SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001
COMMISSION FILE NO. 1-10308

# CENDANT CORPORATION
(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| DELAWARE<br>(State or other jurisdiction of incorporation or organization) | 06-0918165<br>(I.R.S. Employer Identification Number) |
| 9 WEST 57TH STREET<br>NEW YORK, NY<br>(Address of principal executive office) | 10019<br>(Zip Code) |

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE ON WHICH REGISTERED |
|---|---|
| CD Common Stock, Par Value $.01 | New York Stock Exchange |
| Upper DECS (sm) | New York Stock Exchange |

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

7 3/4% Notes due 2003
6.875% Notes due 2006
3 7/8% Convertible Senior Debentures due 2011
Zero Coupon Senior Convertible Contingent Notes due 2021
Zero Coupon Convertible Debentures due 2021

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 and 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. / /

The aggregate market value of the Common Stock issued and outstanding and held by nonaffiliates of the Registrant, based upon the closing price for the Common Stock on the New York Stock Exchange on March 15, 2002 was $18,334,910,460. All executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant.

The number of shares outstanding of the Registrant's common stock was 982,020,341 as of March 15, 2002.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be mailed to stockholders in connection with our annual stockholders meeting to be held May 21, 2002 (the "Annual Proxy Statement") are incorporated by reference into Part III hereof.

DOCUMENT CONSTITUTING PART OF SECTION 10(A) PROSPECTUS
FOR FORM S-8 REGISTRATION STATEMENTS

This document constitutes part of a prospectus covering securities that have been registered under the Securities Act of 1933.

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PART I

ITEM 1. BUSINESS

EXCEPT AS EXPRESSLY INDICATED OR UNLESS THE CONTEXT OTHERWISE REQUIRES, THE "COMPANY", "CENDANT", "WE", "OUR" OR "US" MEANS CENDANT CORPORATION, A DELAWARE CORPORATION, AND ITS SUBSIDIARIES.

We are one of the foremost providers of travel and real estate services in the world. Our businesses provide a wide range of consumer and business services and are intended to complement one another and create cross-marketing opportunities both within and among our following five business segments:

- Our Real Estate Services segment franchises the real estate brokerage businesses of the CENTURY 21-Registered Trademark-, Coldwell Banker-Registered Trademark-, Coldwell Banker Commercial-Registered Trademark- and ERA-Registered Trademark- brands; provides home buyers with mortgages through Cendant Mortgage Corporation and assists in employee relocations through Cendant Mobility Services Corporation.

- Our Hospitality segment operates the Days Inn-Registered Trademark-, Ramada-Registered Trademark- (in the United States), Super 8 Motel-Registered Trademark-, Howard Johnson-Registered Trademark-, Wingate Inn-Registered Trademark-, Knights Inn-Registered Trademark-, Travelodge-Registered Trademark- (in North America), Villager Lodge-Registered Trademark-/Village Premier-Registered Trademark-/Hearthside by Villager and AmeriHost Inn-Registered Trademark- lodging franchise systems, facilitates the sale and exchange of vacation ownership intervals through Resort Condominiums International, LLC, Fairfield Resorts, Inc. and Equivest Finance, Inc. and markets vacation rental properties in Europe through Holiday Cottages and Cuendet.

- Our Vehicle Services segment operates and franchises our Avis-Registered Trademark- car rental business; provides fleet management and fuel card services to corporate clients and government agencies through PHH Arval and Wright Express and operates parking facilities in the United Kingdom through our National Car Parks subsidiary.

- Our Travel Distribution segment provides global distribution and computer reservation services to airlines, hotels, car rental companies and other travel suppliers and provides our travel agent customers the ability to electronically access airline schedule and fare information, book reservations, and issue tickets through Galileo International, provides travel services through our Cendant Travel and Cheap Tickets travel agency businesses, and provides reservations processing, connectivity and information management services through WizCom.

- Our Financial Services segment provides enhancement packages to financial institutions through FISI*Madison LLC, provides insurance-based products to consumers through Benefit Consultants, Inc. and Long Term Preferred Care, Inc., provides loyalty solutions to businesses through Cims Ltd., operates and franchises tax preparation services through Jackson Hewitt Inc. and provides a variety of membership programs offering discounted products and services to consumers through our relationship with Trilegiant Corporation.

