CENDANT CORP
Form 10-Q
August 09, 2006

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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, 2006

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 No. 1-10308

Cendant Corporation
(Exact name of registrant as specified in its charter)

Delaware	**06-0918165**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*
9 West 57th Street New York, NY	**10019**
(Address of principal executive offices)	*(Zip Code)*

(212) 413-1800
(Registrant s telephone number, including area code)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

The number of shares outstanding of the issuer s common stock was 1,002,462,334 shares as of June 30, 2006.

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FORWARD-LOOKING STATEMENTS

The forward-looking statements contained herein 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 are based on various facts 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 , projects , estimates , plans , may increase , may fluctuate and si or future or conditional verbs such as will , should , would , may and could are generally forward-looking in natur 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 high level of competition in the vehicle rental industry;
- an increase in the cost of new vehicles;
- a decrease in our ability to acquire or dispose of cars through repurchase programs;
- a decline in the results of operations or financial condition of the manufacturers of our cars;
- a downturn in airline passenger traffic in the United States or in the other international locations in which we operate;
- an occurrence or threat of terrorism, pandemic disease, natural disasters or military conflict in the markets in which we operate;
- our dependence on third-party distribution channels;
- a disruption in rental activity during our peak season in key market segments;
- a disruption in our ability to obtain financing for our operations, including the funding of our vehicle fleet via the asset-backed securities and lending market;
- a significant increase in interest rates or in borrowing costs;
- a substantial increase in fuel costs;
- a major disruption in our communication or centralized information networks;
- our failure or inability to comply with regulations and any changes in regulations;
- our failure or inability to make the changes necessary to operate effectively following completion of the Separation Plan (defined below); and
- other economic, competitive, governmental, regulatory, geopolitical and technological factors affecting our operations, pricing or services.

In addition, you should understand that the following important factors and assumptions could affect the timing of the final completion of our plan to separate into four independent entities, including the anticipated sale of Travelport (the Separation Plan), and such factors and assumptions relating to the Separation Plan could affect our future results and could cause actual results to differ materially from those expressed in our forward-looking statements:

- risks inherent in the separation and related transactions, including risks related to new borrowings, and costs of the proposed transactions related to the Separation Plan (specifically the anticipated sale of Travelport);

- changes in business, political and economic conditions in the U.S. and in other countries in which Cendant and its companies currently do business;

- changes in Cendant s overall operating performance and changes in the operating performance of Avis Budget Group or Travelport;

- access to financing sources and changes in credit ratings, including those that have resulted and may result from the Separation Plan;

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the terms of agreements among the separated companies, including the allocations of assets and liabilities, including contingent liabilities and guarantees, commercial arrangements and the performance of each of the separating companies obligations under these agreements;

increased demands on Cendant s management team in connection with the execution and performance of the proposed transactions, in addition to their regular day-to-day management responsibilities; and

the ability of Cendant to complete a sale of Travelport, which is subject to certain conditions precedent.

Other factors and assumptions not identified above, including those described under Risk Factors in Item 1A below, 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, as well as those set forth under Risk Factors 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 any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless required by law.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
of Cendant Corporation
New York, New York

We have reviewed the accompanying consolidated condensed balance sheet of Cendant Corporation and subsidiaries (the Company) as of June 30, 2006, the related consolidated condensed statement of stockholders equity for the six-month period ended June 30, 2006, the related consolidated condensed statements of income for the three-month and six-month periods ended June 30, 2006 and 2005, and the related consolidated condensed statements of cash flows for the six month periods ended June 30, 2006 and 2005. These interim financial statements are the responsibility of the Company s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such consolidated condensed interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated condensed interim financial statements, as of January 1, 2006 the Company adopted the provisions for accounting for real estate time-sharing transactions.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2005, and the related consolidated statements of income, stockholders equity, and cash flows for the year then ended prior to presenting Travel Network Group as a discontinued operation (not presented herein); and in our report dated February 28, 2006, we expressed an unqualified opinion (which included an explanatory paragraph relating to the adoption of the consolidation provisions for variable interest entities during 2003, as discussed in Note 2 to the consolidated financial statements, and an explanatory paragraph with respect to the change in presentation in 2005 of the consolidated statement of cash flows to present separate disclosure of cash flows from operating, investing, and financing activities of discontinued operations and the retroactive revision of the statements of cash flows for the years ended December 31, 2004 and 2003, for the change, as discussed in Note 1 to the consolidated financial statements) on those consolidated financial statements. We also audited the adjustments described in Note 2 of the consolidated condensed interim financial statements that were applied to recast the December 31, 2005 balance sheet of the Company. In our opinion, the information set forth in the accompanying consolidated condensed balance sheet as of December 31, 2005 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP
New York, New York
August 8, 2006

