from the rightsizing of certain businesses and corporate functions. As of December 31, 2001, the Company formally communicated the termination of employment to approximately 3,000 employees, representing a wide range of employee groups, and approximately 2,100 employees were terminated. The Company anticipates the majority of the personnel related costs will be paid during first quarter 2002. All other costs were incurred primarily in connection with facility closures and lease obligations resulting from the consolidation of business operations.

2001 Unusual Charges. During 2001, the Company also incurred unusual charges totaling $273 million, of which $76 million were non-cash. Such charges primarily consisted of (i) $95 million related to the funding of an irrevocable contribution to the Real Estate Technology Trust, an independent technology trust responsible for providing technology initiatives for the benefit of the Company's current and future real estate franchisees, (ii) $85 million related to the funding of Trip Network (see Note 25 Related Party Transactions for a detailed description of this charge), (iii) $41 million related to the rationalization of the Avis fleet (reflecting charges related to the reduction in the fleet, representing the difference between the carrying amount of the vehicles and the fair value of the vehicles less costs to sell, as well as corresponding personnel reductions), in response to the September 11th terrorist attacks as a result of anticipated reduction in the volume of business (iv) $8 million related to the abandonment of financial software projects due to the Company's decision to forego their implementation as a result of anticipated reduction in the volume of business in its rental car, travel distribution and timeshare businesses resulting from the September 11th terrorist attacks and (v) $7 million related to the contribution of $1.5 million in cash and stock in a publicly traded company valued at $5.5 million (based upon its then-current fair value) to the Cendant Charitable Foundation, which the Company established in September 2000 to serve as a vehicle for making charitable contributions to worthy charitable causes that are of particular interest to the Company's employees, customers and franchisees. The foundation is controlled by its Board of Directors, which as of December 31, 2001, was comprised of eight persons, all of whom are either the Company's employees or employees of the Company's affiliates. Although the Company may make contributions to the foundation from time to time, the Company is under no obligation or otherwise committed to do so. The Real Estate Technology Trust noted above is governed by trustees, none of whom are employees or affiliates of the Company. Furthermore, as of December 31, 2001, the Company had made cumulative contributions totaling $120 million but has no on-going requirement to fund this independent trust.

2000 Restructuring Charge. During first quarter 2000, the Company incurred restructuring charges of $60 million in connection with various strategic initiatives (such liability was reduced by $4 million during 2001 as a result of a change in the original estimate of costs to be incurred). These initiatives were generally aimed at improving the overall level of organizational efficiency, consolidating and rationalizing existing processes, and reducing cost structures in the Company's underlying businesses. These initiatives primarily affected the Company's Hospitality and Financial Services segments and were completed by the end of first quarter 2001. Liabilities associated with these initiatives were classified as a component of accounts payable and other current liabilities as of December 31, 2000. The initial recognition of the charge and the corresponding utilization from inception are summarized by category as follows:

	2000 Restructuring Charge	Cash Payments	Other Reductions	Balance at December 31, 2000	Cash Payments	Other Reductions	Balance at December 31, 2001
Personnel related	$ 25	$ 18	$ 1	$ 6	$ 4	$ 2	$
Asset impairments and contract terminations	26	1	25				
Facility related	9	2	1	6	4	2	
Total	$ 60	$ 21	$ 27	$ 12	$ 8	$ 4	$

Personnel related costs primarily included severance resulting from the consolidation of business operations and certain corporate functions. The Company formally communicated the termination of employment to approximately 970 employees, representing a wide range of employee groups, all of whom were terminated by March 31, 2001. Asset impairments of $25 million and contract terminations of $1 million were incurred in connection with the exit of the Company's timeshare software development business. Facility related costs consisted of facility closures and lease obligations also resulting from the consolidation of business operations.

2000 Unusual Charges. During 2000, the Company also incurred unusual charges totaling $49 million. Such charges primarily included (i) $21 million of costs to fund an irrevocable contribution to the Hospitality Technology Trust, an independent technology trust responsible for completing the transition of the Company's lodging franchisees to a common property management system, (ii) $11 million of executive termination costs, (iii) $7 million of costs primarily related to the abandonment of certain computer system applications, (iv) $3 million of costs related to stock option contract modifications and (v) $3 million of costs for the postponement of the initial public offering of Move.com common stock. The Hospitality Technology Trust noted above has trustees that do not include any of the Company's employees or affiliates. Furthermore, the Company has no on-going requirement to fund this independent trust.

1999 Unusual Charges. During 1999, the Company incurred unusual charges totaling $117 million. Such charges primarily represented (i) $85 million incurred in connection with the creation of Netmarket Group, Inc. ("NGI"), a company that was created to pursue the development and expansion of interactive businesses, which is contingently repayable to the Company only if certain financial targets related to NGI are achieved, (ii) $23 million primarily related to an irrevocable contribution to the Hospitality Technology Trust, an independent technology trust responsible for completing the transition of the Company's lodging franchisees to a common property management system and (iii) $7 million primarily related to the termination of a proposed acquisition.

Acquisition and Integration Related Costs

During 2001, the Company incurred acquisition and integration charges totaling $112 million. Such charges primarily represented (i) $78 million in connection with the outsourcing of the Company's data operations, including Galileo's global distribution system and desktop support and other related services to a third party provider, (ii) $23 million in connection with the integration of the Company's existing travel agency businesses with Galileo's computerized reservations system and (iii) $4 million of severance costs in connection with the rationalization of duplicative functions.

Mortgage Servicing Rights Impairment

As previously discussed in Note 1 Summary of Significant Accounting Policies, during fourth quarter 2001, the Company determined that an impairment of its mortgage servicing rights portfolio had occurred due to unprecedented interest rate reductions subsequent to the September 11th terrorist attacks that the Company deemed not to be in the ordinary course of business. Accordingly, the Company recorded an impairment charge of $94 million.

Litigation Settlements and Related Costs

During 2001, 2000 and 1999, the Company recorded charges of $100 million, $43 million and $21 million, respectively, for litigation settlement and related costs in connection with previously discovered accounting irregularities in the former business units of CUC and resulting investigations into such matters.

During 2001 and 2000, the Company recorded non-cash credits of $14 million and $41 million, respectively, to reflect adjustments to the PRIDES class action litigation settlement charge recorded by the Company in 1998. Such adjustments represented a reduction in the number of Rights to be issued in connection with the settlement (see Note 18 Mandatorily Redeemable Trust Preferred Securities Issued by Subsidiary Holding Solely Senior Debentures Issued by the Company for a detailed discussion regarding the settlement).

During 1999, the Company incurred charges of approximately $2.89 billion in connection with the agreement to settle its principal common stockholder class action lawsuit (see Note 14 Stockholder Litigation Settlement for a detailed discussion regarding this settlement).

8. Income Taxes

The income tax provision (benefit) consists of:

	Year Ended December 31,		
	2001	**2000**	**1999**
Current			
Federal	$ 48	$ 81	$ 306
State	21	19	9
Foreign	43	30	35
	112	130	350
Deferred			
Federal	113	220	(748)
State	(5)	(9)	(24)
Foreign			
	108	211	(772)
Provision (benefit) for income taxes	$ 220	$ 341	$ (422)

Pre-tax income (loss) for domestic and foreign operations consisted of the following:

	Year Ended December 31,		
	2001	**2000**	**1999**
Domestic	$ 529	$ 896	$ (793)
Foreign	134	97	125
Pre-tax income (loss)	$ 663	$ 993	$ (668)

Deferred income tax assets and liabilities are comprised of:

	December 31,	
	2001	2000
Current deferred income tax assets		
Stockholder litigation settlement	$ 536	$
Unrealized loss on marketable securities	47	46
Accrued liabilities and deferred income	215	200
Provision for doubtful accounts	47	25
Acquisition and integration related liabilities	22	21
Current deferred income tax assets	867	292
Current deferred income tax liabilities		
Insurance retention refund	20	20
Franchise acquisition costs	17	12
Prepaid expense	106	83
Other	27	3
Current deferred income tax liabilities	170	118
Current net deferred income tax asset	$ 697	$ 174

	December 31,	
	2001	2000
Noncurrent deferred income tax assets		
Stockholder litigation settlement	$	$ 922
Net operating loss carryforwards	873	616
State net operating loss carryforwards	349	193
Capital loss carryforward	112	
Acquisition and integration related liabilities	141	19
Accrued liabilities and deferred income	132	48
Other	52	23
Valuation allowance[(a)]	(378)	(161)
Noncurrent deferred income tax assets	1,281	1,660
Noncurrent deferred income tax liabilities		
Depreciation and amortization	510	450
Other		19
Noncurrent deferred income tax liabilities	510	469
Noncurrent net deferred income tax asset	$ 771	$ 1,191

(a) The valuation allowance of $378 million at December 31, 2001 relates to deferred tax assets for state net operating loss carryforwards and capital loss carryforwards of $273 million and $105 million, respectively. The valuation allowance will be reduced when and if the Company determines that the deferred income tax assets are likely to be realized.

	December 31,	
	2001	2000
Management and mortgage program deferred income tax assets		
Depreciation	$	$ 13
Other		4
Management and mortgage program deferred income tax assets		17
Management and mortgage program deferred income tax liabilities		
Unamortized mortgage servicing rights	472	473
Depreciation and amortization	529	
Accrued liabilities	49	20
Management and mortgage program deferred income tax liabilities	1,050	493
Net deferred income tax liability under management and mortgage programs	$ 1,050	$ 476

As of December 31, 2001, the Company had federal net operating loss carryforwards of approximately $2.5 billion, which primarily expire in 2018 and 2020. Additionally, the Company has alternative minimum tax credit carryforwards of $67 million.

No provision has been made for U.S. federal deferred income taxes on approximately $316 million of accumulated and undistributed earnings of foreign subsidiaries at December 31, 2001 since it is the present intention of management to reinvest the undistributed earnings indefinitely in those foreign operations. In addition, the determination of the amount of unrecognized U.S. federal deferred income tax liability for unremitted earnings is not practicable.

The Company's effective income tax rate for continuing operations differs from the U.S. federal statutory rate as follows:

	Year Ended December 31,		
	2001	2000	1999
Federal statutory rate	35.0%	35.0%	(35.0)%
State and local income taxes, net of federal tax benefits	1.4	0.7	(1.5)
Amortization of non-deductible goodwill	4.4	1.7	2.4
Taxes on foreign operations at rates different than U.S. federal statutory rates	(0.4)	0.4	(2.1)
Taxes on repatriated and accumulated foreign income, net of tax credits	(3.2)		
Changes in valuation reserve	(2.3)		
Nontaxable gain on disposal		(1.5)	(26.6)
Other	(1.7)	(2.0)	(0.4)
	33.2%	34.3%	(63.2)%

9. Property and Equipment, net

Property and equipment, net consisted of:

	December 31,	
	2001	2000

	December 31,	
Land	$ 54	$ 24
Building and leasehold improvements	391	224
Furniture, fixtures and equipment	1,663	994
	2,108	1,242
Less: accumulated depreciation and amortization	(714)	(507)
	$ 1,394	$ 735

10. Other intangible Assets

Other intangible assets consisted of:

	December 31, 2001	
	2001	2000
Trademarks	$ 773	$ 564
Customer lists	552	173
Other	103	61
	1,428	798
Less: accumulated amortization	(218)	(151)
	$ 1,210	$ 647

11. Mortgage Loans Held for Sale and Mortgage Servicing Rights

Upon the closing of a residential mortgage loan or shortly thereafter, the Company will securitize the majority of its mortgage loan originations. Mortgage loans held for sale represent mortgage loans originated by the Company and held pending sale to permanent investors. The Company sells mortgage loans insured or guaranteed by various government sponsored entities and private insurance agencies. The insurance or guaranty is provided primarily on a non-recourse basis to the Company, except where limited by the Federal Housing Administration and Veterans Administration and their respective loan programs. At December 31, 2001 and 2000, the Company serviced approximately $99 billion and $82 billion, respectively, of mortgage loans sold to the secondary market, of which $154 million and $138 million, respectively, were sold with recourse. The Company believes adequate allowances are maintained to cover any potential losses on such loans sold with recourse.

Capitalized MSRs consisted of:

	2001	2000	1999
Balance, January 1	$ 1,653	$ 1,084	$ 636
Additions to MSRs, net	860	767	698
Amortization	(237)	(153)	(118)
Net hedge activity	(57)	12	29
Sales	(38)	(57)	(161)
Balance, December 31	2,181	1,653	1,084

Valuation Allowance

	2001	2000	1999
Balance, January 1			
Additions	(144)	(2)	(5)
Reductions		2	5
Balance, December 31	(144)		
Mortgage Servicing Rights, net	$ 2,037	$ 1,653	$ 1,084

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12. Vehicle-related

At December 31, 2001, the Company's investment in vehicles comprised the following:

	Car Rental	Fleet Leasing
Rental vehicles	$ 3,733	$
Vehicles under open-end operating leases		4,121
Vehicles under closed-end operating leases		106
Vehicles held for rental/leasing	3,733	4,227
Other	63	43
	3,796	4,270
Less: accumulated depreciation	(367)	(879)
	$ 3,429	$ 3,391

During 2001, depreciation expense for car rental vehicles and fleet leasing vehicles was $551 million and $879 million, respectively.

At December 31, 2001, future minimum lease payments to be received on the Company's open-end and closed-end operating leases are as follows:

Year	Amount
2002	$ 1,132
2003	950
2004	672
2005	352
2006	133
Thereafter	152
	$ 3,391

The Company sells interests in operating leases and the underlying vehicles to two independent Canadian third parties. The Company repurchases the leased vehicles and leases such vehicles under direct financing leases to the Canadian third parties. The Canadian third parties retain the lease rights and prepay all the lease payments except for an agreed upon residual amount, which is typically 0% to 8% of the total lease payments. The residual amounts represent the Company's only exposure in connection with these transactions. At December 31, 2001, the balance of outstanding lease receivables which were sold to the Canadian third parties was $341 million. The total outstanding prepaid rent and the Company's subordinated residual interest under these leasing arrangements were $320 million and $21 million, respectively, as of December 31, 2001. The Company recognized $108 million of revenues related to these leases during 2001.

13. Accounts Payable and Other Current Liabilities

Accounts payable and other current liabilities consisted of:

	December 31,	
	2001	2000
Accounts payable	$ 984	$ 222
Acquisition and integration related	448	114
Restructuring and other unusual	115	14
Accrued payroll and related	418	248
Income taxes payable	261	158
Other	1,242	594
	$ 3,468	$ 1,350

14. Stockholder Litigation Settlement

On August 14, 2000, the U.S. District Court approved the Company's agreement (the "Settlement Agreement") to settle the principal securities class action pending against the Company, which was brought on behalf of purchasers of all Cendant and CUC publicly traded securities, other than Feline PRIDES, between May 1995 and August 1998. Under the Settlement Agreement, the Company agreed to pay the class members approximately $2.85 billion in cash. On August 28, 2001, the United States Court of Appeals for the Third Circuit approved the $2.85 billion settlement, overruled all objections to the settlement, approved a plan of allocation for the settlement proceeds and awarded attorneys' fees and expenses to the plaintiffs. As of December 31, 2001, the Company deposited cash totaling $1.41 billion to a trust established for the benefit of the plaintiffs in this lawsuit. The Company will be required to fund the remaining balance of the liability in mid-July 2002.

15. Long-term Debt and Borrowing Arrangements

Based upon the Company's intent and ability to refinance its zero coupon convertible debentures (see terms described below) on a long-term basis, the balance of $1.0 billion at December 31, 2001, which has a current redemption date, has been reclassified to long-term debt on the Company's Consolidated Balance Sheet as of December 31, 2001. The Company has the ability to refinance such debt with borrowings under its revolving credit facilities (see below for capacity and availability terms).

Long-term debt consisted of:

	December 31,	
	2001	2000
3% convertible subordinated notes	$ 390	$ 548
$7^3/_4$% notes	1,150	1,149
6.875% notes	850	
11% senior subordinated notes	584	
$3^7/_8$% convertible senior debentures	1,200	
Zero coupon senior convertible contingent notes	920	
Zero coupon convertible debentures	1,000	
Term loan facility		250
Other	38	1

	December 31,			
		6,132		1,948
Less: current portion		401		
Long-term debt, excluding Upper DECS		5,731		1,948
Upper DECS		863		
	$	6,594	$	1,948

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3% Convertible Subordinated Notes

During 1997, the Company issued $550 million aggregate principal amount of 3% convertible subordinated notes due in February 2002. During 2001, the Company redeemed $160 million of these notes. The remaining amount was redeemed in February 2002.