* * *

We seek organic growth augmented by the acquisition and integration of complementary businesses. As a result, we are currently engaged in a number of preliminary discussions concerning possible acquisitions and intend to continually explore and conduct discussions with regard to other acquisitions

and other strategic corporate transactions. The purchase price for any possible transaction may be paid in cash, stock, other securities, borrowings, or a combination thereof. Prior to consummating any transaction, we will need to, among other things, initiate and satisfactorily complete our due diligence investigations; negotiate the financial and other terms (including price) and conditions of such transactions; obtain appropriate board of directors, regulatory and shareholder or other necessary consents and approvals; and, if necessary, secure financing. No assurance can be given with respect to the timing, likelihood or business effect of any possible transaction. In the past, we have been involved in both relatively small and significant acquisitions.

In addition, we continually review and evaluate our portfolio of existing businesses to determine if they continue to meet our business objectives. As part of our ongoing evaluation of such businesses, we intend from time to time to explore and conduct discussions with regard to joint ventures, divestitures and related



corporate transactions. However, we can give no assurance with respect to the magnitude, timing, likelihood or financial or business effect of any possible transaction. We also cannot predict whether any divestitures or other transactions will be consummated or, if consummated, will result in a financial or other benefit to us. We intend to use a portion of the proceeds from any such dispositions and cash from operations to retire indebtedness, make acquisitions and for other general corporate purposes.

This 10-K Report includes certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to changes in global economic, business, competitive, market and regulatory factors. Please refer to "Management's Discussion and Analysis of Results of Operations" for additional factors and assumptions that could cause actual results to differ from the forward-looking statements contained in this 10-K Report.

We were created through the merger of HFS Incorporated into CUC International, Inc. in December 1997 with the resultant corporation being renamed Cendant Corporation. Our principal executive office is located at 9 West 57th Street, New York, New York 10019 (telephone number: (212) 413-1800).

## SEGMENTS

### REAL ESTATE SERVICES SEGMENT (21%, 31% and 23% of revenue for 2001, 2000 and 1999, respectively)

### REAL ESTATE FRANCHISE BUSINESS (7%, 13% and 9% of revenue for 2001, 2000 and 1999, respectively)

We are the world's largest real estate brokerage franchisor. We franchise real estate brokerage businesses under the following franchise systems:

- CENTURY 21-Registered Trademark-, the world's largest residential real estate brokerage franchisor, with approximately 6,600 independently owned and operated franchised offices and approximately 101,000 active sales agents located in 34 countries and territories;

- ERA-Registered Trademark-, a leading residential real estate brokerage franchisor, with approximately 2,500 independently owned and operated franchise offices, and more than 29,000 sales agents located in 27 countries;

- Coldwell Banker-Registered Trademark-, one of the world's leading brands for the sale of million-dollar-plus homes and the third largest residential real estate brokerage franchisor, with approximately 3,200 independently owned and operated franchise offices in the United States, Canada and 15 other countries and approximately 89,000 sales agents; and

- Coldwell Banker Commercial-Registered Trademark-, a leading commercial real estate brokerage franchisor with approximately 100 independently owned and operated franchise offices, and approximately 1,000 sales agents in the United States.

Service and marketing fees on commissions from real estate transactions comprise the primary component of revenue for our real estate franchise business. We also offer service providers an opportunity to market their products to our brokers through our Preferred Alliance(sm) program. To participate in this program, service providers generally pay us an up-front fee, commissions or both.

Each of our brands has a consumer Web site that offers real estate listing

contacts and services. century21.com, coldwellbanker.com, coldwellbankercommercial.com and era.com are the official Web sites for the CENTURY 21, Coldwell Banker, Coldwell Banker Commercial and ERA real estate franchise systems, respectively. In addition, all of the aggregated listings of our CENTURY 21, Coldwell Banker and ERA national real estate franchises are available through the Realtor.com-Registered Trademark- Web site.

GROWTH. We market real estate brokerage franchises primarily to independent, unaffiliated owners of real estate brokerage companies as well as individuals who are interested in establishing real estate brokerage businesses. We believe that our existing franchisee base represents another source of potential growth, as



franchisees seek to expand their existing business geographically. Our largest franchisee, NRT Incorporated, is an active acquirer of independent real estate brokerage companies. Therefore, our sales strategy focuses on maintaining the satisfaction of our franchisees by providing services such as training, ongoing support, volume discounts and increasing brand awareness by providing each brand with a dedicated marketing staff. Our real estate brokerage franchise systems employ a national franchise sales force, compensated primarily by commissions on sales, consisting of approximately 100 sales personnel.

COMPETITION. Competition among the national real estate brokerage brand franchisors to grow their franchise systems is intense. Our chief competitors in this industry include the Prudential-Registered Trademark-, GMAC Real Estate(sm) and RE/MAX-Registered Trademark- real estate brokerage brands. In addition, a real estate broker may choose to affiliate with a regional chain or choose not to affiliate with a franchisor but to remain independent. We believe that competition for the sale of franchises in the real estate brokerage industry is based principally upon the perceived value and quality of the brand and services offered to franchisees.