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	**2005**	**2006**	**2005**
Revenues				
Service fees and membership, net	$ 2,813	$ 2,847	$ 5,064	$ 5,060
Vehicle-related	1,439	1,312	2,758	2,477
Other	5	11	12	43
Net revenues	4,257	4,170	7,834	7,580
Expenses				
Operating	2,602	2,539	4,825	4,647
Vehicle depreciation, lease charges and interest, net	439	373	860	697
Marketing and reservation	359	321	683	617
General and administrative	324	276	599	564
Non-program related depreciation and amortization	94	85	183	172
Non-program related interest expense, net	110	66	168	46
Acquisition and integration related costs:				
Amortization of pendings and listings	2	3	9	6
Other	1	1	2	2
Separation costs	49		85	
Restructuring and transaction-related charges		1		40
Valuation charge associated with PHH spin-off				180
Total expenses	3,980	3,665	7,414	6,971
Income before income taxes and minority interest	277	505	420	609
Provision for income taxes	103	188	164	249
Minority interest, net of tax		1	1	2
Income from continuing operations	174	316	255	358
Income from discontinued operations, net of tax	53	67	106	81
Gain (loss) on disposal of discontinued operations, net of tax	(981)	4	(981)	(133)
Income (loss) before cumulative effect of accounting changes	(754)	387	(620)	306
Cumulative effect of accounting changes, net of tax			(64)	
Net income (loss)	$ (754)	$ 387	$ (684)	$ 306
Earnings per share				
Basic				
Income from continuing operations	$ 0.17	$ 0.30	$ 0.25	$ 0.34

Net income (loss)		(0.75)		0.37		(0.68)		0.29
Diluted								
Income from continuing operations	$	0.17	$	0.29	$	0.25	$	0.33
Net income (loss)		(0.75)		0.36		(0.67)		0.28

See Notes to Consolidated Condensed Financial Statements.

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

	June 30, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 441	$ 730
Restricted cash	83	66
Receivables, net	917	837
Deferred income taxes	566	566
Assets of discontinued operations	6,327	6,888
Other current assets	897	551
Total current assets	9,231	9,638
Property and equipment, net	1,245	1,311
Deferred income taxes	159	183
Goodwill	8,082	7,938
Other intangibles, net	2,227	2,130
Other non-current assets	551	493
Total assets exclusive of assets under programs	21,495	21,693
Assets under management programs:		
Program cash	201	126
Relocation receivables	941	855
Vehicle-related, net	9,474	8,485
Timeshare-related, net	2,813	2,723
Vacation rental	229	216
Other	17	6
	13,675	12,411
Total assets	$ 35,170	$ 34,104
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable and other current liabilities	$ 3,277	$ 3,494
Current portion of long-term debt	3,593	1,017
Liabilities of discontinued operations	1,849	1,592
Deferred income	571	346
Total current liabilities	9,290	6,449
Long-term debt	1,976	2,561

Deferred income	278	278
Other non-current liabilities	937	915
Total liabilities exclusive of liabilities under programs	12,481	10,203
Liabilities under management programs:		
Debt	4,012	3,716
Debt due to Cendant Rental Car Funding (AESOP) LLC related party	6,040	6,957
Deferred income taxes	1,818	1,723
Other	318	214
	12,188	12,610
Commitments and contingencies (Note 13)		
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 1,353,082,323 and 1,350,852,215 shares	14	14
Additional paid-in capital	12,045	12,009
Retained earnings	5,155	5,946
Accumulated other comprehensive income	189	40
CD treasury stock, at cost 350,619,989 and 339,246,211 shares	(6,902)	(6,718)
Total stockholders equity	10,501	11,291
Total liabilities and stockholders equity	$ 35,170	$ 34,104

See Notes to Consolidated Condensed Financial Statements.

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Cendant Corporation and Subsidiaries
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(In millions)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Operating Activities		
Net income (loss)	$ (684)	$ 306
Adjustments to arrive at income from continuing operations	939	52
Income from continuing operations	255	358
Adjustments to reconcile income from continuing operations to net cash provided by operating activities exclusive of management programs:		
PHH valuation charge		180
Non-program related depreciation and amortization	183	172
Amortization of pendings and listings	9	6
Net change in assets and liabilities, excluding the impact of acquisitions and dispositions:		
Receivables	(27)	(74)
Income taxes and deferred income taxes	(87)	147
Accounts payable and other current liabilities	83	67
Other, net	(59)	(34)
Net cash provided by operating activities exclusive of management programs	357	822
Management programs:		
Vehicle depreciation	663	533
Amortization and impairment of mortgage servicing rights		101
Net loss on mortgage servicing rights and related derivatives		(83)
Origination of timeshare-related assets	(602)	(525)
Principal collection of investment in timeshare-related assets	339	321
Origination of mortgage loans		(2,062)
Proceeds on sale of and payments from mortgage loans held for sale		2,150
Other	(3)	7
	397	442
Net cash provided by operating activities	754	1,264
Investing Activities		
Property and equipment additions	(148)	(133)
Net assets acquired, net of cash acquired, and acquisition-related payments	(303)	(127)
Proceeds received on asset sales	11	13
Proceeds from sale of available-for-sale securities		18
Proceeds from dispositions of businesses, net of transaction-related payments	(28)	964
Other, net	(32)	(1)