7$^3/_4$% Notes

During 1998, the Company issued $1.15 billion of senior notes due December 2003. The interest rate on these notes is subject to an upward adjustment of 150 basis points in the event that the credit ratings assigned to the Company by nationally recognized credit rating agencies are downgraded below investment grade. Such notes may be redeemed, in whole or in part, at any time at the option of the Company, at a redemption price plus accrued interest through the date of redemption. These notes are senior unsecured obligations and rank equally in right of payment with all the Company's existing and future unsecured senior indebtedness.

6.875% Notes

During 2001, the Company issued $850 million aggregate principal amount of 6.875% notes for net proceeds of $843 million due in August 2006. The interest rate on these notes is subject to an upward adjustment of 150 basis points in the event that the credit ratings assigned to the Company by nationally recognized credit rating agencies are downgraded below investment grade. These notes are senior unsecured obligations and rank equally in right of payment with all the Company's existing and future unsecured senior indebtedness.

11% Senior Subordinated Notes

In connection with the acquisition of Avis in March 2001, the Company assumed $500 million of 11% senior subordinated notes due in May 2009, which was recorded at fair value. These notes are subordinated in the right of payment to all existing and future senior indebtedness of Avis and are unconditionally guaranteed on a senior subordinated basis by certain of Avis' domestic subsidiaries. The notes are redeemable at the Company's option at the appropriate redemption prices plus accrued interest through the redemption date either (i) in part prior to May 1, 2002 upon the occurrence of specific events or (ii) at any time, in whole or in part, after May 1, 2004.

3$^7/_8$% Convertible Senior Debentures

During 2001, the Company issued 3$^7/_8$% convertible senior notes for gross proceeds of $1.2 billion. The notes mature in November 2011. The Company may be required to pay additional interest on these notes commencing in November 2004 if the average of the sales prices of its CD common stock is less than or equal to 45% of the accreted conversion price of the debentures for any 20 of the 30 trading days during the applicable measurement period. Thereafter, the interest rate will be adjusted upward for the subsequent six-month period to the rate at which a hypothetical issue of the Company's senior, non-convertible, fixed-rate, callable debt securities would trade, at that time, at par, provided that the reset rate shall not exceed 10% per year. The accreted conversion price of the debentures would increase (ratably with the accreted value of the debentures) if an upward interest adjustment occurs. The applicable measurement period for determining whether an upward interest adjustment will occur ends five business days prior to each May 30 and November 30 after November 27, 2004. In the event of an upward interest adjustment, no more than 0.25% per year, incrementally, will be paid in cash; the remaining additional interest will accrue and be paid at maturity. Through December 31, 2001, there was no upward interest adjustment to the notes, Each $1,000 principal amount may be converted into 41.58 shares of CD common stock. These notes may be converted prior to maturity (i) during each three-month period following issuance of the notes if the closing sale price of CD common stock exceeds 120%, declining ratably to 110% in November 2011, of the accreted conversion price per share for at least 20 trading days in the period of 30 trading days ending on the first day of such three-month period; (ii) if the notes have been called for

redemption; or (iii) in the event of certain material distributions to holders of CD common stock, excluding payments of dividends in the normal course. The conversion threshold at maturity is 110% of the accreted conversion price per share. The accreted conversion price is subject to change as a result of any upward interest adjustment as it is calculated as 100% of the principal amount of the notes, plus accrued and unpaid cash interest divided by the number of shares of CD common stock issuable for each note, or 41.58. At December 31, 2001, the accreted conversion price was $24.05. The Company concluded that it was not required to separately account for the conversion feature.

The notes are not redeemable by the Company prior to November 27, 2004, but will be redeemable thereafter at the issue price plus accrued interest, if any. In addition, holders of the notes may require the Company to repurchase the notes on November 27, 2004 and 2008 at the issue price plus accrued interest, if any. In such circumstance, the Company, at its option, may pay the repurchase price in cash, shares of its CD common stock, or any combination thereof.

These debentures are senior unsecured obligations and rank equally in right of payment with all the Company's existing and future senior unsecured indebtedness.

Zero Coupon Senior Convertible Contingent Notes

During 2001, the Company issued approximately $1.5 billion aggregate principal amount at maturity of zero coupon senior convertible contingent notes for aggregate gross proceeds of approximately $900 million. The notes mature in February 2021 and were issued at a discount resulting in a yield-to-maturity of 2.5%. During 2001, the Company had amortized $20 million of this discount, which is included as a component of net non-vehicle interest expense on the Consolidated Statement of Operations.

The Company will not make periodic payments of interest on the notes, but may be required to make nominal interest payments commencing in February 2004 if the average market price of the zero coupon senior convertible contingent notes equals 120% or more of the sum of the issue price of $608.41 and accrued original issue discount for the notes during the applicable measurement period, then the Company will make contingent interest payments on the notes. The contingent interest payments for any six-month period will equal (a) the lesser of (i) 2% of the Company's estimated borrowing rate, at that time, for senior, non-convertible, fixed-rate indebtedness of the Company with a maturity date comparable to these notes and (ii) 0.25% times (b) the sum of the issue price of $608.41 and accrued original issue discount for the notes as of the day immediately preceding the relevant six-month period. The applicable measurement period for determining whether contingent interest payments will be made is the five trading days ending on the second trading day preceding each February 13 and August 13, commencing February 13, 2004.

Each $1,000 principal amount may be converted into 33.4 shares of CD common stock. These notes may be converted prior to maturity (i) during each three-month period following issuance of the notes if the closing sales price of the Company's CD common stock exceeds 110% of the accreted conversion price per share for at least 20 trading days in the period of 30 trading days ending on the first day of such three-month period; (ii) if the notes have been called for redemption; (iii) if Moody's Investors Service and Standard & Poor's Corporation no longer have investment-grade ratings assigned to the notes; or (iv) in the event of certain material distributions to holders of CD common stock, excluding payments of dividends in the normal course. The conversion threshold at maturity is 110% of the accreted conversion price per share. The accreted conversion price is calculated as the issue price of $608.41 plus accrued original discount divided by the number of shares of CD common stock issuable for each note, or 33.4. At December 31, 2001, the accreted conversion price was $18.62. The Company concluded that it was not required to separately account for the conversion feature.

The notes are not redeemable by the Company prior to February 13, 2004, but will be redeemable thereafter at the issue price of $608.41 per note plus accrued original discount through the redemption date. In addition, holders of the notes may require the Company to repurchase the notes on February 13, 2004 for $655.49 per note, February 13, 2009 for $742.20 per note or February 13, 2014 for $840.37 per note. In such circumstance, the Company, at its option, may pay the repurchase price in cash, shares of its CD common stock, or any combination thereof.

These notes are senior unsecured obligations and rank equally in right of payment with all the Company's existing and future unsecured and unsubordinated indebtedness.

Zero Coupon Convertible Debentures

During 2001, the Company issued $1.0 billion aggregate principal amount at maturity of zero-coupon zero-yield senior convertible notes for gross proceeds of approximately $1.0 billion. The notes mature in May 2021. The interest on these debentures will be 0% through May 2004. The Company may be required to pay interest on these debentures commencing in May 2004 if the average of the sales prices of its CD common stock is less than or equal to 60% of the accreted conversion price of the debentures for any 20 of the 30 trading days during the applicable measurement period, then the interest rate will be adjusted to 7% per year. The applicable measurement period for determining whether contingent interest payments will be made ends five business days prior to each May 4 and November 4, commencing May 4, 2004. In the event of an upward interest adjustment, 0.25% per year will be paid in cash; the remaining additional interest will accrue and be paid at maturity. Through December 31, 2001, there was no upward interest adjustment to the debentures.

Each $1,000 principal amount may be converted into 39.08 shares of CD common stock. These debentures may be converted prior to maturity (i) during each three-month period following issuance of the debentures if the closing sale price of the CD common stock exceeds 110% of the accreted conversion price per share for at least 20 trading days in the period of 30 trading days ending on the first day of such three-month period; (ii) if the debentures trade at less than 95% of the value of the shares into which the debentures are convertible; (iii) if the debentures have been called for redemption; (iv) if Moody's Investors Service and Standard & Poor's Corporation no longer have investment-grade rating assigned to the notes; or (v) in the event of certain material distributions to holders of CD common stock, excluding payments of dividends in the normal course. The conversion threshold at maturity is 110% of the accreted conversion price per share. The accreted conversion price is subject to change as a result of any upward interest adjustment as it is calculated as the principal amount of the notes, plus accrued and unpaid cash interest (which will only result from an upward adjustment to the interest) divided by the number of shares of CD common stock issued for each note, or 39.08. At December 31, 2001, the accreted conversion price was $25.59. The Company concluded that it was not required to separately account for the conversion feature.

The notes are not redeemable by the Company prior to May 4, 2004, but will be redeemable thereafter at the issue price plus accrued interest, if any. In addition, holders of the notes may require the Company to repurchase the notes on May 4, 2002, 2004, 2006, 2008, 2011 and 2016 at the issue price plus accrued interest, if any. In such circumstance, the Company may, at its option, pay the repurchase price in cash, shares of our CD common stock, or any combination thereof.

These debentures are senior unsecured obligations and rank equally in right of payment with all the Company's existing and future senior unsecured indebtedness.

Upper DECS

During 2001, the Company issued approximately 17 million Upper DECS, each consisting of both a senior note and a forward purchase contract, aggregating $863 million principal amount. The senior note is owned by the holder but is pledged to the Company as collateral for the forward purchase contract. Holders can only sell the senior note if they pledge a treasury security or cash to replace the senior note as collateral. The senior note initially bears interest at an annual rate of 6.75%, which may be reset based upon a successful remarketing in either May or August 2004. The senior note has a term of five years and represents senior unsecured debt, which ranks equally in right of payment with all the Company's existing and future unsecured and unsubordinated debt and ranks senior to any future subordinated indebtedness.

The forward purchase contract component of each Upper DECS security requires the holder to purchase $50 of CD common stock in August 2004. The price at which Upper DECS holders will be required to purchase CD common stock will be the average closing price of CD common stock during the twenty consecutive trading days ending on the third trading day immediately preceding August 17, 2004, but no less than $21.53 and no more than $28.42. The minimum and maximum number of shares to be issued under the forward purchase contracts are 30.3 million to 40.1 million, respectively. Prior to August 2004, holders of the Upper DECS may settle their purchase obligations by delivering cash payment of $50 per purchase contract. For each purchase contract settled, the holders would receive 1.7593 of CD common stock (or approximately 30.3 million shares), regardless of the market price on that date, plus the senior notes released from collateral. The forward purchase contracts also require quarterly cash distributions to each holder at an annual rate of 1.00% through August 2004 (the date the forward purchase contracts are required to be settled). The discounted expected future cash flows recorded by the Company associated with these distributions approximated $26 million and is included as a component of stockholders' equity on the Company's Consolidated Balance Sheet.

Credit Facilities

As of December 31, 2001, the Company maintained $2.9 billion of revolving credit facilities. During 2001, the Company converted its then-existing $650 million term loan into a revolving credit facility and increased such facility by $500 million to establish a $1.15 billion committed revolving credit facility. Subsequent to the conversion, the Company repaid the original $650 million term loan from available cash which then increased its capacity under this facility to the maximum amount. The converted facility matures in February 2004 and now contains the committed capacity to issue up to $300 million in letters of credit. The remaining $1.75 billion of the Company's revolving credit facilities represents a three-year competitive advance maturing in August 2003. Under the terms of this facility, in August 2002, the revolving line will be reduced by $500 million to $1.25 billion. The facility contains the committed capacity to issue up to $1.75 billion in letters of credit, which can be used as part of the collateral required to be posted under the Settlement Agreement. Letters of credit of $865 million and $1.71 billion were utilized for this purpose and were outstanding at December 31, 2001 and 2000, respectively. Additionally, letters of credit of $328 million used for general corporate purposes were outstanding under these facilities at December 31, 2001. Borrowings under these facilities bear interest at LIBOR plus a margin of 60 to 82.5 basis points. The Company is required to pay a per annum facility fee of 15 to 17.5 basis points under these facilities and a per annum utilization fee of 12.5 to 25 basis points if usage under these facilities exceeds 33% of aggregate commitments. The interest rates and facility fees are subject to change based upon credit ratings assigned to the Company by nationally recognized debt rating agencies. At December 31, 2001, the Company had $1.7 billion of availability under these facilities.

Certain of these debt instruments and credit facilities contain restrictive covenants, including restrictions on indebtedness of material subsidiaries, mergers, limitations on liens, liquidations and sale and leaseback transactions, and also require the maintenance of certain financial ratios. At December 31, 2001, the Company was in compliance with all restrictive and financial covenants.

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Debt Maturities

As of December 31, 2001, aggregate maturities of debt, including Upper DECS, are as follows:

Year		Amount
2002	$	401
2003		1,150
2004[(a)]		863
2005		
2006		850
Thereafter		3,731
	$	6,995

(a) Represents Upper DECS, which will be settled in shares of CD common stock.

16. Liabilities Under Management and Mortgage Programs and Borrowing Arrangements

Borrowings to fund assets under management and mortgage programs, which are not classified based on contractual maturities since such debt corresponds directly with assets under management and mortgage programs, consisted of:

	December 31,	
	2001	2000
Secured Borrowings:		
Term notes	$ 6,237	$
Short-term borrowings	582	292
Commercial paper	120	
Other	295	
Unsecured Borrowings:		
Medium-term notes	679	117
Short-term borrowings	983	
Commercial paper	917	1,556
Other	31	75
	$ 9,844	$ 2,040

Secured Borrowings

Secured borrowings primarily represent asset-backed funding arrangements whereby the Company or its wholly-owned and consolidated special purpose entities issue debt or enter into loans supported by the cash flows derived from specific pools of assets classified as assets under management and mortgage programs. These borrowings are primarily issued under the Company's AESOP Funding or Greyhound Funding programs. AESOP Funding is a domestic financing program that provides for the issuance of up to $4.45 billion of variable rate notes to support the Company's car rental operations. Greyhound Funding is also a domestic financing program that provides for the issuance of up to $3.19 billion of variable rate notes, preferred membership interests and term notes to support the Company's fleet leasing operations. Under both programs, the debt issued is collateralized by vehicles owned by either the Company's car rental subsidiary or fleet leasing subsidiary. In the AESOP Funding program, the vehicles financed are generally covered by agreements where manufacturers guarantee a specified repurchase price for the vehicles. However, the program will allow funding for 25% of vehicles not covered by such agreements. The titles to all the vehicles supporting these facilities is held in bankruptcy remote trusts and the Company acts as a servicer of all the vehicles. For the Greyhound Funding facility, the bankruptcy remote trust also acts as lessor under both operating and financing lease agreements. At December 31, 2001, the Company had $3.5 billion of term notes outstanding under the AESOP funding program. At December 31, 2001, the Company had $2.9 billion of outstanding debt under the Greyhound Funding program, of which $2.6 billion and

$295 million were included as components of secured term notes and other secured borrowings, respectively, in the above table. All debt issued under these programs is classified as liabilities under management and mortgage programs on the Company's Consolidated Balance Sheet. During 2001, the weighted average interest rate on all secured notes was approximately 3%.

Secured short-term borrowings primarily consist of financing arrangements to sell mortgage loans under a repurchase agreement, which is renewable on an annual basis at the discretion of the lender. Such loans are collateralized by underlying mortgage loans held in safekeeping by the custodian to the agreement. The total commitment under this agreement is $500 million. Mortgage loans financed under this agreement at December 31, 2001 and 2000 totaled $500 million and $292 million, respectively, and are included in mortgage loans held for sale in the Consolidated Balance Sheets. During 2001 and 2000, the approximate weighted average interest rates on all short-term secured borrowings were 5.0% and 6.1%, respectively.

Secured commercial paper matures within 270 days and is supported by rental vehicles owned by the Company's car rental subsidiary. During 2001, the weighted average interest rate on the Company's outstanding commercial paper was approximately 2.0%.

Unsecured Borrowings

As of December 31, 2001, unsecured medium-term notes primarily bear interest at a rate of $8^{1}/_{8}$% per annum. Such interest rate is generally subject to incremental upward adjustments of 50 basis points in the event that the credit ratings assigned to PHH by nationally recognized credit rating agencies are downgraded to a level below PHH's ratings as of December 31, 2001. In the event that the credit ratings are downgraded below investment grade, the interest rate is subject to an upward adjustment not to exceed 300 basis points. During 2001 and 2000, the weighted average interest rates on these notes were approximately 8% and 6.8%, respectively. Unsecured short-term borrowings primarily represent borrowings under revolving credit facilities, as described below. During 2001, the weighted average interest rate on these borrowings was approximately 4.5%. Unsecured commercial paper generally matures within 270 days and is fully supported by the committed revolving credit agreements described below. During 2001 and 2000, the weighted average interest rates on the Company's unsecured outstanding commercial paper were 4.8% and 6.7%, respectively.