Net cash provided by (used in) investing activities exclusive of management programs	(500)	734
Management programs:		
Increase in program cash	(75)	(61)
Investment in vehicles	(6,936)	(6,451)
Payments received on investment in vehicles	5,404	3,879
Equity advances on homes under management	(2,419)	(2,403)
Repayment of advances on homes under management	2,345	2,285
Additions to mortgage servicing rights		(23)
Cash received on derivatives related to mortgage servicing rights, net		44
Other, net	(6)	(20)
	(1,687)	(2,750)
Net cash used in investing activities	(2,187)	(2,016)
Financing Activities		
Proceeds from borrowings	1,875	4
Principal payments on borrowings	(16)	(44)
Net short-term borrowings	192	616
Issuances of common stock	36	191
Repurchases of common stock	(243)	(460)
Payment of dividends	(113)	(192)
Cash reduction due to spin-off of PHH		(259)
Other, net	(30)	4
Net cash provided by (used in) financing activities exclusive of management programs	1,701	(140)
Management programs:		
Proceeds from borrowings	7,011	6,983
Principal payments on borrowings	(7,769)	(4,907)
Net change in short-term borrowings	104	184
Other, net	(22)	(12)
	(676)	2,248
Net cash provided by financing activities	1,025	2,108
Effect of changes in exchange rates on cash and cash equivalents		(20)
Cash provided by (used in) discontinued operations (Revised See Note 1)		
Operating activities	455	494
Investing activities	(97)	(1,708)
Financing activities	(248)	(171)
Effect of exchange rate changes	9	(12)
	119	(1,397)
Net decrease in cash and cash equivalents	(289)	(61)

Cash and cash equivalents, beginning of period		730		467
Cash and cash equivalents, end of period	$	441	$	406

See Notes to Consolidated Condensed Financial Statements.

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Cendant Corporation and Subsidiaries
CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS EQUITY
(In millions)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders Equity
Balance at January 1, 2006	1,351	$ 14	$ 12,009	$ 5,946	$ 40	(339)	$ (6,718)	$ 11,291
Comprehensive loss:								
Net loss				(684)				
Currency translation adjustment, net of tax of $62					112			
Unrealized gains on cash flow hedges, net of tax of $23					37			
Total comprehensive loss								**(535)**
Net activity related to restricted stock units			11					11
Exercise of stock options	2		8			2	30	38
Tax benefit from exercise of stock options			7					7
Repurchases of CD common stock						(14)	(243)	(243)
Payment of dividends				(107)				(107)
Other			10				29	39
Balance at June 30, 2006	**1,353**	**$ 14**	**$ 12,045**	**$ 5,155**	**$ 189**	**(351)**	**$ (6,902)**	**$ 10,501**

See Notes to Consolidated Condensed Financial Statements.

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

1. Basis of Presentation and Recently Issued Accounting Pronouncements

Basis of Presentation

As of June 30, 2006, Cendant Corporation was a global provider of real estate and travel services. Upon completion of the distributions of shares of Realogy Corporation (Realogy) and Wyndham Worldwide Corporation (Wyndham) to the Company s stockholders on July 31, 2006, which are further described below, and the anticipated sale of Travelport, Inc. in August 2006, the Company s continuing operations will consist of Avis Budget Group, which provides car and truck rentals and ancillary services to businesses and consumers in the United States and internationally.

The accompanying unaudited Consolidated Condensed Financial Statements include the accounts and transactions of Cendant Corporation and its subsidiaries (Cendant), as well as entities in which Cendant directly or indirectly has a controlling financial interest (collectively, the Company).

As of June 30, 2006, the Company operated in the following business segments:

Realogy (formerly known as the Real Estate Services segment) Franchises the real estate brokerage businesses of Realogy s four residential brands and one commercial brand, provides real estate brokerage services, facilitates employee relocations and provides home buyers with title and closing services (this business was spun-off on July 31, 2006 see below for further information).

Hospitality Services Franchises ten lodging brands, facilitates the exchange of vacation ownership intervals and markets vacation rental properties (this business was spun-off on July 31, 2006 see below for further information).

Timeshare Resorts Markets and sells vacation ownership interests, or VOIs, to individual consumers, provides consumer financing in connection with the sale of VOIs and provides property management services at resorts (this business was spun-off on July 31, 2006 see below for further information).

Avis Budget Group (formerly known as the Vehicle Rental segment) Operates and franchises our car and truck rental brands.

Mortgage Services provided home buyers with mortgage lending services through January 31, 2005 (see Note 17 Spin-off of PHH Corporation).

In presenting the Consolidated Condensed Financial Statements, management makes estimates and assumptions that affect the amounts reported and related disclosures. Estimates, by their nature, are based on judgments and available information. Accordingly, actual results could differ from those estimates. In management s opinion, the Consolidated Condensed Financial Statements contain all normal recurring adjustments necessary for a fair presentation of interim results reported. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year or any subsequent interim period. Certain reclassifications have been made to prior period amounts to conform to the current period presentation. The Company made a reclassification to reflect an immaterial correction to prior year vehicle-related revenues and operating expenses to conform to the current year gross reporting presentation for vehicle licensing and airport concession fees, which resulted in additional vehicle-related revenues and operating expenses of $88 million and $165 million during the three and six months ended June 30, 2005, respectively. Such amounts had been previously presented on a net basis. This correction had no effect on previously reported pretax income. Additionally, for the six months ended June 30, 2006, the Company has separately disclosed the operating, investing and financing portions of cash flows attributable to its discontinued operations (as described in more detail below), which in prior periods were reported on a combined basis as a single amount. These financial statements should be read in conjunction with the Company s 2005 Annual Report on Form 10-K filed on March 1, 2006.

Discontinued Operations. In January 2005, the Company completed the spin-off of its former mortgage, fleet leasing and appraisal businesses in a tax-free distribution of the common stock of PHH Corporation (PHH) to the Company s stockholders. In February 2005, the Company completed an initial public offering of Wright Express Corporation, its former fuel card subsidiary, and in October 2005, the Company sold its former Marketing Services division, which was comprised of its individual membership and loyalty/insurance marketing businesses. Also, in June 2006, the Company entered into a definitive agreement to sell Travelport, the companies that comprise the Company s travel distribution services businesses, for approximately $4.3 billion. The Company recorded a non-cash impairment charge of approximately $1.0 billion in second quarter 2006 to reflect the difference between Travelport s carrying value and its estimated fair value, less costs to dispose. There was no tax benefit recorded in connection

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with this charge. The Company also expects that in third quarter 2006, it will incur an additional loss on the sale of Travelport in connection with certain transaction-specific costs the Company may not recognize until the sale is consummated. Pursuant to Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the account balances and activities of Wright Express, the former fleet leasing and appraisal businesses, the former Marketing Services division and Travelport have been segregated and reported as discontinued operations for all periods presented. The Company s former mortgage business has not been classified as a discontinued operation due to Realogy s participation in a mortgage origination venture that was established with PHH in connection with the spin-off (see Note 17 Spin-off of PHH Corporation for more information on the venture). Summarized financial data for the aforementioned businesses are provided in Note 2 Discontinued Operations.

Management Programs. The Company presents separately the financial data of its management programs. These programs are distinct from the Company s other activities since the assets are generally funded through the issuance of debt that is collateralized by such assets. Specifically, in the Company s vehicle rental, relocation, and vacation ownership and rental businesses, assets under management programs are funded through borrowings under asset-linked funding or other similar arrangements. Additionally, through January 31, 2005, in the Company s former mortgage services business, assets under management programs were funded through borrowings under asset-linked funding arrangements or unsecured borrowings at its former PHH subsidiary. The income generated by these assets is used, in part, to repay the principal and interest associated with the debt. Cash inflows and outflows relating to the generation or acquisition of such assets and the principal debt repayment or financing of such assets are classified as activities of the Company s management programs. The Company believes it is appropriate to segregate the financial data of its management programs because, ultimately, the source of repayment of such debt is the realization of such assets.

Separation Plan

In October 2005, the Company s Board of Directors preliminarily approved a plan to separate Cendant into four independent, publicly traded companies:

Realogy Corporation encompasses the Company s Realogy segment.

Wyndham Worldwide Corporation encompasses the Company s Hospitality Services and Timeshare Resorts segments.

Travelport, Inc. will encompass the Company s current Travel Distribution Services segment, which is now presented as a discontinued operation.

Avis Budget Group, Inc. will encompass the Company s current Avis Budget Group segment.

On April 24, 2006, the Company announced that in addition to continuing to pursue its original plan to distribute all of the shares of common stock of Travelport to its stockholders, the Company would also explore opportunities for the sale of such business. On June 30, 2006, the Company entered into a definitive agreement to sell Travelport, as discussed above, and on July 31, 2006 distributed all of the shares of common stock of Realogy and Wyndham to the Company s stockholders (see Note 18 Subsequent Events for further information on the separation plan). During the three and six months ended June 30, 2006, the Company incurred costs of $49 million and $85 million, respectively, in connection with executing this plan, consisting primarily of legal, accounting, other professional and consulting fees and various employee costs.

In connection with its execution of the separation plan, the Company has also repaid certain of its debt and revolving credit facilities and consummated new financing arrangements (see Note 11 Long-Term Debt and Borrowing Arrangements and Note 18 Subsequent Events for further information).

Changes in Accounting Policies during 2006

Timeshare Transactions. In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 152, Accounting for Real Estate Time-Sharing Transactions, in connection with the previous issuance of the American Institute of Certified Public Accountants Statement of Position No. 04-2, Accounting for Real Estate Time-Sharing Transactions (SOP 04-2). SFAS No. 152 provides guidance on revenue recognition for timeshare transactions, accounting and presentation for the uncollectibility of timeshare contract receivables, accounting for costs of sales of vacation ownership interests and related costs, accounting for operations during holding periods, and other transactions associated with timeshare operations.

The Company s revenue recognition policy for timeshare transactions has historically mandated a 10% minimum down payment (initial investment) as a prerequisite to recognizing revenue on the sale of a vacation ownership interest. SFAS No. 152 requires that the Company consider the fair value of certain incentives provided to the buyer

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when assessing whether such threshold has been achieved. If the buyer s investment has not met the minimum investment criteria of SFAS No. 152, the revenue associated with the sale of the vacation ownership interest and the related cost of sales and direct costs are deferred until the buyer s commitment satisfies the requirements of SFAS No. 152. In addition, certain costs previously included in the Company s percentage-of-completion calculation prior to the adoption of SFAS No. 152 are now expensed as incurred rather than deferred until the corresponding revenue is recognized.