Credit Facilities

As of December 31, 2001, the Company, through its PHH subsidiary, maintained $1.875 billion of committed and unsecured credit facilities. The facilities comprise two $750 million revolving credit facilities maturing in February 2002 and February 2005, a $100 million revolving credit facility maturing in December 2002 and $275 million of other revolving credit facilities maturing in November 2002. During 2001, borrowings under these facilities bore interest at LIBOR plus a margin of approximately 40 basis points. The Company was also required to pay a per annum facilty fee of approximately 12.5 basis points under these facilities. The interest rates and facility fees are subject to change based upon credit ratings assigned to PHH by nationally recognized debt rating agencies.The Company is also required to pay a per annum utilization fee of approximately 25 basis points if usage under these facilities exceeds 25% of aggregate commitments. At December 31, 2001, the Company had outstanding borrowings of $750 million under its $750 million facility maturing in 2005. At December 31, 2001, the Company had $1.1 billion of availability under these facilities.

Certain of these debt instruments and credit facilities contain restrictive covenants, including restrictions on dividends paid to the Company by certain of its subsidiaries and indebtedness of material subsidiaries, mergers, limitations on liens, liquidations, and sale and leaseback transactions, and also require the maintenance of certain financial ratios. At December 31, 2001, the Company was in compliance with all restrictive and financial covenants.

Other Securitization Facilities

The Company also sells mortgage loans, relocation receivables and timeshare receivables in securitizations to special purpose entities under revolving sales agreement in exchange for cash.

Timeshare Receivables. The Company sells timeshare receivables in securitizations to bankruptcy remote qualifying special purpose entities. The maximum funding capacity under these securitization facilities is $500 million. These facilities are non-recourse to the Company. However, the Company retains a subordinated residual interest and the related servicing rights and obligations in the transferred timeshare receivables. At December 31, 2001, the Company was servicing approximately $492 million of timeshare receivables transferred under these agreements, which generally expire in July 2003.

Mortgage Loans. The company customarily sells all mortgage loans it originates into the secondary market, primarily to government-sponsored entities. These mortgage loans are placed into the secondary market either by the Company or through an unaffiliated bankruptcy remote special purpose entity. The maximum funding capacity through the special purpose entity is $3.2 billion. The loans sold to the secondary market are generally non-recourse to the Company and to PHH. However, the Company generally retains the servicing rights on the mortgage loans sold. At December 31, 2001, the Company was servicing $96.3 billion of mortgage loans sold to the secondary market and $2.5 billion sold to the special purpose entity. As of December 31, 2000, the Company was servicing $81.2 billion of mortgage loans sold to the secondary market and $1.0 billion sold to the special purpose entity. Additionally, on September 5, 2001, a wholly-owned special purpose subsidiary of PHH filed a registration statement with the Securities and Exchange Commission to enhance the Company's ability to securitize mortgages loans.

Relocation Receivables. The Company sells relocation receivables in securitizations to a bankruptcy remote qualifying special purpose entity. The maximum funding capacity under this securitization facility is $650 million. This facility is non-recourse to the Company and to PHH. However, the Company retains a subordinated residual interest and the related servicing rights and obligations in the relocation receivables. At December 31, 2001 and 2000, the Company was servicing approximately $620 million and $591 million, respectively, of relocation receivables transferred under this agreement, which expires in March 2007.

Debt Maturities

As of December 31, 2001, aggregate maturities of debt under management and mortgage programs are as follows:

Year	Amount	
2002	$	3,462
2003		1,140
2004		840
2005		1,123
2006		710
Thereafter		2,569
	$	9,844

17. Mandatorily Redeemable Preferred Interest in a Subsidiary

During 2000, a limited liability corporation formed by the Company through the contribution of certain trademarks issued a senior preferred equity interest to an independent third party in exchange for $375 million in cash. Such amount is classified as a mandatorily redeemable preferred interest in a subsidiary in the Company's Consolidated Balance Sheets. The senior preferred equity interest is mandatorily redeemable by the holder in 2015 and may not be redeemed by the Company prior to March 2005, except upon the occurrence of specified circumstances. The Company is required to pay distributions on the senior preferred equity interest based on the three-month LIBOR plus a margin of 1.77%, which are reflected as minority interest in the Consolidated Statements of Operations. In the event of a default or other specified events, including a downgrade of the Company's credit ratings below investment grade, holders of the senior preferred interest have certain remedies and liquidation preferences, including the right to demand payment by the Company. The subsidiary is subject to restrictive covenants, including restrictions on the issuance of senior capital securities, mergers, distributions on the common interest and limitations on debt incurred, and also requires the maintenance of certain financial ratios. At December 31, 2001, the Company was in compliance with all restrictive and financial covenants.

18. Mandatorily Redeemable Trust Preferred Securities Issued by Subsidiary Holding Solely Senior Debentures Issued by the Company

At January 1, 2000, the Company had 30 million PRIDES outstanding. During 2000, the Company issued 4 million additional PRIDES with a face value of $50 per additional PRIDES in exchange for approximately $91 million in cash proceeds. Upon the issuance of the additional PRIDES, the Company recorded a reduction to stockholders' equity of $108 million, representing the total future contract adjustment payments to be made.

During 2001, the Company offered to sell 15 million special PRIDES at a price in cash equal to 105% of their theoretical value, or $20.56 per special PRIDES. Pursuant to such offer, the Company issued 104,890 special PRIDES for proceeds of approximately $2 million, which were immediately converted into 241,624 shares of CD common stock. Subsequently, the Company settled the purchase contracts underlying all PRIDES. Accordingly, during 2001, the Company issued approximately 61 million shares of its CD common stock in satisfaction of its obligation to deliver common stock to beneficial owners of all PRIDES and received, in exchange, the trust preferred securities forming a part of the PRIDES.

Preferred stock dividends of $14 million ($9 million, after tax), $106 million ($66 million, after tax) and $96 million ($60 million, after tax) were recorded during 2001, 2000 and 1999, respectively, and are presented as minority interest, net of tax, in the Consolidated Statements of Operations.

19. Commitments and Contingencies

The Company is committed to making rental payments under noncancelable operating leases covering various facilities and equipment. Future minimum lease payments required under noncancelable operating leases as of December 31, 2001 are as follows:

Year	Amount	
2002	$	275
2003		219

Year	Amount
2004	167
2005	122
2006	94
Thereafter	436
	$ 1,313

Commitments under capital leases are not significant.

During 2001, 2000 and 1999, the Company incurred total rental expense of $331 million, $102 million and $104 million, respectively, inclusive of contingent rental expense of $56 million in 2001, principally based on car rental volume.

The Company maintains certain agreements with airports that allow the Company to conduct its car rental operations on-site. Such agreements require the Company to guarantee a minimum amount of fees to be paid to the airports regardless of the amount of revenue generated by the on-site car rental operations. Such fees are recorded by the Company as a component of total rental expense. During 2002, the Company is required to pay a minimum amount of $152 million under these agreements.

The Company leases certain office buildings on an annual basis from an unaffiliated finance company which holds the title to the property. At the end of each annual renewal period, the Company has the option to either purchase the property under a fixed price purchase option of approximately $80 million or sell the office buildings, on behalf of the lessor, to an unrelated third party. If the office buildings are sold and the proceeds from the sale are less than the amount of the fixed price purchase option, the Company is required to make a payment to the lessor for any deficiency, up to a maximum payment of approximately $68 million. During 2001, the Company recorded $4 million of rent expense in connection with this lease.

The Company maintains agreements with certain vehicle manufacturers, whereby the Company is required to purchase approximately $930 million of vehicles from these manufacturers during 2002. Under the terms of these agreements, which expire in 2004, the Company is required to purchase a certain number of vehicles principally from General Motors Corporation ("GM") and maintain at least 51% of its domestic fleet in GM vehicles.

The Company may be required to purchase $98 million of timeshare inventory from an affiliated entity during 2002 (see Note 25 Related Party Transactions for a detailed description of this relationship).

The June 1999 disposition of the Company's fleet businesses was structured as a tax-free reorganization and, accordingly, no tax provision was recorded on a majority of the gain. However, pursuant to an interpretive ruling, the Internal Revenue Service ("IRS") has taken the position that similarly structured transactions do not qualify as tax-free reorganizations under the Internal Revenue Code Section 368(a)(1)(A). If the transaction is not considered a tax-free reorganization, the resultant incremental liability could range between $10 million and $170 million depending upon certain factors, including utilization of tax attributes. Notwithstanding the IRS interpretive ruling, the Company believes that, based upon analysis of current tax law, its position would prevail, if challenged.

The Company is involved in litigation asserting claims associated with the accounting irregularities discovered in former CUC business units outside of the principal common stockholder class action litigation (see Note 14 Stockholder Litigation Settlement). The Company does not believe that it is feasible to predict or determine the final outcome or resolution of these unresolved proceedings. An adverse outcome from such unresolved proceedings could be material with respect to earnings in any given reporting period. However, the Company does not believe that the impact of such unresolved proceedings should result in a material liability to the Company in relation to its consolidated financial position or liquidity.

The Company is involved in pending litigation in the usual course of business. In the opinion of management, such other litigation will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

20. Stockholders' Equity

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss are as follows:

	Currency Translation Adjustments	Unrealized Losses on Cash Flow Hedges	Minimum Pension Liability Adjustment	Unrealized Gains (Losses) on Available-for-sale Securities	Accumulated Other Comprehensive Loss
Balance, January 1, 1999	$ (49)	$	$	$	$ (49)
Current period change	(9)			16	7
Balance, December 31, 1999	(58)			16	(42)
Current period change	(107)			(85)	(192)
Balance, December 31, 2000	(165)			(69)	(234)
Current period change	(65)	(33)	(21)	89	(30)
Balance, December 31, 2001	$ (230)	$ (33)	$ (21)	$ 20	$ (264)

The currency translation adjustments exclude income taxes related to indefinite investments in foreign subsidiaries.

Common Stock Transactions

In addition to the issuance of approximately 117 million shares of CD common stock in connection with the acquisition of Galileo and approximately 61 million shares of CD common stock to settle the purchase contracts underlying the PRIDES, the Company also issued 46 million shares of its CD common stock at $13.20 per share for aggregate proceeds of approximately $607 million during 2001. During 2000, Liberty Media Corporation ("Liberty Media") invested a total of $450 million in cash to purchase 24.4 million shares of CD common stock. Additionally, Liberty Media's Chairman purchased one million shares of CD common stock for approximately $17 million in cash during 2000. Liberty Media's Chairman is also a director of the Company.

The Company is authorized to repurchase $2.8 billion of CD common stock under its common share repurchase program. During 2001, 2000 and 1999, the Company repurchased $226 million (12.3 million shares), $306 million (17.5 million shares) and $1.75 billion (90.4 million shares), respectively, of CD common stock under the program. As of December 31, 2001, the Company had approximately $262 million remaining availability for repurchases under its board-authorized common share repurchase program.

During 2000, the Company issued approximately 3.7 million shares of Move.com common stock in exchange for $49 million in cash and a common stock investment then-valued at approximately $40 million. The Company subsequently repurchased 1.6 million of these shares during 2000 for $75 million in cash and a $25 million preferred stock investment. During 2001, the Company repurchased all the remaining outstanding shares of Move.com common stock for $29 million in cash and the transfer of 1.7 million shares of Homestore common stock then-valued at $46 million.

21. Stock Plans

Under its existing stock plans, the Company may grant stock options, stock appreciation rights and restricted shares to its employees, including directors and officers of the Company and its affiliates. Options granted under these plans generally have a ten-year term with vesting periods ranging from 20% to 50% per year. The Company generally grants employee stock options at then-current market rates. The Company is authorized to grant up to 347 million shares of its common stock under these plans. At December 31, 2001 and 2000, approximately 63 million and 53 million shares, respectively, were available for future grants under the terms of these plans.

The annual activity of the Company's stock option plans consisted of:

	CD common stock					
	2001		2000		1999	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Balance at beginning of year	187	$ 16.90	183	$ 15.24	178	$ 14.64
Granted						
Equal to fair market value	75	11.33	37	19.33	30	18.09
Greater than fair market value					1	16.04
Exercised	(28)	9.19	(19)	4.26	(13)	9.30
Canceled	(16)	18.46	(14)	18.93	(13)	19.91
Balance at end of year	218	$ 15.82	187	$ 16.90	183	$ 15.24

	Move.com common stock					
	2001		2000		1999	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Balance at beginning of year	6	$ 18.59	2	$ 11.59		$
Granted						
Less than fair market value			1	15.40	1	10.00
Equal to fair market value			3	24.21	1	13.16
Canceled	(6)	18.59				
Balance at end of year		$	6	$ 18.59	2	$ 11.59

The table below summarizes information regarding the Company's outstanding and exercisable stock options as of December 31, 2001:

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$0.01 to $10.00	82	6.2	$ 8.91	44	$ 8.44
$10.01 to $20.00	78	6.6	15.89	43	16.53
$20.01 to $30.00	40	5.8	22.51	29	22.75
$30.01 to $40.00	18	5.6	31.95	17	31.92
	218	6.2	$ 15.82	133	$ 17.14

The weighted-average grant-date fair value of CD common stock options granted during 2001, 2000 and 1999 were $5.27, $9.99 and $11.36, respectively. The weighted-average grant-date fair value of Move.com common stock options granted during 2000 and 1999 were $24.37 and $7.28, respectively.

Had the Company elected to recognize and measure compensation expense for its stock option grants to employees based on the calculated fair value at the grant dates, consistent with the method prescribed by SFAS No. 123, net income (loss) and per share data would have been as follows:

	2001		2000		1999	
	As Reported	**Pro Forma**	**As Reported**	**Pro Forma**	**As Reported**	**Pro Forma**
Net income (loss)	$ 385	$ 167	$ 602	$ 502	$ (55)	$ (213)
Basic net income (loss) per share	0.42	0.17	0.84	0.70	(0.07)	(0.28)
Diluted net income (loss) per share	0.41	0.16	0.81	0.68	(0.07)	(0.28)

The fair values of the Company's stock options are estimated on the dates of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for stock options granted in 2001, 2000 and 1999:

	CD common stock			Move.com common stock	
	2001	**2000**	**1999**	**2000**	**1999**
Dividend yield					
Expected volatility	50.0%	55.0%	60.0%		
Risk-free interest rate	4.4%	5.0%	6.4%	5.2%	6.4%
Expected holding period (years)	4.5	4.7	6.2	8.5	6.2

22. Employee Benefit Plans

The Company sponsors several defined contribution pension plans that provide certain eligible employees of the Company an opportunity to accumulate funds for retirement. The Company matches the contributions of participating employees on the basis specified in the plans. The Company's cost for contributions to these plans was $68 million, $29 million and $31 million during 2001, 2000 and 1999, respectively.

The Company maintains domestic non-contributory defined benefit pension plans covering certain eligible employees. Additionally, the Company sponsors contributory defined benefit pension plans in certain foreign subsidiaries with participation in the plans at the employees' option. Under both the domestic and foreign plans, benefits are based on an employee's years of credited service and a percentage of final average compensation. The Company's policy for all plans is to contribute amounts sufficient to meet the minimum requirements plus other amounts as deemed appropriate. The projected benefit obligations of the plans were $366 million and $110 million at December 31, 2001 and 2000, respectively. The fair value of the plan assets was $270 million and $101 million at December 31, 2001 and 2000, respectively. The net pension cost and recorded liability were not material to the accompanying Consolidated Financial Statements.

23. Financial Instruments

Consistent with its risk management policies, the Company manages foreign currency and interest rate risks using derivative instruments.

Foreign Currency Risk

The Company uses foreign currency forward contracts to manage its exposure to changes in foreign currency exchange rates associated with its foreign currency denominated receivables and forecasted royalties, forecasted earnings of foreign subsidiaries and forecasted foreign currency denominated acquisitions. The Company primarily hedges its foreign currency exposure to the British pound, Canadian dollar and Euro. The majority of forward contracts utilized by the Company do not qualify for hedge accounting treatment under SFAS No. 133. The fluctuations in the value of these forward contracts do, however, effectively offset the impact of changes in the value of the underlying risk that they are intended to economically hedge. Forward contracts that are used to hedge certain forecasted royalty receipts and forecasted disbursements up to 12 months are designated and do qualify as cash flow hedges. The impact of these forward contracts was not material to the Company's results of operations or financial position at December 31, 2001.