SFAS No. 152 requires the Company to record the estimate of uncollectible timeshare contract receivables at the time a timeshare transaction is consummated as a reduction of net revenue. Prior to the adoption of SFAS No. 152, the Company recorded such provisions within operating expense on the accompanying Consolidated Condensed Statements of Income.

SFAS No. 152 also requires that revenue in excess of costs associated with the rental of unsold units be accounted for as a reduction to the carrying value of timeshare inventory (which reduces the cost of such inventory when it is sold), and that costs in excess of revenues associated with the rental of unsold units be charged to expense as incurred. Prior to the adoption of SFAS No. 152, rental revenues and expenses were separately recorded in the Consolidated Condensed Statements of Income.

The Company adopted the provisions of SFAS No. 152 effective January 1, 2006, as required, and recorded an after tax charge of $65 million ($0.06 per diluted share) during the six months ended June 30, 2006 as a cumulative effect of an accounting change, which consists of a pre-tax charge of $105 million representing the deferral of revenue and costs associated with sales of vacation ownership interests that were recognized prior to January 1, 2006, the recognition of certain expenses that were previously deferred and an associated tax benefit of $40 million. There was no impact to cash flows from the adoption of SFAS No. 152.

Stock-Based Compensation. On January 1, 2003, the Company adopted the fair value method of accounting for stock-based compensation of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123) and the prospective transition method of SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. Accordingly, the Company has recorded stock-based compensation expense for all employee stock awards that were granted or modified subsequent to December 31, 2002.

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment (SFAS No. 123R) which eliminates the alternative to measure stock-based compensation awards using the intrinsic value approach permitted by APB Opinion No. 25 and by SFAS No. 123. The Company adopted SFAS No. 123R on January 1, 2006, as required, under the modified prospective application method. Because the Company recorded stock-based compensation expense for all outstanding employee stock awards prior to the adoption of SFAS No. 123R, the adoption of such standard did not have a significant impact on the Company s results of operations. However, the Company recorded an after tax credit of $1 million during the six months ended June 30, 2006 as a cumulative effect of an accounting change, which represents the Company s estimate of total future forfeitures of stock-based awards outstanding as of January 1, 2006 (see Note 15 Stock-Based Compensation for further information).

Recently Issued Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), which is an interpretation of SFAS No. 109, Accounting for Income Taxes. FIN 48 provides measurement and recognition guidance related to accounting for uncertainty in income taxes. FIN 48 also requires increased disclosure with respect to the uncertainty in income taxes. The Company will adopt the provisions of FIN 48 on January 1, 2007, as required, and is currently evaluating the impact of such adoption on its financial statements.

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2. Discontinued Operations

Summarized statement of income data for discontinued operations is as follows:

Three Months Ended June 30, 2006

	Wright Express [(a)]	Marketing Services Division [(b)]	Travelport	Total
Net revenues	$	$	$ 687	$ 687
Income before income taxes	$	$	$ 60	$ 60
Provision for income taxes			7	7
Income from discontinued operations, net of tax	$	$	$ 53	$ 53
Gain (loss) on disposal of discontinued operations	$ 9	$ (8)	$ (1,000)	$ (999)
Provision (benefit) for income taxes	3	(2)	(19)	(18)
Gain (loss) on disposal of discontinued operations, net of tax	$ 6	$ (6)	$ (981)	$ (981)

(a) Represents payments received from Wright Express in connection with a tax receivable agreement pursuant to which Wright Express is obligated to make payments to the Company over a 15 year term. The Company currently expects such payments to aggregate over $400 million. However, the actual amount and timing of receipt of such payments are dependent upon a number of factors, including whether Wright Express earns sufficient future taxable income to realize the full tax benefit of the amortization of certain assets.

(b) Represent payments in connection with a guarantee obligation made to the Company s former Marketing Services division.

Three Months Ended June 30, 2005

	Wright Express [(a)]	Marketing Services Division	Travelport	Total
Net revenues	$	$ 333	$ 653	$ 986
Income (loss) before income taxes	$	$ (9)	$ 83	$ 74
Provision for income taxes			7	7
Income (loss) from discontinued operations, net of tax	$	$ (9)	$ 76	$ 67
Gain on disposal of discontinued operations	$ 6	$		$ 6
Provision for income taxes	2			2
Gain on disposal of discontinued operations, net of tax	$ 4	$	$	$ 4

[(a)] Represents payments received from Wright Express in connection with a tax receivable agreement. See above for further information.

Six Months Ended June 30, 2006

	Wright Express [(a)]	Marketing Services Division [(b)]	Travelport	Total
Net revenues	$	$	$ 1,327	$ 1,327
Income before income taxes	$	$	$ 109	$ 109
Provision for income taxes			3	3
Income from discontinued operations, net of tax	$	$	$ 106	$ 106
Gain (loss) on disposal of discontinued operations	$ 9	$ (10)	$ (1,000)	$ (1,001)
Provision (benefit) for income taxes	3	(4)	(19)	(20)
Gain (loss) on disposal of discontinued operations, net of tax	$ 6	$ (6)	$ (981)	$ (981)

[(a)] Represents payments received from Wright Express in connection with a tax receivable agreement. See above for further information.

[(b)] Represent payments in connection with a guarantee obligation made to the Company s former Marketing Services division.

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Six Months Ended June 30, 2005

	Wright Express [a]	Fleet and Appraisal Businesses [a][b]	Marketing Services Division	Travelport	Total
Net revenues	$ 29	$ 134	$ 670	$ 1,197	$ 2,030
Income (loss) before income taxes	$ (7)	$ 7	$ 19	$ 158	$ 177
Provision (benefit) for income taxes	(3)	28	9	62	96
Income (loss) from discontinued operations, net of tax	$ (4)	$ (21)	$ 10	$ 96	$ 81
Gain (loss) on disposal of discontinued operations	$ 507	$ (312)	$	$	$ 195
Provision for income taxes	328				328
Gain (loss) on disposal of discontinued operations, net of tax	$ 179	$ (312)	$	$	$ (133)

[a] Results are through the dates of disposition.
[b] The provision for income taxes reflects a $24 million charge associated with separating the appraisal business from the Company in connection with the PHH spin-off.

Summarized balance sheet data for discontinued operations are as follows:

	As of June 30, 2006 Travelport	As of December 31, 2005 Travelport
Assets of discontinued operations:		
Current assets	$ 879	$ 676
Property and equipment, net	535	480
Goodwill	3,279	4,087
Other assets	1,634	1,645
Total assets of discontinued operations	$ 6,327	$ 6,888
Liabilities of discontinued operations:		
Current liabilities	$ 1,250	$ 860
Other liabilities	599	732
Total liabilities of discontinued operations [a]	$ 1,849	$ 1,592

(a)

The balance as of June 30, 2006 and December 31, 2005 includes $265 million and $350 million, respectively, under the Company s revolving credit facility, as Travelport is the primary obligor for such borrowings.

3. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (EPS).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	**2005**	**2006**	**2005**
Income from continuing operations	$ 174	$ 316	$ 255	$ 358
Income from discontinued operations	53	67	106	81
Gain (loss) on disposal of discontinued operations	(981)	4	(981)	(133)
Cumulative effect of accounting changes			(64)	
Net income (loss)	$ (754)	$ 387	$ (684)	$ 306
Basic weighted average shares outstanding	1,002	1,050	1,004	1,052
Stock options, warrants and restricted stock units (*)	9	22	10	23
Diluted weighted average shares outstanding	1,011	1,072	1,014	1,075

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Earnings per share:				
Basic				
Income from continuing operations	$ 0.17	$ 0.30	$ 0.25	$ 0.34
Income from discontinued operations	0.06	0.07	0.11	0.08
Gain (loss) on disposal of discontinued operations	(0.98)		(0.98)	(0.13)
Cumulative effect of accounting changes			(0.06)	
Net income (loss)	$ (0.75)	$ 0.37	$ (0.68)	$ 0.29
Diluted				
Income from continuing operations	$ 0.17	$ 0.29	$ 0.25	$ 0.33
Income from discontinued operations	0.05	0.07	0.11	0.08
Gain (loss) on disposal of discontinued operations	(0.97)		(0.97)	(0.13)
Cumulative effect of accounting changes			(0.06)	
Net income (loss)	$ (0.75)	$ 0.36	$ (0.67)	$ 0.28

(*) Excludes restricted stock units for which performance-based vesting criteria have not been achieved. Also does not reflect (i) 49 million and 38 million outstanding common stock options that were antidilutive during the three months ended June 30, 2006 and 2005, respectively, (ii) 84 million and 24 million outstanding common stock options that were antidilutive during the six months ended June 30, 2006 and 2005, respectively and (iii) 2 million outstanding warrants during the three and six months ended June 30, 2006 that were antidilutive. The increase in the number of antidilutive options for the three months ended June 30, 2006 represents approximately 11 million options that became out-of-the-money as a result of a decrease in the average stock price between the three months ended June 30, 2006 ($16.64) and the three months ended June 30, 2005 ($20.96). The increase in the number of antidilutive options for the six months ended June 30, 2006 represents approximately 60 million options that became out-of-the-money as a result of a decrease in the average stock price between the six months ended June 30, 2006 ($16.65) and the six months ended June 30, 2005 ($21.32). The weighted average exercise price for antidilutive options for the three months ended June 30, 2006 and 2005 was $18.22 and $25.85, respectively. The weighted average exercise price for antidilutive options for the six months ended June 30, 2006 and 2005 was $21.49 and $28.50, respectively. The weighted average exercise price for antidilutive warrants at June 30, 2006 was $21.31.