Interest Rate Risk

The Company's mortgage-related assets, its retained interests in certain qualifying special purpose entities and the debt used to finance much of the Company's operations are exposed to interest rate fluctuations. The Company uses various hedging strategies and derivative financial instruments to create a desired mix of fixed and floating rate assets and liabilities and to protect recognized assets

from unexpected changes in fair value that could affect reported earnings. Derivative instruments currently used in managing the Company's interest rate risks include swaps, forward delivery commitments and instruments with option features. A combination of fair value hedges, cash flow hedges and financial instruments that do not qualify for hedge accounting treatment under SFAS No. 133 are used to manage the Company's portfolio of interest rate sensitive assets and liabilities.

The Company uses fair value hedges to manage its mortgage servicing rights, mortgage loans held for sale and certain fixed rate debt. During 2001, the net impact of these fair value hedges was a gain of $3 million. These gains are included in net revenues within the Consolidated Statement of Operations and consist of losses of $57 million to reflect the ineffective portion of these fair value hedges and gains of $60 million resulting from the component of the derivatives fair value excluded from the determination of effectiveness. The derivatives used to manage the Company's fixed rate debt were perfectly effective and had no net impact on the Company's results of operations except to create the accrual of interest at variable rates.

The Company uses cash flow hedges to manage the interest expense incurred on its floating rate debt and on a portion of its principal common stockholder litigation settlement liability. During 2001, the amount of gains or losses reclassified from other comprehensive income to earnings, resulting from ineffectiveness or from excluding a component of the derivatives gain or loss from the effectiveness calculation, was not material to the Company's results of operations.

Credit Risk and Exposure

The Company is exposed to risk in the event of nonperformance by counterparties. The Company manages such risk by periodically evaluating the financial position and creditworthiness of counterparties and spreading its positions among multiple counterparties. The Company presently does not anticipate nonperformance by any of the counterparties and no material loss would be expected from such nonperformance. However, in the event of nonperformance, changes in fair value of the hedging instruments would be reflected in the Consolidated Statements of Operations during the period in which the nonperformance occurred. There were no significant concentrations of credit risk with any individual counterparties or groups of counterparties at December 31, 2001 and 2000. Concentrations of credit risk associated with trade receivables are considered minimal due to the Company's diverse customer base. Bad debts have been minimal. The Company does not normally require collateral or other security to support credit sales.

Fair Value

The carrying amounts of cash and cash equivalents, restricted cash, available-for-sale debt securities, accounts receivable, relocation receivables, accounts payable and accrued liabilities approximate fair value due to the short-term maturities of these assets and liabilities.

The fair value of financial instruments is generally determined by reference to market values resulting from trading on a national securities exchange or in an over-the-counter market. In cases where quoted market prices are not available, fair value is based on estimates using present value or other valuation techniques, as appropriate.

The carrying amounts and estimated fair values of all financial instruments at December 31, are as follows:

	2001	2000

	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	$ 1,942	$ 1,942	$ 856	$ 856
Restricted cash	212	212	89	89
Available-for-sale debt securities	515	515	787	787
Preferred stock investments	92	92	55	55
Debt				
Current portion of long-term debt	401	401		
Long-term debt, excluding Upper DECS	5,731	5,929	1,948	1,883
Upper DECS	863	836		
Mandatorily redeemable preferred interest in a subsidiary	375	375	375	375
Mandatorily redeemable preferred securities issued by subsidiary holding solely senior debentures issued by the Company			1,683	623
Derivatives				
Foreign exchange forwards	1	1	1	1
Interest rate swaps	(64)	(64)		
Assets under management and mortgage programs				
Mortgage loans held for sale	1,244	1,244	879	909
Timeshare contract receivables	150	150		
Mortgage servicing rights	2,037	2,174	1,653	1,724
Available-for-sale debt securities	136	136	131	131
Trading securities	105	105		
Restricted cash	861	861		
Derivatives [(a)]				
Commitments to fund mortgages	7	7		24
Forward delivery commitments	22	22	(6)	(29)
Commitments to complete securitizations			(2)	17
Option contracts	78	78	73	127
Constant maturity treasury floors	26	26	18	177
Swap contracts				15
Liabilities under management and mortgage programs				
Debt	9,844	9,790	2,040	2,040
Derivatives				
Interest rate swaps	(69)	(69)		
Foreign exchange forwards	(2)	(2)	(1)	(1)

(a) Carrying amounts and gains (losses) on mortgage-related positions are already included in the determination of respective carrying amounts and fair values of mortgage loans held for sale and mortgage servicing rights, respectively. Forward delivery commitments are used to manage price risk on sale of all mortgage loans to end investors, including commitments to complete securitizations on loans held by an unaffiliated buyer.

24. Transfers and Servicing of Financial Assets

The Company securitizes, sells and services interests in residential mortgage loans, relocation receivables and timeshare receivables. Upon the securitization of such assets, the Company may retain servicing rights and subordinated residual interests, all of which are considered retained interests in the securitized assets (see Note 1 Summary of Significant Accounting Policies for a more detailed description of securitizations).

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Key economic assumptions used during 2001 to measure the fair value of the Company's retained interests at the time of securitization were as follows:

	Mortgage Loans			
	Mortgage-Backed Securities	MSR	Relocation Receivables	Timeshare Receivables
Prepayment speed	7 43%	9 42%	%	13 21%
Weighted average life (in years)	2.9 7.2	2.5 9.1	0.1 0.2	7.1 7.4
Discount rate	5 26%	6 16%	3.37%	12 17%
Anticipated credit losses				8 12%

Key economic assumptions used in subsequently measuring the fair value of the Company's retained interests at December 31, 2001 and the effect on the fair value of those interests from adverse changes in those assumptions are as follows:

	Mortgage Loans			
	Mortgage Backed Securities	MSR(a)	Relocation Receivables	Timeshare Receivables
Fair value of retained interests	$ 131	$ 2,074	$ 136	$ 105
Weighted average life (in years)	3.9	7.6	0.1 0.2	7.1 7.4
Prepayment speed (annual rate)	8 80%	8 40%	%	13 21%
Impact of 10% adverse change	$ (4)	$ (86)	$	$ (2)
Impact of 20% adverse change	(7)	(166)		(3)
Discount rate (annual rate)	2 26%	9.80%	3.37%	12 17%
Impact of 10% adverse change	$ (5)	$ (71)	$	$ (3)
Impact of 20% adverse change	(8)	(138)		(5)
Weighted average yield to maturity	%	%	5.48%	3.06 6.75%
Impact of 10% adverse change	$	$	$ (1)	$ (1)
Impact of 20% adverse change			(1)	(2)
Anticipated credit losses (annual rate)	%	%	%	8 12%
Impact of 10% adverse change	$	$	$	$ (3)
Impact of 20% adverse change				(6)

(a) Excludes fair value of MSR hedge position of $100 million.

These sensitivities are hypothetical and presented for illustrative purposes only. Changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption is calculated without changing any other assumption; in reality, changes in one assumption may result in changes in another, which may magnify or counteract the sensitivities. Further, this analysis does not assume any impact resulting from management's intervention to mitigate these variations.

The Company receives annual servicing fees of approximately 47 basis points of the outstanding balance of mortgage loans sold. The Company receives annual servicing fees of approximately 75 basis points and 75 to 100 basis points on the outstanding balance of relocation and timeshare receivables transferred, respectively. During 2001, the Company recognized pre-tax gains on the securitization of relocation and timeshare receivables of $1 million and $8 million, respectively. Additionally, during 2001, the Company recognized pre-tax gains of $483 million on $36 billion of mortgage loans sold into the secondary market, substantially all of which were sold without recourse. The sale of mortgage loans into the secondary market is customary practice in the mortgage industry.

The following table summarizes cash flow activity between securitization trusts and the Company during 2001:

	Mortgage Loans	Relocation Receivables	Timeshare Receivables
Proceeds from new securitizations	$ 35,776	$ 1,964	$ 259
Proceeds from collections reinvested in securitizations		1,984	
Servicing fees received	352	5	4
Other cash flows received (paid) on retained interests[(a)]	31	(6)	16
Purchases of delinquent or foreclosed loans	(228)		(16)
Servicing advances	(498)		
Repayment of servicing advances	495		
Cash received upon release of reserve account		3	2
Purchases of defective contracts			(23)

(a) Represents cash flows received on retained interests other than servicing fees.

The following table presents information about delinquencies and components of securitized and other managed assets as of and for the year ended December 31, 2001:

	Total Principal Amount	Principal Amount 60 Days or More Past Due[(a)]	Net Credit Losses	Average Principal Balance
Residential mortgage loans[(b)]	$ 266	$ 25	$	$ 251
Relocation receivables	873	34	2	868
Timeshare receivables	667	5	22	646
Total securitized and other managed assets	$ 1,806	$ 64	$ 24	$ 1,765
Comprised of:				
Assets securitized[(c)]	$ 1,378	$ 35	$ 1	$ 1,280
Assets held for sale or securitization	175	4	22	213
Assets held in portfolio	253	25	1	272
	$ 1,806	$ 64	$ 24	$ 1,765

(a) Amounts are based on total securitized and other managed assets at December 31, 2001.

(b) Excludes securitized mortgage loans that the Company continues to service but as to which it has no other continuing involvement.

(c) Represents the principal amounts of the assets. All retained interests in securitized assets have been excluded from the table.

25. Related Party Transactions

The Company has certain relationships with affiliated entities principally to support its business model of growing earnings and cash flow with minimal asset risk. Following is a description of these relationships, including the Company's investments in such entities. The Company does not have the ability to control the operating and financial policies of these entities. Accordingly, these investments are classified as available-for-sale debt securities or accounted for using the equity method or at cost, as appropriate. Certain of the Company's officers may serve on the Board of Directors of these entities, but in no instances do they constitute a majority of the Board.

NRT Incorporated

NRT Incorporated ("NRT") is a joint venture between the Company and Apollo Management, L.P. ("Apollo") that acquires independent real estate brokerages, converts them to one of the Company's real estate brands and operates the brand under a 50-year franchise agreement with the Company. The original business purpose of this relationship was to permit the Company to maintain and expand its original business purpose as a franchisor in the lodging and residential real estate brokerage industries without directly competing with its existing franchisees. This structure permitted the Company to receive a royalty stream on NRT's revenues consistent with other franchisees and to receive a market rate return on the preferred investment. Upon NRT's formation, the Company committed to participate in acquisitions made by NRT by acquiring intangible assets and, in some cases, mortgage operations of the real estate

brokerage firms acquired by NRT, which result in the Company recording franchise agreements or other intangible assets on its Consolidated Balance Sheets. As of December 31, 2001, the Company had committed to participate in additional NRT acquisitions for which it would fund up to $592 million ($500 million of which will not be funded prior to February 2004).

Franchise agreements of $854 million and $607 million are recorded on the Company's Consolidated Balance Sheet in connection with this relationship as of December 31, 2001 and 2000, respectively. Except for the term and the lack of a royalty rebate provision, these franchise agreements are similar to those of the Company's other real estate franchisees. NRT pays royalty and advertising fees to the Company in connection with these franchise agreements based on the real estate commissions earned by NRT, which are recorded by the Company in its Consolidated Statements of Operations and approximated $220 million, $198 million and $172 million during 2001, 2000 and 1999, respectively. Additionally, during 2001, the Company received $16 million of other fees from NRT, which included a fee paid in connection with the termination of a franchise agreement under which NRT operated our Century 21 real estate brand.

Other intangible assets resulting from the acquisition of mortgage operations through NRT approximated $29 million and $25 million as of December 31, 2001 and 2000, respectively, and are recorded in the Company's Consolidated Balance Sheets. Such mortgage operations were immediately integrated into the Company's existing mortgage operations. The Company also receives real estate referral fees from NRT in connection with clients referred to NRT by the Company's relocation business. These fees are based on a standard real estate brokerage agreement, in which the franchisor receives approximately 40% of the commission. During 2001, 2000 and 1999, such fees were approximately $37 million, $25 million and $15 million, respectively, and are recorded by the Company in its Consolidated Statements of Operations. These fees are also paid to the Company by all other real estate brokerages (both affiliates and non-affiliates) who receive referrals from the Company's relocation business. In February 1999, the Company advanced $35 million to NRT for services to be provided related to the identification of potential acquisition candidates, the negotiation of agreements and other services in connection with future brokerage acquisitions by NRT. As NRT makes acquisitions, the Company capitalizes a proportionate share of this advance, which is then amortized over the term of the franchise agreement. As of December 31, 2001, the remaining balance of this advance was $12 million. Such amount is refundable in the event that services are not provided and therefore is accounted for as a prepaid asset until services are rendered by NRT.

Apollo's original investment in NRT consisted of a $20 million investment in NRT's common stock and a $54 million investment in NRT's preferred stock, which was subsequently redeemed in 1999. As of December 31, 2001, the Company owned all of NRT's preferred stock. This ownership entitles the Company to preferred dividends at 5% to 9% of its investment, which the Company negotiated with NRT and Apollo. The Company's initial preferred stock investment in NRT was $182 million. During 2001 and 2000, the Company acquired additional non-convertible preferred stock in the amounts of $99 million and $50 million, respectively. NRT's preferred stock is mandatorily redeemable and, therefore, is classified as an available-for-sale debt security and accounted for at fair value. Because the preferred stock of NRT is not publicly traded, the Company estimated fair value by reference to indices of publicly traded securities that had similar credit and maturity characteristics to those of NRT. Additionally, the Company considered NRT's financial ratios relative to those of broader public indices; NRT's borrowing rate on its senior debt adjusted to factor in additional basis points for subordinate/preferred funding based on spreads indicated in the marketplace; and finally also considered NRT's projected EBITDA for the subsequent 12-month period.

During 2001 and 2000, the Company recognized $27 million and $17 million, respectively, of dividend income, which increased the basis of the underlying preferred stock investment. During 1999, the Company recognized $16 million of dividend income, of which $8 million increased the basis of the underlying preferred stock and $8 million was received in cash. The Company sold $1 million (922 shares) and $2 million (1,647 shares) of its convertible preferred interest and recognized a gain of $10 million and $20 million during 2000 and 1999, respectively. At December 31, 2001 and 2000, the Company's investment in NRT's preferred stock was $384 million and $258 million, respectively. The Company has the option, upon the occurrence of certain events, to convert $21 million of its preferred stock investment into no more than 50% of NRT's common stock. As of December 31, 2001, none of the events that would have caused the preferred stock to be currently convertible had occurred and there was no common management between the Company, Apollo and NRT.

The Company also has the option to purchase all of NRT's common stock from Apollo for $20 million. This option is not exercisable until August 11, 2002 and is conditional upon NRT's payment of $166 million to Apollo. The Company may exercise the option prior to August 11, 2002 if it satisfies NRT's obligation. If NRT is unable to make the $166 million payment to Apollo, the Company would be required to make the payment on behalf of NRT and would receive additional NRT preferred stock in exchange. NRT has ten seats on its board of directors, four of which were under the Company's control as of December 31, 2001. In addition, without the consent of both Cendant and Apollo, NRT cannot make capital expenditures over $500,000; approve its business plan; engage in any affiliate transactions; acquire a brokerage for more than $2 million; appoint or terminate an officer; amend the by-laws, charter or material agreements; incur debt over $500,000; issue or redeem equity; sell assets or combine with any business; file a registration statement; settle any litigation or pay a dividend.

Trip Network, Inc.

During March 2001, the Company funded the creation of Trip Network, Inc. ("Trip Network"), formerly Travel Portal, Inc., with a contribution of assets valued at approximately $20 million in exchange for all of the common and preferred stock of Trip Network. The Company transferred all of the common shares of Trip Network to the Hospitality Technology Trust, an independent technology trust that is controlled by three independent trustees who are not officers, directors or employees of Cendant or relatives of officers, directors or employees of Cendant. The trust was established in 1997 for purposes of enhancing and promoting the use of advanced technology for the Company's lodging brands, its beneficiaries, including providing financial and technology support services and investing in Internet related activities for the benefit of its beneficiaries. The hotel franchise chains have agreed to link their brand and property Web sites to Trip.com, for among other reasons because of their beneficial interest in the trust. Management believes that the enhanced functionality for the brand and property Web pages to be provided by Trip.com links will help build customer loyalty and avoid the problem of viewers leaving the brand and property Web sites for the sites of competitors. Additionally, management believes that the aggregate links of all franchisee properties creates critical mass and web-traffic for Trip Network, further enhancing its ability to be successful. If Trip Network is successful, then management believes the common shares will likely appreciate in value and upon a liquidation of shares, will provide the trust with further resources to pursue its stated objectives. Further, as Trip Network provides travel services to both the Company's franchisees as well as non-franchisees, the Company's contribution of the Trip Network common stock to the Hospitality Technology Trust supported to maintain and further expand its business model as a franchisor whereby the Company was not directly involved in a business which would compete with its franchisees.

The Company's preferred stock investment, which is convertible into approximately 80% of Trip Network's common stock on a fully diluted basis, is accounted for using the cost method. The preferred stock investment is not convertible prior to March 31, 2003, except upon a change of control of Trip Network. Subsequently, the Company contributed $85 million, including $45 million in cash and 1.5 million shares of Homestore common stock, then-valued at $34 million, to Trip Network to pursue the development of an online travel business for the benefit of certain of its current and future franchisees. Since the advance is repayable to the Company only if the development results in the achievement of certain financial results, such amount was expensed by the Company during 2001 and is included as a component of restructuring and other unusual charges in the Consolidated Statement of Operations. The Company also received warrants to purchase up to 28,250 shares of Trip Network's common stock, which are exercisable upon the achievement of certain financial results beginning on March 31, 2003 or upon a change of control of Trip Network at an exercise price of $0.01 per share. This arrangement is consistent with the Company's strategy of creating a single platform to research and develop internet related products within an integrated business plan. Since the Company does not have the in-house expertise to manage and develop Internet

Web sites, the Company outsourced the management of its Internet assets to Trip Network through the existing arangement.

During October 2001, the Company entered into two separate lease and licensing agreements with Trip Network, whereby, Trip Network was granted a license to operate the online businesses of Trip.com, Inc. and Cheap Tickets (both wholly-owned subsidiaries of the Company) and a lease or sublease, as applicable, to all the assets of these companies necessary to operate such businesses. The Trip.com license

agreement has a one-year term and is renewable at Trip Network's option for 40 additional one-year periods. The Cheaptickets.com license agreement has a 40-year term. Under these agreements, the Company receives a license fee of 3% of revenues generated by Trip.com and Cheaptickets.com during the term of the agreements. The Company also received warrants to purchase up to 46,000 shares of Trip Network common stock, which are exercisable, at the Company's option, at a price of $0.01 per share, upon the achievement of certain financial results beginning in October 2003 or upon a change of control of Trip Network. The royalty rate and warrants were negotiated with and approved by Trip Network's board of directors. The Company proposed its royalty rate based upon market rate analysis of similar licensing type agreements. Also during October 2001, the Company entered into a travel services agreement with Trip Network, whereby the Company provides Trip Network with call center services. In addition, the Company processes and supports Trip Network's booking and fulfillment of travel transactions and provides travel-related products and services to maintain and develop relationships, discounts and favorable commissions with travel vendors. For these services, the Company receives a fee of cost plus an applicable mark-up, which was determined based upon the examination of travel agency industry profit margins. During 2001, the revenue received by Company in connection with these agreements was not material. Additionally, during October 2001, the Company entered into a 40-year global distribution services subscriber agreement with Trip Network, whereby the Company provides all global distribution services for Trip Network. The Company is not obligated or contingently liable for any debt incurred by Trip Network. The Company recorded a prepaid asset of approximately $40 million in connection with this agreement, which is being amortized over 40 years. The $40 million was computed as the present value of the expected benefit the Company would realize in lieu of paying financial assistance at market rates for expected volumes at an appropriate discount rate. Amortization of the asset is calculated in direct proportion to the expected cash flow benefits.

FFD Development Company, LLC

Prior to the Company's acquisition of Fairfield in April 2001, Fairfield contributed approximately $60 million of timeshare inventory and $4 million of cash to FFD Development Company LLC. ("FFD"), a company created by Fairfield to acquire real estate for construction of vacation ownership units, which are sold to Fairfield upon completion. Fairfield previously operated its own property acquisition, planning, design and construction function. This function was transferred to FFD immediately prior to the Company's acquistion of Fairfield. Former Fairfield employees who were responsible for the timeshare property development became employed by FFD as part of the spin-off. Given the extensive knowledge of Fairfield's standards and specifications as it related to the procurement of property and planning and construction of the timeshares, the Company continues to rely on the relationship between Fairfield and FFD.

In exchange for the contribution of timeshare inventory and cash, Fairfield received all of the common and preferred equity interests of FFD. Fairfield then contributed all the common equity interest to an independent trust and retained a convertible preferred equity interest, which is convertible at any time, and a warrant to purchase FFD's common equity. The warrant is not exercisable until April 2004, except upon the occurrence of specified events, including the Company's conversion of more than half of its preferred equity interests into common equity interests. In connection with the Company's acquisition of Fairfield in April 2001, the Company, through its Fairfield subsidiary, now owns the preferred equity interest and the warrant to purchase a common equity interest in FFD. The Company's preferred equity interest, which approximated $59 million at December 31, 2001, is accounted for using the cost method. The warrant is exercisable in whole or in increments of 25% upon payment in cash or in kind of an amount per percentage of common interest exercised, which is equal to the lower of 80% of the book value per common interest as of April 2, 2001 and 90% of the book value per common interest as of the warrant exercise date. During 2001, the Company recognized dividend income on its preferred interest of $6 million, which was paid-in-kind on a quarterly basis based upon a 17.4% annual return on its preferred equity interest in FFD. The dividend rate was agreed upon in FFD's amended operating agreement among Fairfield, FFD and the independent trust. Upon the conversion of such preferred equity interests and the exercise of such warrant, the Company would own approximately 75% of FFD's common equity interests on a fully diluted basis. The Company is also now obligated to fulfill Fairfield's purchase commitments with FFD. However, under the development contracts with FFD, the Company is not obligated to purchase a resort property from FFD until construction is completed to the contractual specifications, a certificate of occupancy is delivered and clear title is obtained. Fairfield also leases office space to FFD and provides various services to FFD in exchange for a fee, including general management services, information and technology support and human resources administration. During 2001, the Company purchased $40 million of timeshare interval inventory and land from FFD and as of December 31, 2001, is obligated to purchase an additional $98 million. FFD is obligated to finance, plan, design and construct vacation ownership units according to Fairfields's specifications and deliver those units according to an agreed schedule at agreed purchase prices. The schedule and prices allow for FFD to charge cost plus an applicable mark-up which was 18% in 2001. Such fee arrangement is provided by in the operating agreement between Fairfield and FFD. Subsequent to December 31, 2001, as is customary in "build to suit" agreements, when the Company contracts with FFD for the development of a property, the Company will issue a letter of credit for up to 20% of its purchase price for such property. Drawing under all such letters of credit will only be permitted if the Company fails to meet its obligation under any purchase commitment. The Company is not obligated or contingently liable for any debt incurred by FFD.

Trilegiant Corporation

On July 2, 2001, the Company entered into an agreement with Trilegiant Corporation ("Trilegiant"), a newly-formed company owned by the former management of the Company's Cendant Membership Services and Cendant Incentives subsidiaries, whereby the Company outsourced its individual membership and loyalty business to Trilegiant. Trilegiant operates membership-based clubs and programs and other incentive-based programs. As part of this agreement, Trilegiant provides fulfillment services (including collecting cash, paying commissions, processing refunds, providing membership services and benefits and maintaining specified service level standards) to members of the Company's individual membership business that existed as of the transaction date in exchange for a servicing fee pursuant to the Third Party Administrator agreement, which is cost plus 10%. During 2001, the Company paid Trilegiant $106 million in connection with services provided under the Third Party Administrator agreement and Trilegiant collected $212 million of cash on the Company's behalf in connection with membership renewals. Additionally, as of December 31, 2001, Trilegiant owed the Company $7 million in connection with services provided under the Third Party Administrator agreement.

Additionally, Trilegiant is licensing and/or leasing from the Company the assets of the Company's individual membership business in order to service these members and also to obtain new members. The assets licensed to Trilegiant include various tradenames, trademarks, logos, service marks, and other intellectual property relating to its membership business. Upon expiration of the licensing term (40 years), Trilegiant will have the option to purchase any or all of the intellectual property licenses at their then-fair market values. Real property owned by the Company was leased to Trilegiant on a monthly basis at rates that approximated the Company's depreciation expense. In connection with the licensing and leasing arrangements. Trilegiant paid the Company $7 million in 2001 and owed the Company an additional $2 million as of December 31, 2001.

The Company continues to collect membership fees from, and is obligated to provide membership benefits to, existing members as of July 2, 2001, including their renewals. Trilegiant collects the membership fees from, and is obligated to provide membership benefits to, those new members who join the membership based clubs and programs and all other incentive programs subsequent to July 2, 2001 and will recognize the related revenue and expenses. Beginning in third quarter 2002 and throughout the remainder of the 40-year term of the licensing agreement, the Company will recognize as revenue the royalty income received from Trilegiant for membership fees generated by the new members (initially 5%, increasing to approximately 16% over 10 years).

In connection with the foregoing arrangements, the Company advanced approximately $100 million in cash and $33 million of prepaid assets to Trilegiant to support their marketing activities and also made a $20 million convertible preferred stock investment in Trilegiant, which is convertible, at the Company's option, into approximately 20% of Trilegiant's common stock on a fully diluted basis. The Company accounted for the entire advance to Trilegiant as a prepaid expense at the date of advance. The purpose of the advance was to help Trilegiant fund qualified marketing costs associated with obtaining new members whose revenue would become subject to royalties paid to the Company. The Company expenses such advance as Trilegiant incurs qualified marketing expenses pursuant to the terms of the advance. During 2001, the Company expensed $66 million of the advance. As of December 31, 2001, the remaining balance of this prepaid expense approximated $67 million and was classified as a component of other non-current assets on the Company's Consolidated Balance Sheet.

The Company's preferred stock investment is mandatorily redeemable and, therefore, classified as an available-for-sale debt security and accounted for at fair value. The preferred stock investment is convertible at any time at the Company's option and the Company is entitled to receive a 12% cumulative non-cash dividend annually through July 2006. During third quarter 2001, the Company wrote off the entire amount of its preferred stock investment due to operating losses incurred by Trilegiant and the fact that this entity had relatively thin common equity capitalization since inception. Such amount is included as a component of operating expenses in the Company's Consolidated Statement of Operations.

The Company also provides Trilegiant with a $35 million revolving line of credit under which advances are at the sole and unilateral discretion of the Company. As of December 31, 2001, Trilegiant had not drawn on this line. During August 2001, Trilegiant entered into marketing agreements with a third party, whereby Trilegiant will provide certain marketing services to the third party in exchange for a commission. As part of its royalty arrangement with Trilegiant, the Company will receive 13% of the commissions paid by the third party to Trilegiant. In connection with these marketing agreements, the Company provided Trilegiant with a $75 million loan facility bearing interest at a rate of 9% under which the Company will advance funds to Trilegiant for marketing performed by Trilegiant on behalf of the third party. As of December 31, 2001, the outstanding loan balance under this facility was $24 million. Such amount is accounted for as a note receivable and included in other non-current assets on the Company's Consolidated Balance Sheet. The Company evaluates the collectibility of the note at the end of each reporting period. The Company will collect the receivable as commissions are received by Trilegiant from the third party.

Additionally, the Company maintains warrants to purchase up to 2.1 million shares of Trilegiant's common stock, which are exercisable, at the Company's option, at an exercise price of $0.01 per share, upon the achievement of certain business valuations ranging from $200 million to $750 million, into a majority ownership interest in Trilegiant. The Company is not obligated or contingently liable for any debt incurred by Trilegiant.

Avis Group Holdings, Inc.

Prior to the Company's acquisition of Avis on March 1, 2001, the Company maintained both a common and preferred equity interest in Avis and licensed its Avis® trademark to Avis pursuant to a license agreement. Under such agreement, the Company received royalty fees of $16 million, $103 million and $102 million during 2001, 2000 and 1999, respectively, which are recorded in the Company's Consolidated Statements of Operations.

The Company recorded equity in earnings of $5 million, $17 million and $18 million during 2001, 2000 and 1999, respectively, in connection with its common equity ownership. Such amounts are included as a component of other revenue in the Consolidated Statements of Operations. The Company's common stock investment in Avis, which approximated $128 million, and the Company's preferred equity interest, which approximated $394 million, were included as components of Cendant's net investment in Avis upon consummation of the acquisition.

Tax Services of America, Inc.

Tax Services of America, Inc. ("TSA") was formed as a joint venture between the Company and two of its Jackson Hewitt franchisees for the purpose of acquiring independent tax practices and converting them into Jackson Hewitt franchisees. In 1999, the Company initially funded TSA with 80 stores and $5 million in cash in exchange for a preferred stock investment. Simultaneously with the Company's contribution to TSA, the Company's joint venture partners contributed a total of 40 stores to TSA in exchange for shares of common stock of TSA. As of December 31, 2001, the Company's preferred stock investment of $37 million was accounted for using the cost method.

Homestore.com, Inc.

The Company's relationship with Homestore is primarily limited to its equity ownership interest. The Company has a number of non-material commercial agreements with Homestore. In connection with the write-down during 2001, this investment is recorded at zero as of December 31, 2001 (see Note 4 Dispositions of Businesses and Impairment of Investments).

Entertainment Publications, Inc.

The Company retains approximately 15% of the common equity ownership in Entertainment Publications, Inc., the remaining common equity of which was sold by the Company in 1999. As of December 31, 2001, the Company's investment of $2 million was accounted for using the equity method. The Company has no other commitments relating to this investment.

Summarized Financial Data

Summarized below is the financial data of the Company's related party transactions:

Income Statement Data

	Year Ended December 31,		
	2001	2000	1999
Revenues	$ 368	$ 511	$ 458
Expenses			
Operating	221		
Marketing and reservation	3	1	
Non-program related depreciation and amortization	18	14	11
Restructuring and other unusual charges	85		

Balance Sheet Data

	December 31,	
	2001	2000
Receivables, net	$ 50	$ 66
Other current assets	100	17
Franchise agreements, net	802	576
Other intangibles, net	29	25
Other non-current assets*	486	298
Deferred income long-term	$ 2	$

*
Represents preferred stock investments.

Cash Flow Data

	Year Ended December 31,		
	2001	2000	1999
Purchases of non-marketable securities	$ (98)	$ (73)	$ (5)
Net assets acquired	(1,020)	(76)	(93)

26. Segment Information

In connection with significant acquisitions and dispositions of businesses completed during 2001, the Company realigned the operations and management of certain of its businesses. Accordingly, the Company's segment reporting structure now encompasses the following five reportable segments: Real Estate Services, Hospitality, Travel Distribution, Vehicle Services and Financial Services. The

periods presented herein have been reclassified to reflect this change in the Company's segment reporting structure.

Management evaluates each segment's performance based upon earnings before non-vehicle interest, income taxes, non-vehicle depreciation and amortization, minority interest and equity in Homestore.com, adjusted to exclude certain items which are of a non-recurring or unusual nature and are not measured in assessing segment performance or are not segment specific ("Adjusted

EBITDA"). Management believes such discussions are the most informative representation of how management evaluates performance. However, the Company's presentation of Adjusted EBITDA may not be comparable with similar measures used by other companies.

A description of the services provided within each of the Company's reportable segments is as follows:

Real Estate Services

The Real Estate Services segment franchises the Company's three real estate brands, provides home buyers with mortgages and facilitates employee relocations. The Company licenses the owners and operators of independent real estate brokerage businesses to use its brand names. Operational and administrative services are provided to franchisees, which are designed to increase franchisee revenue and profitability. Such services include advertising and promotions, referrals, training and volume purchasing discounts. Mortgage services includes the origination, sale and servicing of residential mortgage loans. The Company markets a variety of mortgage products to consumers through relationships with corporations, affinity groups, financial institutions, real estate brokerage firms and other mortgage banks. The Company customarily sells all mortgages it originates to investors while generally retaining mortgage servicing rights. Mortgage servicing consists of collecting loan payments, remitting principal and interest payments to investors, holding escrow funds for payment of mortgage-related expenses such as taxes and insurance, and otherwise administering the Company's mortgage loan servicing portfolio. Relocation services are provided to client corporations for the transfer of their employees. Such services include appraisal, inspection and selling of transferees' homes, providing equity advances to transferees (generally guaranteed by the corporate customer), purchasing of a transferee's home, certain home management services, assistance in locating a new home for the transferee at the transferee's destination, consulting services and other related services. The transferee's home is purchased under a contract of sale and the Company obtains a deed to the property; however, it does not generally record the deed or transfer title. Transferring employees are provided equity advances on the home based on their ownership equity of the appraised home value. The mortgage is generally retired concurrently with the advance of the equity and the purchase of the home. Based on its client agreements, the Company is given parameters under which it negotiates for the ultimate sale of the home. The gain or loss on resale is generally borne by the client corporation. In certain transactions, the Company will assume the risk of loss on the sale of homes; however, in such transactions, the Company will control all facets of the resale process, thereby limiting its exposure.