4. Acquisitions

Assets acquired and liabilities assumed in business combinations were recorded on the Company s Consolidated Condensed Balance Sheets as of the respective acquisition dates based upon their estimated fair values at such dates. The results of operations of businesses acquired by the Company have been included in the Company s Consolidated Condensed Statements of Income since their respective dates of acquisition. The excess of the purchase price over the estimated fair values of the underlying assets acquired and liabilities assumed was allocated to goodwill. In certain circumstances, the allocations of the excess purchase price are based upon preliminary estimates and assumptions. Accordingly, the allocations may be subject to revision when the Company receives final information, including appraisals and other analyses. Any revisions to the fair values, which may be significant, will be recorded by the Company as further adjustments to the purchase price allocations. The Company is also in the process of integrating the operations of its acquired businesses and expects to incur costs relating to such integrations. These costs may result from integrating operating systems, relocating employees, closing facilities, reducing duplicative efforts and exiting and consolidating other activities. These costs will be recorded as adjustments to the purchase price or as expenses, as appropriate.

Texas American Title Company. On January 6, 2006, the Company completed the acquisition of multiple title companies in Texas in a single transaction for total consideration of $109 million, which includes $32 million in cash, net of cash acquired of $60 million, plus a $10 million note (subject to potential downward adjustment) payable within two years of the closing date, and $7 million of assumed liabilities. These entities provide title and closing services, including title searches, title insurance, home sale escrow and other closing services. This acquisition resulted in goodwill (based on the preliminary purchase price) of $30 million, none of which is expected to be deductible for tax purposes. Such goodwill was assigned to the Company s Realogy segment. This acquisition also resulted in $40 million of other intangible assets. This acquisition expanded the Company s agency business into Texas and added a wholly-owned underwriter of title insurance to the title and settlement services portfolio.

Other. During the six months ended June 30, 2006, the Company acquired eleven real estate brokerage operations through its wholly-owned subsidiary, NRT Incorporated (NRT), for $71 million in cash, in the aggregate, which resulted in goodwill (based on the preliminary allocation of the purchase price) of $69 million that was assigned to the Company s Realogy segment, all of which is expected to be deductible for tax purposes. These acquisitions also resulted in $4 million of other intangible assets.

In addition, the Company acquired fourteen other individually non-significant businesses within several of its reportable segments during the six months ended June 30, 2006 for aggregate consideration of $79 million in cash,

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which resulted in goodwill (based on the preliminary allocation of the purchase price) of $2 million, all of which is expected to be deductible for tax purposes. The goodwill was assigned to the Company s Realogy segment. These acquisitions also resulted in $75 million of other intangible assets.

These acquisitions were not significant to the Company s results of operations, financial position or cash flows.

Acquisition and Integration Related Costs

During the three and six months ended June 30, 2006, the Company incurred acquisition and integration related costs of $3 million and $11 million, respectively, of which $2 million and $9 million, respectively, represented amortization of its contractual pendings and listings intangible assets, which were acquired primarily in connection with the acquisitions of real estate brokerages by NRT. The Company segregated the pendings and listings amortization to enhance the comparability of its results of operations since these intangible assets are amortized over a short period of time (generally four to five months). The remaining costs of $1 million and $2 million, respectively, reflect the integration of the real estate brokerages acquired by NRT.

During the three and six months ended June 30, 2005, the Company incurred acquisition and integration related costs of $4 million and $8 million, respectively, of which $3 million and $6 million, respectively, represented amortization of its contractual pendings and listings intangible assets, all of which were acquired in connection with the acquisitions of real estate brokerages by NRT. The remaining costs of $1 million and $2 million, respectively, reflect the integration of the real estate brokerages acquired by NRT.

5. Intangible Assets

Intangible assets consisted of:

	As of June 30, 2006			As of December 31, 2005		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Amortized Intangible Assets						
Franchise agreements	$ 1,181	$ 418	$ 763	$ 1,160	$ 399	$ 761
Customer lists	135	103	32	121	97	24
Below market contracts acquired	44	13	31	42	10	32
License agreement	47	3	44	47	3	44
Other	54	11	43	48	19	29
	$ 1,461	$ 548	$ 913	$ 1,418	$ 528	$ 890
Unamortized Intangible Assets						
Goodwill	$ 8,082			$ 7,938		
Trademarks	$ 1,314			$ 1,240		

The changes in the carrying amount of goodwill are as follows:

	Balance at January 1,	Goodwill Acquired during	Adjustments to Goodwill Acquired	Foreign	Balance at June 30,

	2006	2006	during 2005	Exchange and Other	2006
Realogy	$ 3,163	$ 101 [a]	$ 13 [b]	$ 7 [e]	$ 3,284
Hospitality Services	1,316		3 [c]	15 [f]	1,334
Timeshare Resorts	1,322		1		1,323
Wyndham Worldwide	2,638		4	15	2,657
Avis Budget Group	2,137		4 [d]		2,141
Total Company	$ 7,938	$ 101	$ 21	$ 22	$ 8,082

[a] Primarily relates to the acquisitions of real estate brokerages by NRT (January 2006 and forward) and the acquisition of Texas American Title Company (see Note 4 Acquisitions).
[b] Primarily relates to the acquisitions of real estate brokerages by NRT, including earnouts.
[c] Primarily relates to the acquisition of the Wyndham Hotels and Resorts brand (October 2005).
[d] Primarily relates to the acquisition of Budget licensees (April 2005 and forward).
[e] Primarily relates to earnouts for the acquisitions of real estate brokerages by NRT prior to 2005.
[f] Primarily relates to foreign exchange translation adjustments.