Hospitality

The Hospitality segment franchises the Company's nine lodging brands, facilitates the sale and exchange of vacation ownership intervals and facilitates the leasing of vacation properties in Europe. As a franchiser of guest lodging facilities, the Company licenses the independent owners and operators of hotels to use its brand names. Operation and administrative services are provided to franchisees, which include access to a national reservation system, national advertising and promotional campaigns, co-marketing programs and volume purchasing discounts. As a provider of vacation and timeshare exchange services, the Company enters into affiliation agreements with resort property owners/developers to allow owners of weekly timeshare intervals to trade their owned weeks with other subscribers. As an owner of vacation resort properties and inventory, the Company markets and sells vacation ownership interests, operates vacation ownership resorts and provides consumer financing to individuals purchasing vacation ownership interests.

Travel Distribution

The Travel Distribution segment provides global distribution and travel agency services. The Company provides scheduling, fare and other information to global travel agencies, Internet travel sites, corporations and individuals to assist them with the placement of airline, car rental and hotel reservations. Such services are provided through the use of a computerized reservation system. The Company also provides airline, car rental, hotel and other companies travel reservation and fulfillment services to members of its timeshare exchange programs and members of certain of Trilegiant's programs. Further, the Company provides hotels, car rental businesses and tour/leisure travel operators, including Internet travel companies, with access to reservation systems and processing.

Vehicle Services

The Vehicle Services segment operates and franchises the Avis car rental brand and provides fleet management and fuel card services. The Company owns and operates the Avis car rental franchise system and franchises vehicle rentals to business and leisure travelers. The Company also provides fleet and fuel card related products and services to corporate clients and government agencies. These services included management and leasing of vehicles, fuel card payment and reporting and other fee-based services for clients' vehicle fleets. The Company leases vehicles primarily to corporate fleet users under operating and direct financing lease arrangements where the customer bears substantially all of the vehicle's residual value risk. In limited circumstances, the Company leases vehicles under closed-end leases where the Company bears all of the vehicle's residual value risk.

Financial Services

The Financial Services segment provides insurance-based products, franchises tax preparation services and provides a variety of membership programs. The Company affiliates with business partners, such as leading financial institutions and retailers, to offer membership as an enhancement to their credit card customers. The Company also markets and administers insurance products, primarily accidental death and dismemberment insurance and term life insurance, and provides services such as checking account enhancement packages, various financial products and discount programs, to financial institutions, which, in turn, provide these services to their customers. The Company franchises tax preparation services through its Jackson Hewitt brand name. The Company, through its relationship with Trilegiant Corporation, also provides consumers with a variety of membership programs offering discounted products and services in such areas as retail shopping, auto, dining, home improvement and credit information.

Year Ended December 31, 2001

	Real Estate Services	Hospitality[(a)]	Travel Distribution	Vehicle Services
Net revenues[(b)]	$ 1,859	$ 1,522	$ 437	$ 3,322
Adjusted EBITDA	939	513	108	290
Non-vehicle depreciation and amortization	116	119	26	102
Segment assets exclusive of assets under programs[(c)]	3,826	2,957	3,854	4,260
Assets under management and mortgage programs	3,573	222		8,073
Capital expenditures	41	70	22	74

	Financial Services	Corporate and Other[(d)]	Total
Net revenues[(b)]	$ 1,402	$ 71	$ 8,613
Adjusted EBITDA	310	(73)	2,087
Non-vehicle depreciation and amortization	73	41	477
Segment assets exclusive of assets under programs[(c)]	1,611	3,858	20,366
Assets under management and mortgage programs			11,868
Capital expenditures	64	58	329

Year Ended December 31, 2000

	Real Estate Services	Hospitality[(a)]	Travel Distribution	Vehicle Services
Net revenues[(b)]	$ 1,461	$ 918	$ 99	$ 230
Adjusted EBITDA	752	385	10	169
Non-vehicle depreciation and amortization	103	80	2	21
Segment assets exclusive of assets under programs[(c)]	3,262	1,906	22	1,292
Assets under management and mortgage programs	2,861			
Capital expenditures	39	38	1	1

	Financial Services	Corporate and Other[(d)]	Total
Net revenues[(b)]	$ 1,380	$ 232	$ 4,320
Adjusted EBITDA	373	(104)	1,585
Non-vehicle depreciation and amortization	59	56	321
Segment assets exclusive of assets under programs[(c)]	1,525	2,884	10,891
Assets under management and mortgage programs			2,861
Capital expenditures	74	39	192

Year Ended December 31, 1999

	Real Estate Services	Hospitality[(a)]	Travel Distribution	Vehicle Services
Net revenues[(b)]	$ 1,383	$ 920	$ 91	$ 1,109
Adjusted EBITDA	727	420	7	246
Non-vehicle depreciation and amortization	95	76	2	36
Segment assets exclusive of assets under programs[(c)]	3,225	1,908	21	1,305
Assets under management and mortgage programs	2,726			
Capital expenditures	69	51	1	24

	Financial Services	Corporate and Other	Total
Net revenues[(b)]	$ 1,518	$ 734	$ 5,755
Adjusted EBITDA	305	89	1,794
Non-vehicle depreciation and amortization	58	71	338
Segment assets exclusive of assets under programs[(c)]	1,415	3,344	11,218
Assets under management and mortgage programs			2,726
Capital expenditures	47	47	239

(a) Net revenues and Adjusted EBITDA include the equity in earnings from the Company's investment in Avis of $5 million, $17 million and $18 million in 2001, 2000 and 1999, respectively. Net revenues and Adjusted EBITDA for 1999 include a pre-tax gain of $11 million and $18 million, respectively, as a result of the sale of a portion of the Company's equity interest. Segment assets include such equity method investment in the amount of $132 million and $118 million at December 31, 2000 and 1999, respectively.

(b) Inter-segment net revenues were not significant to the net revenues of any one segment.

(c) Excludes assets of discontinued operations.

(d) Includes the Company's equity investment of $2 million and $1 million in Entertainment Publication, Inc. at December 31, 2001 and 2000, respectively.

Provided below is a reconciliation of Adjusted EBITDA to income (loss) before income taxes, minority interest and equity in Homestore.com.

	Year Ended December 31,		
	2001	2000	1999
Adjusted EBITDA	$ 2,087	$ 1,585	$ 1,794
Non-vehicle depreciation and amortization	(477)	(321)	(338)
Other charges:			
Restructuring and other unusual charges	(379)	(109)	(117)
Acquisition and integration related costs	(112)		
Mortgage servicing rights impairment	(94)		
Litigation settlement and related costs	(86)	(2)	(2,915)
Non-vehicle interest, net	(252)	(152)	(201)
Net gain (loss) on dispositions of businesses and impairment of investments	(24)	(8)	1,109
Income (loss) before income taxes, minority interest and equity in Homestore.com	$ 663	$ 993	$ (668)

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The geographic segment information provided below is classified based on the geographic location of the Company's subsidiaries.

	United States	United Kingdom	All Other Countries	Total
2001				
Net revenues	$ 7,842	$ 240	$ 531	$ 8,613
Total assets[a]	28,386	831	3,017	32,234
Net property and equipment	1,269	38	87	1,394
2000				
Net revenues	$ 3,955	$ 161	$ 204	$ 4,320
Total assets[a]	13,026	604	122	13,752
Net property and equipment	672	27	36	735
1999				
Net revenues	$ 4,916	$ 548	$ 291	$ 5,755
Total assets[a]	11,722	2,010	212	13,944
Net property and equipment	590	98	34	722

(a) Excludes assets of discontinued operations.

27. Selected Quarterly Financial Data (unaudited)

Provided below is selected unaudited quarterly financial data for 2001 and 2000. The underlying diluted per share information is calculated from the weighted average common and common stock equivalents outstanding during each quarter, which may fluctuate based on quarterly income levels, market prices and share repurchases. Therefore, the sum of the quarters' per share information may not equal the total year amounts presented on the Consolidated Statements of Operations.

	2001			
	First[a]	**Second[b]**	**Third[c]**	**Fourth[d]**
Net revenues	$ 1,411	$ 2,319	$ 2,389	$ 2,494
Adjusted EBITDA	$ 418	$ 556	$ 570	$ 543
Income (loss) from continuing operations	$ 261	$ 220	$ 186	$ (326)
Income from discontinued operations, net of tax	16	22	24	19
Cumulative effect of accounting changes, net of tax	(38)			
Net income (loss)	$ 239	$ 242	$ 210	$ (307)
CD common stock per share information:				
Basic				
Income (loss) from continuing operations	$ 0.30	$ 0.26	$ 0.22	$ (0.33)
Net income (loss)	$ 0.28	$ 0.29	$ 0.25	$ (0.31)
Weighted average shares	790	851	857	978
Diluted				

	2001			
Income (loss) from continuing operations	$ 0.28	$ 0.25	$ 0.21	$ (0.33)
Net income (loss)	$ 0.26	$ 0.27	$ 0.23	$ (0.31)
Weighted average shares	830	905	912	978
CD common stock market prices:				
High	$ 14.76	$ 20.37	$ 21.53	$ 19.81
Low	$ 9.625	$ 13.89	$ 11.03	$ 12.04

	2001			
	First[(a)]	Second[(b)]	Third[(c)]	Fourth[(d)]
Move.com common stock per share information:				
Basic				
Income (loss) from continuing operations	$ 10.41	$ (0.63)		
Net income (loss)	$ 10.34	$ (0.63)		
Weighted average shares	2	1		
Diluted				
Income (loss) from continuing operations	$ 10.13	$ (0.63)		
Net income (loss)	$ 10.07	$ (0.63)		
Weighted average shares	3	1		

(a) Includes a net gain of $435 million ($261 million, after tax or $0.28 per diluted share) related to the dispositions of businesses and a non-cash credit of $14 million ($9 million, after tax or $0.01 per diluted share) in connection with an adjustment to the PRIDES settlement. Such amounts were partially offset by charges of (i) $95 million ($62 million, after tax or $0.07 per diluted share) to fund an irrevocable contribution to an independent technology trust, (ii) $85 million ($56 million, after tax or $0.07 per diluted share) incurred in connection with the creation of Travel Portal, Inc., (iii) $25 million ($15 million, after tax or $0.02 per diluted share) for litigation settlement and related costs, (iv) $7 million ($5 million, after tax or $0.01 per diluted share) related to a non-cash contribution to the Cendant Charitable Foundation and (v) $8 million ($5 million, after tax or $0.01 per diluted share) related to the acquisition and integration of Avis Group.

(b) Includes $9 million ($5 million, after tax or $0.01 per diluted share) of litigation settlement and related costs.

(c) Includes charges of $77 million ($50 million, after tax or $0.05 per diluted share) related to the September 11th terrorist attacks and $9 million ($6 million, after tax or $0.01 per diluted share) of litigation settlement and related costs.

(d) Includes charges of (i) $116 million ($73 million, after tax or $0.07 per diluted share) in connection with restructuring and other initiatives undertaken as a result of the September 11th terrorist attacks, (ii) $104 million ($65 million, after tax or $0.07 per diluted share) related to the acquisition and integration of Galileo International, Inc. and Cheap Tickets, Inc., (iii) $94 million ($55 million, after tax or $0.06 per diluted share) related to the impairment of the Company's mortgage servicing rights portfolio, (iv) $58 million ($37 million, after tax or $0.04 per diluted share) for litigation settlement and related costs, (v) $441 million ($265 million, after tax or $0.27 per diluted share) related to impairment of certain of the Company's investments and (vi) losses of $18 million ($20 million, after tax or $0.02 per diluted share) related to the dispositions of non-strategic businesses.

	2000			
	First[(a)]	Second[(b)]	Third[(c)]	Fourth[(d)]
Net revenues	$ 1,041	$ 1,063	$ 1,145	$ 1,071
Adjusted EBITDA	375	380	457	373
Income from continuing operations	102	162	193	113
Income from discontinued operations, net of tax	25	13	21	32

	2000			
Extraordinary loss, net of tax	(2)			
Cumulative effect of accounting changes, net of tax	(56)			
Net income	$ 69	$ 175	$ 214	$ 145
CD common stock per share information:				
Basic				
Income from continuing operations	$ 0.14	$ 0.23	$ 0.27	$ 0.16
Net income	$ 0.10	$ 0.25	$ 0.30	$ 0.20
Weighted average shares	717	722	725	731
Diluted				
Income from continuing operations	$ 0.14	$ 0.22	$ 0.26	$ 0.15
Net income	$ 0.09	$ 0.24	$ 0.29	$ 0.20
Weighted average shares	769	762	759	757
CD common stock market prices:				
High	$ $24^{5}/_{16}$	$ $18^{3}/_{4}$	$ $14^{7}/_{8}$	$ $12^{9}/_{16}$
Low	$ $16^{3}/_{16}$	$ $12^{5}/_{32}$	$ $10^{5}/_{8}$	$ $8^{1}/_{2}$
Move.com common stock per share information:				
Basic and Diluted				
Loss from continuing operations		$ (0.67)	$ (0.55)	$ (0.54)
Net loss		$ (0.67)	$ (0.55)	$ (0.54)
Weighted average shares		4	4	3

(a) Includes (i) restructuring and other unusual charges of $106 million ($70 million, after tax or $0.09 per diluted share) in connection with various strategic initiatives, (ii) losses of $13 million ($9 million, after tax or $0.01 per diluted share) related to the disposition of businesses and (iii) $3 million ($2 million, after tax) of litigation settlement and related costs. Such amounts were partially offset by a non-cash credit of $41 million ($26 million, after tax or $0.03 per diluted share) in connection with an adjustment to the PRIDES settlement.

(b) Includes $5 million ($3 million, after tax) of litigation settlement and related costs, which was partially offset by $4 million ($2 million, after tax) of gains related to the dispositions of businesses.

(c) Includes (i) losses of $32 million ($20 million, after tax or $0.03 per diluted share) related to the dispositions of businesses, (ii) $27 million ($16 million, after tax or $0.02 per diluted share) of litigation settlement and related costs and (iii) charges of $3 million ($2 million, after tax) related to the postponement of the initial public offering of Move.com common stock. Such amounts were partially offset by a gain of $35 million ($35 million, after tax or $0.05 per diluted share) resulting from the recognition of a portion of the Company's previously recorded deferred gain from the sale of its fleet businesses.

(d) Includes $8 million ($5 million, after tax or $0.01 per diluted share) of litigation settlement and related costs.

28. Subsequent Events

On January 18, 2002, the Company acquired all the common stock of TSA for approximately $4 million in cash. TSA was the largest franchisee within the Jackson Hewitt franchise system. Accordingly, TSA will be included in the Company's consolidated results of operations and financial position beginning in the first quarter of 2002.

On February 11, 2002, the Company acquired all of the outstanding common stock of Equivest Finance, Inc. ("Equivest") for approximately $98 million in cash. Equivest is a timeshare vacation services company that develops, markets and sells vacation services and vacation ownership interests to consumers.

On February 15, 2002, the Company redeemed the remaining $390 million of its 3% convertible subordinated notes.

On February 21, 2002, PHH entered into a $750 million committed revolving credit facility maturing in February 2004. This facility replaces PHH's $750 million revolving credit facility, which matured on February 21, 2002. Borrowings under this facility bear interest at LIBOR plus a margin of 62.5 basis points. All other terms of this facility are similar to the terms of PHH's $750 million revolving credit facility maturing in February 2005.

On March 1, 2002, the Company entered into a venture with Marriott International, Inc. ("Marriott") whereby the Company contributed its Days Inn trademark and an amended license agreement relating to such trademark and Marriott contributed the Ramada trademark and the master license agreement relating to such trademark. The Company received a 50.0001% interest in the venture and Marriott received 49.9999% interest in the venture. Pursuant to the terms of the venture, the Company and Marriott will share income from the venture on a substantially equal basis. The Company currently expects the venture to redeem Marriott's interest for approximately $200 million, the projected fair market value, in March 2004. The Company expects to loan the venture such amount in March 2004 to enable the venture to meet its obligations to Marriott. Upon redemption, the Company will own 100% of the venture. Under the terms of the venture agreement, the Company controls the venture and, therefore, will consolidate the venture into its results of operations, financial position and cash flows beginning on March 1, 2002. The venture has no third party liabilities.

On April 1, 2002, the Company announced that it had entered into agreements to acquire all of the outstanding common stock of Trendwest Resorts, Inc. ("Trendwest") through a tax-free exchange of the Company's CD common stock. Trendwest markets, sells and finances vacation ownership interests. As part of the planned acquisition, the Company will assume $89 million of Trendwest debt, which it intends to repay. The number of shares of CD common stock to be paid to Trendwest stockholders will fluctuate between 55.4 million and 48.3 million shares, within a collar of $16.15 to $18.50 per share of CD common stock. The first step of the transaction, the purchase of more than 90% of the outstanding shares from certain Trendwest stockholders, is expected to close in May 2002, subject to customary regulatory approvals and the satisfaction of closing conditions. The purchase of the remaining 10% of the outstanding Trendwest shares will close upon the effectiveness of a registration statement relating to the issuance of CD common stock to such Trendwest stockholders. Management believes that this acquisition will provide the Company with significant geographic diversification and global presence in the timeshare industry.

* * * *

29. Subsequent Events (unaudited)

On April 17, 2002, the Company acquired all of the outstanding common stock of NRT, the largest residential real estate brokerage firm in the United States, for a total purchase price of approximately $230 million. The purchase was effected through issuing approximately 1.5 million shares of the Company's common stock. As part of the acquisition, the Company also assumed approximately $320 million of NRT debt, which was subsequently repaid. Management believes that NRT as a wholly-owned subsidiary of the Company will be a more efficient acquisition vehicle, experience greater opportunities to enhance mortgage and title penetration and achieve greater financial and operational synergies.

On April 17, 2002, the Company acquired all of the outstanding common stock of Arvida, the largest residential real estate brokerage firm in Florida, for approximately $160 million in cash. Management believes that this acquisition will further enhance the Company's residential real estate position in Florida.

On April 30, 2002, the Company completed the acquisition of approximately 90% of the outstanding common stock of Trendwest for $849 million, including $20 million of estimated transaction costs and

expenses and $25 million related to the conversion of Trendwest employee stock options into CD common stock options. The acquisition consideration was funded through a tax-free exchange of approximately 42.6 million shares of CD common stock then-valued at $804 million. As part of the acquisition, the Company assumed $89 million of Trendwest debt, which was subsequently repaid. The Company purchased the remaining 10% of the outstanding Trendwest shares through a short form merger on June 3, 2002 for approximately $87 million, which was funded through a tax-free exchange of approximately 4.8 million shares of CD common stock then-valued at $87 million. Trendwest is now part of the Company's Hospitality segment. Management believes that this acquisition will provide the Company with significant geographic diversification and global presence in the timeshare industry.

On May 3, 2002, PHH issued $443 million of unsecured term notes with maturities ranging from May 2005 through May 2012. Such notes bear interest at a blended rate of 7.64%.

On May 3, 2002, PHH terminated $250 million of its revolving credit facilities, which were scheduled to mature in November 2002.

On May 2, 2002, the Company amended certain terms of its zero coupon convertible debentures. In connection with these amendments, the Company will make cash interest payments of 3% per annum beginning May 5, 2002 and continuing through May 4, 2003 to the holders of the debentures on a semi-annual basis and the holders were granted an additional option to put the debentures to the Company on May 4, 2003. On May 4, 2002, holders had the right to require the Company to redeem their debentures. On such date, virtually all holders declined to exercise this put option and retained their debentures.

During May 2002, the Company redeemed approximately $79 million of its 7 3/4% notes for approximately $82 million in cash.

From May through August 12, 2002, the Company redeemed certain of its zero coupon senior convertible contingent notes with a face amount of approximately $821 million and a carrying value of approximately $517 million for approximately $548 million in cash.

On May 24, 2002, the Company funded the remaining balance of its stockholder litigation settlement liability with a cash payment of $1.2 billion.

During June and July 2002, PHH issued $168 million of unsecured term notes with maturities ranging from June 2005 to June 2017 and bearing interest at a blended rate of 7.08%, of which approximately $85 million may be subject to repurchase by PHH in third quarter 2002.

On July 25, 2002, the Company issued $750 million of rental car asset-backed notes under its AESOP Funding Program.

On August 12, 2002, the Company signed a definitive agreement to acquire all of the outstanding common stock of The DeWolfe Companies, Inc. for approximately $149 million in cash. The acquisition is expected to close in September 2002, subject to the satisfaction of closing conditions. Management believes that this acquisition will provide the Company with greater penetration in the New England residential real estate market.

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EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of the Company (Incorporated by reference to Exhibit 3.1 to the Company's Form 10-Q/A for the quarterly period ended March 31, 2000 dated July 28, 2000).
3.2	Amended and Restated By-Laws of the Company (Incorporated by reference to Exhibit 3.2 to the Company's Form 10-Q/A for the quarterly period ended March 31, 2000 dated July 28, 2000).
4.1	Form of Stock Certificate (Incorporated by reference to Exhibit 4.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, dated March 29, 2001).
4.2	Indenture between the Company and The Bank of Nova Scotia Trust Company of New York, as Trustee dated February 24, 1998.*
4.3	Form of $7^3/_4$% Global Note (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated December 4, 1998).
4.4	Form of 6.875% Note due 2006 (Incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-4 filed on November 2, 2001).
4.5	Indenture dated November 6, 2000 between PHH Corporation and Bank One Trust Company, N.A., as Trustee (Incorporated by reference to Exhibit 4.0 to PHH Corporation's Current Report on Form 8-K dated December 12, 2000).
4.6	Supplemental Indenture No. 1 dated November 6, 2000 to the Indenture dated November 6, 2000 between PHH Corporation and Bank One Trust Company, N.A., as Trustee (Incorporated by reference to Exhibit 4.1 to PHH Corporation's Current Report on Form 8-K dated December 12, 2000).
4.7(a)	

Exhibit No.	Description
	Supplemental Indenture No. 2 dated January 30, 2001 to the Indenture dated November 6, 2000 between PHH Corporation and Bank One Trust Company, N.A., as Trustee (pursuant to which the $8^1/_8$% Notes were issued) (Incorporated by reference to Exhibit 4.1 to PHH Corporation's Current Report on Form 8-K dated February 8, 2001).
4.7(b)	Supplemental Indenture No. 3 dated as of May 30, 2002 to the Senior Debt Securities Indenture dated November 6, 2000 between PHH Corporation and Bank One Trust Company, as Trustee (Incorporated by reference to Exhibit 4.1 to PHH Corporation's Current Report Form 8-K dated June 4, 2002).
4.7(c)	Form of the $8^1/_8$% Notes due 2003 of PHH Corporation (Incorporated by reference to Exhibit 4.4 to PHH Corporation's Annual Report on Form 10-K for the year ended December 31, 2001).
4.8	Indenture dated February 13, 2001 between the Company and The Bank of New York, as Trustee (pursuant to which Zero Coupon Senior Convertible Contingent Debt Securities (the "CODES") due 2021 were issued) (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated February 20, 2001).
4.9	Supplemental Indenture No. 1 dated June 13, 2001 to the Indenture dated February 13, 2001 between Cendant Corporation and The Bank of New York, as Trustee (pursuant to which the CODES due 2021 were issued) (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated June 13, 2001).
4.10	Form of Zero Coupon Senior Convertible Contingent Debt Securities due 2021 (included in Exhibit 4.8).
4.11	Resale Registration Rights Agreement between Cendant Corporation and Goldman, Sachs & Co. dated as of May 4, 2001 (Incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-3 filed on July 20, 2001).

4.12	Purchase Agreement (including as Exhibit A the form of the Warrant for the Purchase of Shares of Common Stock), dated December 15, 1999, between Cendant Corporation and Liberty Media Corporation (Incorporated by reference to Exhibit 4.11 to the Company's Annual Report on Form 10-K/A for the year ended December 31, 1998 filed on February 4, 2000).
4.13	Resale Registration Rights Agreement dated as of February 13, 2001 between the Company and Lehman Brothers Inc. (Incorporated by reference to Exhibit 4.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, dated March 29, 2001).
4.14(a)	Indenture dated May 4, 2001 between the Company and The Bank of New York, as Trustee (pursuant to which the Zero Coupon Convertible Debentures due 2021 were issued) (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 10, 2001).
4.14(b)	First Supplemental Indenture, dated as of May 1, 2002, to the Indenture dated as of May 4, 2001 between Cendant Corporation and The Bank of New York, as Trustee (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K dated May 1, 2002).
4.15	Form of 11% Senior Subordinated Notes due 2009 of Avis Group Holdings. (Included in Exhibit 4.20(a)).
4.16	Fourth Supplemental Indenture, dated as of July 27, 2001, to the Indenture dated February 24, 1998, between Cendant Corporation and The Bank of Nova Scotia Trust Company of New York, as trustee (pursuant to which the Senior Notes (making up a portion of the Upper Decs) were issued) (Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on August 1, 2001).
4.17	Indenture dated as of November 27, 2001 between Cendant Corporation and the Bank of Nova Scotia Trust Company of New York, as trustee (pursuant to which the $3^7/_8$% Convertible Senior Debentures Due 2011 were issued) (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed December 6, 2001).
4.18	Form of $3^7/_8$% Convertible Senior Debenture due 2011 (included in Exhibit 4.17).
4.19	Registration Rights Agreement dated as of November 27, 2001 between Cendant Corporation and J. P. Morgan Securities (relating to the $3^7/_8$% Convertible Senior Debentures Due 2011) (Incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-3 filed on February 25, 2002).
4.20(a)	Indenture, dated as of June 30, 1999, among Avis Group Holdings, Inc., the Subsidiary Guarantors and the Bank of New York (Incorporated by reference to Avis Group Holdings, Inc.'s Registration Statement on Form S-4 filed August 31, 1999).
4.20(b)	Supplemental Indenture dated as of April 2, 2001 to the Indenture dated June 30, 1999, among Avis Group Holdings, Inc., the Subsidiary Guarantors and The Bank of New York, as trustee (pursuant to which the 11% Senior Subordinated Notes due 2009 were issued) (Incorporated by reference to Avis Group Holdings, Inc.'s current report on form 8-K filed on April 13, 2001).
4.21	Forward Purchase Contract Agreement, dated as of July 27, 2001, between Cendant Corporation and Bank One Trust Company, National Association, as Forward Purchase Contract Agent (relating to the Upper Decs) (Incorporated in reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed on August 1, 2001).
4.22	Form of Upper Decs Certificate (included in Exhibit 4.21).
4.23	Form of Stripped Upper Decs Certificate (included in Exhibit 4.21).
4.24	Form of Senior Notes (included in Exhibit 4.16).

4.25	Pledge Agreement, dated as of July 27, 2001, among Cendant Corporation, The Chase Manhattan Bank, as Collateral Agent, and Bank One Trust Company, National Association, as Forward Purchase Contract Agent (relating to the Upper Decs)

	(Incorporated by reference to Exhibit 4.7 to the Company's Current Report on Form 8-K filed on August 1, 2001).
4.26	Exchange and Registration Rights Agreement, dated August 13, 2001, between Cendant Corporation and J.P. Morgan Securities Inc., Banc of America Securities LLC, Barclays Capital Inc., Credit Lyonnais Securities (USA) Inc., The Royal Bank of Scotland Plc, Scotia Capital (USA) Inc., The Williams Capital Group, L.P. and Tokyo-Mitsubishi International Plc (relating to the 6.875% Notes Due 2006) (Incorporated by reference to Exhibit 4.3 the Company's Registration Statement on Form S-4 filed on November 2, 2001).
4.27	PHH Corporation $443 million Note Purchase Agreement dated as of May 3, 2002 (incorporated by reference to Exhibit 4.1 of PHH Corporation's Form 10-Q dated August 14, 2002).
10.1(a)	Agreement with Henry R. Silverman, dated June 30, 1996 and as amended through December 17, 1997 (Incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-4, Registration No. 333-34517 dated August 28, 1997).
10.1(b)	Amendment to Agreement with Henry R. Silverman, dated December 31, 1998 (Incorporated by reference to Exhibit 10.1(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1998).
10.1(c)	Amendment to Agreement with Henry R. Silverman, dated August 2, 1999 (Incorporated by reference to Exhibit 10.1(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
10.1(d)	Amendment to Agreement with Henry R. Silverman, dated May 15, 2000 (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2000).
10.2(a)	Agreement with Stephen P. Holmes, dated September 12, 1997 (Incorporated by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-4, Registration No. 333-34517 dated August 28, 1997).
10.2(b)	Amendment to Agreement with Stephen P. Holmes, dated January 11, 1999 (Incorporated by reference to Exhibit 10.2(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1998).
10.2(c)	Amendment to Agreement with Stephen P. Holmes dated January 3, 2001.*
10.3(a)	Agreement with James E. Buckman, dated September 12, 1997 (Incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-4, Registration No. 333-34517 dated August 28, 1997).
10.3(b)	Amendment to Agreement with James E. Buckman, dated January 11, 1999 (Incorporated by reference to Exhibit 10.4(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1998).
10.3(c)	Amendment to Agreement with James E. Buckman, dated January 3, 2001.*
10.4	Employment Agreement with Richard A. Smith, dated June 2, 2001.*
10.5	Second Amended and Restated Employment Agreement with John W. Chidsey, dated January 2, 2002.*
10.6	Agreement with Samuel L. Katz, amended and restated June 5, 2000 (Incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, dated March 29, 2001).
10.6(a)	Consulting Agreement with Martin L. Edelman, dated March 21, 2001 (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2001, dated May 11, 2001).

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10.6(b)	Employment Agreement with Kevin M. Sheehan, dated March 1, 2001 (Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on From 10-Q for the period ended March 31, 2001, dated May 11, 2001.)
10.7(a)	1987 Stock Option Plan, as amended (Incorporated by reference to Exhibit 10.16 to the Company's Form 10-Q for the period ended October 31, 1996).
10.7(b)	Amendment to 1987 Stock Option Plan dated January 3, 2001 (Incorporated by reference to Exhibit 10.7(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, dated March 29, 2001).
10.8	1990 Directors Stock Option Plan, as amended (Incorporated by reference to Exhibit 10.17 to the Company's Quarterly Report on Form 10-Q for the period ended October 31, 1996).
10.9	1992 Directors Stock Option Plan, as amended (Incorporated by reference to Exhibit 10.18 to the Company's Quarterly Report on Form 10-Q for the period ended October 31, 1996).
10.10	1994 Directors Stock Option Plan, as amended (Incorporated by reference to Exhibit 10.19 to the Company's Quarterly Report on Form 10-Q for the period ended October 31, 1996).
10.11(a)	1997 Stock Option Plan (Incorporated by reference to Exhibit 10.23 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 1997).
10.11(b)	Amendment to 1997 Stock Option Plan dated January 3, 2001 (Incorporated by reference to Exhibit 10.11(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, dated March 29, 2001).
10.12(a)	1997 Stock Incentive Plan (Incorporated by reference to Appendix E to the Joint Proxy Statement/ Prospectus included as part of the Company's Registration Statement on Form S-4, Registration No. 333-34517 dated August 28, 1997).
10.12(b)	Amendment to 1997 Stock Incentive Plan dated March 27, 2000 (Incorporated by reference to Exhibit 10.12(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, dated March 29, 2001).
10.12(c)	Amendment to 1997 Stock Incentive Plan dated March 28, 2000 (Incorporated by reference to Exhibit 10.12(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, dated March 29, 2001).
10.12(d)	Amendment to 1997 Stock Incentive Plan dated January 3, 2001 (Incorporated by reference to Exhibit 10.12(d) to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, dated March 29, 2001).
10.13(a)	HFS Incorporated's Amended and Restated 1993 Stock Option Plan (Incorporated by reference to Exhibit 4.1 to HFS Incorporated's Registration Statement on Form S-8, Registration No. 33-83956).

10.13(b)	First Amendment to the Amended and Restated 1993 Stock Option Plan dated May 5, 1995 (Incorporated by reference to Exhibit 4.1 to HFS Incorporated's Registration Statement on Form S-8, Registration No. 33-094756).
10.13(c)	Second Amendment to the Amended and Restated 1993 Stock Option Plan dated January 22, 1996 (Incorporated by reference to Exhibit 10.21(b) to HFS Incorporated's Annual Report on Form 10-K for the year ended December 31, 1995).
10.13(d)	Third Amendment to the Amended and Restated 1993 Stock Option Plan dated January 22, 1996 (Incorporated by reference to Exhibit 10.21(c) to HFS Incorporated's Annual Report on Form 10-K for the year ended December 31, 1995).
10.13(e)	Fourth Amendment to the Amended and Restated 1993 Stock Option Plan dated May 20, 1996 (Incorporated by reference to Exhibit 4.5 to HFS Incorporated's Registration Statement on Form S-8, Registration No. 333-06733).
10.13(f)	Fifth Amendment to the Amended and Restated 1993 Stock Option Plan dated July 24, 1996 (Incorporated by reference to Exhibit 10.21(e) to HFS Incorporated's Annual Report on Form 10-K for the year ended December 31, 1995).