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Amortization expense relating to all intangible assets was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Franchise agreements	$ 10	$ 9	$ 19	$ 18
Customer lists	3	3	7	6
Below market contracts acquired	1	1	2	2
Other (*)	5	3	12	7
Total	$ 19	$ 16	$ 40	$ 33

(*) Includes pendings and listings amortization expense during the three months ended June 30, 2006 and 2005 of $2 million and $3 million, respectively, and during the six months ended June 30, 2006 and 2005 of $9 million and $6 million, respectively.

6. Restructuring and Transaction-Related Charges

During the three and six months ended June 30, 2005, the Company recorded $1 million and $40 million, respectively, of restructuring and transaction-related charges, of which $1 million and $37 million, respectively, was incurred as a result of restructuring activities undertaken following the PHH spin-off and the IPO of Wright Express, and $3 million relates to transaction costs incurred during the six months ended June 30, 2005 in connection with the PHH spin-off. The restructuring activities were targeted principally at reducing costs, enhancing organizational efficiency and consolidating and rationalizing existing processes and facilities. The more significant areas of cost reduction include the closure of a call center and field locations of the Company s truck rental business, consolidation of processes and offices in the Company s real estate brokerage business and reductions in staff within the Hospitality Services segment and the Company s corporate functions. The remaining liability relating to these actions was $1 million and $6 million at June 30, 2006 and December 31, 2005, respectively, and primarily relates to obligations under terminated leases.

7. Vehicle Rental Activities

The components of the Company s vehicle-related assets under management programs are as follows:

	As of June 30, 2006	As of December 31, 2005
Rental vehicles	$ 9,664	$ 8,247
Vehicles held for sale	134	165
	9,798	8,412
Less: Accumulated depreciation	(938)	(903)
Total investment in vehicles, net	8,860	7,509
Plus: Investment in Cendant Rental Car Funding (AESOP) LLC	414	374
Plus: Receivables from manufacturers	200	602

Total vehicle-related, net	$ 9,474	$ 8,485

The components of vehicle depreciation, lease charges and interest, net, are summarized below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	**2005**	**2006**	**2005**
Depreciation expense	$ 346	$ 283	$ 663	$ 533
Interest expense, net [*]	75	77	166	140
Lease charges	12	16	29	35
(Gain) loss on sales of vehicles, net	6	(3)	2	(11)
	$ 439	$ 373	$ 860	$ 697

[*] Amounts for the three and six months ended June 30, 2006 exclude $30 million of interest expense related to $1,875 million of fixed and floating rate borrowings of Avis Budget Car Rental, LLC. Such interest is recorded within non-program related interest expense, net on the accompanying Consolidated Condensed Statement of Income.

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8. Income Taxes

The Company s effective tax rate from continuing operations for the six months ended June 30, 2006 is 39.0%. Such rate differs from the Federal statutory rate of 35.0% primarily due to state and local income taxes.

The Company s effective tax rate from continuing operations for the six months ended June 30, 2005 is 40.9%. Such rate differs from the Federal statutory rate of 35.0% primarily due to the non-deductibility of the $180 million valuation charge associated with the PHH spin-off and state and local income taxes, partially offset by a tax benefit of $55 million related to asset basis differences.

9. Other Current Assets

Other current assets consisted of:

	As of June 30, 2006	As of December 31, 2005
Prepaid expenses	$ 369	$ 315
Timeshare inventory[(a)]	195	29
Other	333	207
	$ 897	$ 551

(a) The increase in timeshare inventory at June 30, 2006 is primarily due to increased timeshare activity and the adoption of SFAS No. 152.

10. Accounts Payable and Other Current Liabilities

Accounts payable and other current liabilities consisted of:

	As of June 30, 2006	As of December 31, 2005
Accounts payable	$ 689	$ 567
Income taxes payable	542	768
Accrued payroll and related	403	513
Accrued advertising and marketing	162	151
Accrued legal settlements	190	326
Accrued interest	169	127
Acquisition and integration-related	54	60
Other	1,068	982
	$ 3,277	$ 3,494

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11. Long-term Debt and Borrowing Arrangements

Long-term debt consisted of:

	Maturity Date	As of June 30, 2006	As of December 31, 2005
Corporate debt:			
$6^{7}/8$% notes [a]	August 2006	$ 850	$ 850
4.89% notes [a]	August 2006	100	100
$6^{1}/4$% notes [b]	January 2008	799	798
$6^{1}/4$% notes [b]	March 2010	349	349
$7^{3}/8$% notes [b]	January 2013	1,192	1,192
$7^{1}/8$% notes [b]	March 2015	250	250
Revolver borrowings		200	7
Net hedging losses [d]		(123)	(47)
		3,617	3,499
Avis Budget Car Rental, LLC corporate debt:			
Floating rate term loan [c]	April 2012	875	
Floating rate senior notes [c]	May 2014	250	
$7^{5}/8$% notes [c]	May 2014	375	
$7^{3}/4$% notes [c]	May 2016	375	
		1,875	
Other:			
Other		77	79
Total long-term debt		5,569	3,578
Less: Current portion [e]		3,593	1,017
Long-term debt		$ 1,976	$ 2,561