10.13(g)	Sixth Amendment to the Amended and Restated 1993 Stock Option Plan dated September 24, 1996 (Incorporated by reference to Exhibit 10.21(e) to HFS Incorporated's Annual Report on Form 10-K for the year ended December 31, 1995).
10.13(h)	Seventh Amendment to the Amended and Restated 1993 Stock Option Plan dated as of April 30, 1997 (Incorporated by reference to Exhibit 10.17(g) to the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
10.13(i)	Eighth Amendment to the Amended and Restated 1993 Stock Option Plan dated as of May 27, 1997 (Incorporated by reference to Exhibit 10.17(h) to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.14	HFS Incorporated's 1992 Incentive Stock Option Plan and Form of Stock Option Agreement (Incorporated by reference to Exhibit 10.6 to HFS Incorporated's Registration Statement on Form S-1, Registration No. 33-51422).
10.15	1992 Employee Stock Plan (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8, Registration No. 333-45183, dated January 29, 1998).
10.16	Deferred Compensation Plan (Incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998).
10.17	Cendant Corporation Move.com Group 1999 Stock Option Plan (Incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, dated March 29, 2001).
10.18	$1,150,000,000 Amended and Restated Credit Agreement dated as of October 5, 2001 among Cendant Corporation, the lenders referred to therein and The Chase Manhattan Bank, as Administrative Agent (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 15, 2001).
10.19(a)	$1,750,000,000 Three Year Competitive Advance and Revolving Credit Agreement dated as of August 29, 2000 among the Company, the lenders parties thereto, and The Chase Manhattan Bank, as Administrative Agent (Incorporated by reference to Exhibit 10.23(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, dated March 29, 2001).
10.19(b)	Amendment to the Three Year Competitive Advance and Revolving Credit Agreement, dated as of February 22, 2001, among the Company, the lenders parties thereto and The Chase Manhattan Bank, as Administrative Agent (Incorporated by reference to Exhibit 10.23(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, dated March 29, 2001).
10.19(c)	Second Amendment dated October 5, 2001 to the Three Year Competitive Advance and Revolving Credit Agreement, dated as of August 29, 2000, among the Company, the lenders parties thereto and The Chase Manhattan Bank, as Administrative Agent.*
10.20	Two-Year Competitive Advance and Revolving Credit Agreement dated March 4, 1997, as amended and restated through February 21, 2002, among PHH Corporation, the lenders parties thereto, and The Chase Manhattan Bank, as Administrative Agent. (Incorporated by reference to PHH Corporation's Current Report on Form 8-K filed on February 21, 2002).
10.21(a)	Five-year Competitive Advance and Revolving Credit Agreement dated March 4, 1997 as amended and restated through February 28, 2000, among PHH Corporation, the Lenders and The Chase Manhattan Bank, as Administrative Agent (Incorporated by reference to Exhibit 10.24(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
10.21(b)	Amendment to the Five Year Competitive Advance and Revolving Credit Agreement, dated as of February 22, 2001, among PHH Corporation, the financial institutions parties thereto and The Chase Manhattan Bank, as Administrative Agent (Incorporated by reference to Exhibit 10.25(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, dated March 29, 2001).

10.21(c)	Amendment to the Five Year Competitive Advance and Revolving Credit Agreement, dated as of February 21, 2002, among PHH Corporation, the financial institutions parties thereto and The Chase Manhattan Bank, as Administrative Agent (Incorporated by reference to PHH Corporation's Annual Report on Form 10-K for the year ended December 31, 2001).
10.22	Agreement and Plan of Merger by and among Cendant Corporation, PHH Corporation, Avis Acquisition Corp. and Avis Group Holdings, Inc., dated as of November 11, 2000 (Incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2000 filed on November 14, 2000).
10.23	The Company's 1999 Non-Employee Directors Deferred Compensation Plan (Incorporated by reference to Exhibit 10.44 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999).

10.24	Agreement and Plan of Merger, dated as of June 15, 2001 among the Company, Galaxy Acquisition Corp. and Galileo International, Inc. (Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated June 15, 2001).
10.25	Remarketing Agreement, dated as of July 27, 2001, among Cendant Corporation, Bank One Trust Company, National Association as Forward Purchase Contract Agent, and Salomon Smith Barney Inc., as Remarketing Agent (relating to the Upper Decs) (Incorporated by reference to Exhibit 4.8 to the Company's Current Report on Form 8-K filed on August 1, 2001).
10.26	Agreement and Plan of Merger by and among Cendant Corporation, Diamondhead Corporation and CheapTickets, Inc. dated August 13, 2001 (Incorporated by reference to Exhibit 99(D)(6) of the Company's Schedule TO filed on August 24, 2001).
10.27	Agreement and Plan of Merger by and among Cendant Corporation, Grand Slam Acquisition Corp. and Fairfield Communities, Inc. dated as of November 1, 2000 (Incorporated by Reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2000 filed November 14, 2000).
10.28	Outsourcing Agreement by and among Cendant Corporation, Cendant Membership Services Holdings Subsidiary, Inc., Cendant Membership Services, Inc. and Trilegiant Corporation dated as of July 2, 2001 (Incorporated by reference to the Company's Current Report on Form 8-K filed on July 10, 2001).
10.29	Series 1997-2 Supplement, dated as of July 30, 1997, between AESOP Funding II L.L.C. and The Bank of New York, as Trustee, to the Amended and Restated Base Indenture, dated as of July 30, 1997, between AESOP Funding II and the Bank of New York. (Incorporated by reference to Avis Group Holdings Inc.'s Registration Statement on Form S-1/A filed on August 11, 1997).
10.30	Amendment No.1, dated as of November 19, 1999, to the Series 1997-2 Supplement, between AESOP Funding II L.L.C. and The Bank of New York, as Trustee, to the Amended and Restated Base Indenture, dated as of July 30, 1997, between AESOP Funding II and the Bank of New York. (Incorporated by reference to Avis Group Holdings, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001).
10.31	Amendment No.2, dated as of June 21, 2001, to the Series 1997-2 Supplement, between AESOP Funding II L.L.C. and The Bank of New York, as Trustee, to the Amended and Restated Base Indenture, dated as of July 30, 1997, between AESOP Funding II and the Bank of New York. (Incorporated by reference to Avis Group Holdings, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001).
10.32	Loan Agreement, dated as of July 30, 1997, between AESOP Leasing Corp. II, as borrower, AESOP Leasing Corp., as permitted nominee of the borrower, and AESOP Funding II L.L.C., as lender. (Incorporated by reference to Avis Group Holdings Inc.'s Registration Statement on Form S-1/A filed on August 11, 1997).

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10.33	Master Motor Vehicle Finance Lease Agreement, dated as of July 30, 1997, by and among AESOP Leasing L.P., as lessor, Avis Rent A Car System, Inc., as lessee, individually and as the administrator, and Avis Rent A Car, Inc., as guarantor. (Incorporated by reference to Avis Group Holdings Inc.'s Registration Statement on Form S-1/A filed on August 11, 1997).
10.34	Master Motor Vehicle Operating Lease Agreement, dated as of July 30, 1997, by and among AESOP Leasing Corp. II, as lessor, Avis Rent A Car System, Inc., individually and as the administrator, certain Eligible Rental Car Companies, as lessees, and the Avis Rent A Car, Inc., as guarantor. (Incorporated by reference to Avis Group Holdings Inc.'s Registration Statement on Form S-1/A filed on August 11, 1997).
10.35	Supplemental Indenture No. 1, dated as of July 31, 1998, to the Amended and Restated Base Indenture, dated as of July 30, 1997, between AESOP Funding II L.L.C., as issuer, and the Bank of New York. (Incorporated by reference to Avis Group Holdings, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998 dated March 29, 1999).
10.36	Amendment No. 1, dated as of July 31, 1998, to Loan Agreement, dated as of July 30, 1997 between AESOP Leasing L.P., as borrower, and AESOP Funding II L.L.C., as lender. (Incorporated by reference to Avis Group Holdings, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998 dated March 29, 1999).
10.37	Amended and Restated Loan Agreement, dated as of September 15, 1998, among AESOP Leasing L.P., as borrower, PV Holding Corp., as a permitted nominee of the borrower, Quartz Fleet Management, Inc., as a permitted nominee of the borrower, and AESOP Funding II L.L.C., as lender. (Incorporated by reference to Avis Group Holdings, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998 dated March 29, 1999).
10.38	Amended and Restated Master Motor Vehicle Operating Lease Agreement, dated as of September 15, 1998, among AESOP Leasing L.P., as lessor, Avis Rent A Car System, Inc., individually and as Administrator, certain Eligible Rental Car Companies, as lessees, and Avis Rent A Car, Inc., as guarantor. (Incorporated by reference to Avis Group Holdings, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998 dated March 29, 1999).
10.39	Supplemental Indenture No. 2, dated as of September 15, 1998, to Amended and Restated Base Indenture, dated as of July 30, 1997, between AESOP Funding II L.L.C., as issuer, and the Bank of New York. (Incorporated by reference to Avis Group Holdings, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998 dated March 29, 1999).
10.40	Amended and Restated Administration Agreement, dated as of September 15, 1998, AESOP Funding II L.L.C., AESOP Leasing L.P., AESOP Leasing Corp. II, Avis Rent A Car System, Inc., as Administrator and The Bank of New York, as Trustee. (Incorporated by reference to Avis Group Holdings, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001).
10.41	The Amended and Restated Series 1997-1 Supplement, dated as of June 29, 2001, between AESOP Funding II L.L.C. and The Bank of New York, as trustee, to the Amended and Restated Base Indenture, dated as of July 30, 1997, between AESOP

Funding II and The Bank of New York. (Incorporated by reference to Avis Group Holdings, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001).

10.42	The Amended and Restated Series 1998-1 Supplement, dated as of June, 2001, between AESOP Funding II L.L.C., as issuer, and The Bank of New York, as trustee and Series 1998-1 agent, to the Amended and Restated Base Indenture, dated as of July 30, 1997, between AESOP Funding II L.L.C., as issuer, and The Bank of New York. (Incorporated by reference to Avis Group Holdings, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001).

10.43	The Amended and Restated Series 1999-1 Supplement, dated as of June, 2001, between AESOP Funding II L.L.C., as issuer, and The Bank of New York, as trustee and Series 1999-1 agent, to the Amended and Restated Base Indenture, dated as of July 30, 1997, between AESOP Funding II L.L.C., as issuer, and The Bank of New York. (Incorporated by reference to Avis Group Holdings, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001).
10.44	The Amended and Restated Series 2000-1 Supplement, dated as of June, 2001, between AESOP Funding II L.L.C., as issuer, and The Bank of New York, as trustee and Series 2000-1 agent, to the Amended and Restated Base Indenture, dated as of July 30, 1997, between AESOP Funding II L.L.C., as issuer, and The Bank of New York. (Incorporated by reference to Avis Group Holdings, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001).
10.45	The Amended and Restated Series 2000-2 Supplement, dated as of June, 2001, between AESOP Funding II L.L.C., as issuer, and The Bank of New York, as trustee and Series 2000-2 agent, to the Amended and Restated Base Indenture, dated as of July 30, 1997, between AESOP Funding II L.L.C., as issuer, and The Bank of New York. (Incorporated by reference to Avis Group Holdings, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001).
10.46	The Amended and Restated Series 2000-3 Supplement, dated as of June, 2001, between AESOP Funding II L.L.C., as issuer, and The Bank of New York, as trustee and Series 2000-3 agent, to the Amended and Restated Base Indenture, dated as of July 30, 1997, between AESOP Funding II L.L.C., as issuer, and The Bank of New York. (Incorporated by reference to Avis Group Holdings, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001).
10.47	The Amended and Restated Series 2000-4 Supplement, dated as of June, 2001, between AESOP Funding II L.L.C., as issuer, and The Bank of New York, as trustee and Series 2000-4 agent, to the Amended and Restated Base Indenture, dated as of July 30, 1997, between AESOP Funding II L.L.C., as issuer, and The Bank of New York. (Incorporated by reference to Avis Group Holdings, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001).
10.48	The Amended and Restated Series 2001-1 Supplement, dated as of June, 2001, between AESOP Funding II L.L.C., as issuer, and The Bank of New York, as trustee and Series 2001-1 agent, to the Amended and Restated Base Indenture, dated as of July 30, 1997, between AESOP Funding II L.L.C., as issuer, and The Bank of New York. (Incorporated by reference to Avis Group Holdings, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001).
10.49	The Amended and Restated Series 2001-2 Supplement, dated as of June, 2001, between AESOP Funding II L.L.C., as issuer, and The Bank of New York, as trustee and Series 2001-2 agent, to the Amended and Restated Base Indenture, dated as of July 30, 1997, between AESOP Funding II L.L.C., as issuer, and The Bank of New York. (Incorporated by reference to Avis Group Holdings, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001).
10.50	Base Indenture dated as of June 30, 1999 between Greyhound Funding LLC and The Chase Manhattan Bank, as Indenture Trustee. (Incorporated by reference to Greyhound Funding LLC's Amendment to its Registration Statement on Form S-1 filed with the Securities and Exchange Commission on March 19, 2001) (File No. 333-40708).

10.51	Supplemental Indenture No. 1 dated as of October 28, 1999 between Greyhound Funding LLC and The Chase Manhattan Bank to the Base Indenture dated as of June 30, 1999. (Incorporated by reference to Greyhound Funding LLC's Amendment to its Registration Statement on Form S-1 filed with the Securities and Exchange Commission on March 19, 2001) (File No. 333-40708).
10.52	Series 2001-1 Indenture Supplement between Greyhound Funding LLC and The Chase Manhattan Bank, as Indenture Trustee, dated as of October 25, 2001 (Incorporated by reference to Greyhound Funding LLC's Annual Report on Form 10-K for the year ended December 31, 2001).
10.53	Form of Notes (included in Exhibit 10.55).
10.54	Series 1999-2 Indenture Supplement between Greyhound Funding LLC and The Chase Manhattan Bank, as Indenture Trustee, dated as of October 28, 1999. (Incorporated by reference to Greyhound Funding LLC's Annual Report on Form 10-K for the year ended December 31, 2001).
10.55	Series 1999-3 Indenture Supplement among Greyhound Funding LLC, PHH Vehicle Management Services, LLC, as Administrator, certain CP Conduit Purchasers, certain APA Banks, certain Funding Agents and The Chase Manhattan Bank, as Administrative Agent and Indenture Trustee, dated as of October 28, 1999. (Incorporated by reference to Greyhound Funding LLC's Annual Report on Form 10-K for the year ended December 31, 2001).
10.56	Second Amended and Restated Mortgage Loan Purchase and Servicing Agreement, dated as of October 31, 2000 among the Bishop's Gate Residential Mortgage Trust, Cendant Mortgage Corporation, Cendant Mortgage Corporation, as Servicer and PHH Corporation. (Incorporated by reference to PHH Corporation's Annual Report on Form 10-K for the year ended December 31, 2001).
10.57	

	Purchase Agreement dated as of April 25, 2000 by and between Cendant Mobility Services Corporation and Cendant Mobility Financial Corporation. (Incorporated by reference to PHH Corporation's Annual Report on Form 10-K for the year ended December 31, 2001).
10.58	Receivables Purchase Agreement dated as of April 25, 2000 by and between Cendant Mobility Financial Corporation and Apple Ridge Services Corporation. (Incorporated by reference to PHH Corporation's Annual Report on Form 10-K for the year ended December 31, 2001).
10.59	Transfer and Servicing Agreement dated as of April 25, 2000 by and between Apple Ridge Services Corporation, Cendant Mobility Financial Corporation, Apple Ridge Funding LLC and Bank One, National Association. (Incorporated by reference to PHH Corporation's Annual Report on Form 10-K for the year ended December 31, 2001).
10.60	Master Indenture among Apple Ridge Funding LLC, Bank One, National Association and The Bank Of New York dated as of April 25, 2000. (Incorporated by reference to PHH Corporation's Annual Report on Form 10-K for the year ended December 31, 2001).
12	Statement Re: Computation of Ratio of Earnings to Fixed Charges
21	Subsidiaries of Registrant
23	Consent of Deloitte & Touche LLP
99.1	Pro Forma Financial Information for the year ended December 31, 2001.
99.2	Press Release issued by Cendant Corporation on August 14, 2002, announcing the certification by Cendant executives of Cendant's financial statements (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2002).

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Previously filed on Form 10-K of the Company filed on April 1, 2002.

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