The ability of our real estate brokerage franchisees to compete in the industry is important to our prospects for growth. The ability of an individual franchisee to compete may be affected by the location and real estate agent service quality of its office, the number of competing offices in the vicinity, its affiliation with a recognized brand name, community reputation and other factors. A franchisee's success may also be affected by general, regional and local economic conditions. The potential negative effect of these conditions on our results of operations is generally reduced by virtue of the diverse geographical locations of our franchisees, although 2001 did have year-over-year declines in California. At December 31, 2001, the combined real estate franchise systems had approximately 8,200 franchised brokerage offices in the United States and approximately 12,400 offices worldwide. The real estate franchise systems have offices in 50 countries and territories in North and South America, Europe, Asia, Africa and Australia.

NRT RELATIONSHIP. NRT Incorporated, the largest real estate brokerage firm in the United States, is a joint venture between us and Apollo Management, L.P. Apollo owns 100% of the common stock of NRT and we own all of NRT's preferred stock which is convertible into an equal equity ownership with Apollo. We have the option to purchase the NRT common stock held by Apollo for $20 million, which is conditional upon Apollo receiving a payment of $166 million from NRT. If NRT is unable to make the payment to Apollo, we would be required to make the payment on behalf of NRT and would receive additional NRT preferred stock in exchange. NRT is the largest real estate franchisee in our brokerage system based on gross commission income and represents approximately 42% of the Real Estate Franchise Business revenue. NRT's strategy is to grow through the acquisition of independent real estate brokerages which it then converts to one of our brands. NRT operates its offices under two 50-year franchise agreements for our brands that, except for the term and lack of royalty rebate provision, are similar to those utilized by our other real estate franchisees. These agreements are recorded as an asset on our balance sheet. During 2001, we received from NRT approximately $220 million in royalties for the use of our real estate trademarks. Additionally, during 2001, we received $16 million of other fees from NRT, which included a fee paid in connection with the termination of a franchise agreement. During 2001, we also received $37 million of real estate referral fees from NRT in connection with clients referred to NRT by our relocation business. 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. At December 31, 2001, NRT had $291 million in debt, which is non-recourse to us. NRT has informed us, for the twelve months ended September 30, 2001, its leverage ratio (debt/EBITDA as defined in its credit agreement) was 2.6 to 1. Certain officers of Cendant serve on the Board of Directors of NRT.

RELOCATION BUSINESS (5%, 9% and 7% of revenue for 2001, 2000 and 1999, respectively)

Cendant Mobility(sm) is the leading provider of employee relocation services in the world and assists more than 128,000 affinity customers, transferring employees and global assignees annually, including over 23,000 employees internationally each year in over 125 countries.

We offer corporate and government clients employee relocation services, such as the evaluation, inspection, selling or purchasing of a transferee's home, the issuance of equity advances (generally guaranteed by



the corporate client), certain home management services, assistance in locating a new home, immigration support, intercultural and language training and repatriation counseling. We also provide clients with relocation-related accounting services. Our services allow clients to outsource their relocation programs.

Clients pay a fee for the services performed and/or permit Cendant Mobility to retain referral fees collected from brokers. The majority of our clients pay interest on equity advances and broker referral fees and reimburse all costs associated with our services, including, if necessary, repayment of equity advances and reimbursement of losses on the sale of homes purchased. This limits our exposure on such items to the credit risk of our corporate clients and not on the potential changes in value of residential real estate. We believe such risk is minimal due to the credit quality of our corporate clients. In transactions where we assume the risk for losses on the sale of homes (primarily government clients), which comprise less than 3% of net revenue for our relocation business, we control all facets of the resale process, thereby limiting our exposure.

Our group move management service provides coordination for moves involving a large number of employees over a short period of time. Our moving service, with over 72,000 shipments annually, provides support for all aspects of moving an employee's household goods. We also handle insurance and claim assistance, invoice auditing and quality control of van line, driver, and overall service.

Our affinity services provide real estate and relocation services, including home buying and selling assistance, as well as mortgage assistance and moving services, to organizations, such as insurance and airline companies that have established members. Often these organizations offer our affinity services to their members at no cost. This service helps the organizations attract new members and retain current members. Personal assistance is provided to over 50,000 individuals, with approximately 26,000 real estate transactions annually.

GROWTH. Our strategy is to grow by generating business from corporations and government agencies seeking to outsource their relocation function due to downsizing, cost containment initiatives and increased need for expense tracking. Our growth strategy has been driven by domestic and international acquisitions and market expansion, and we continually explore acquisitions and other strategic corporate transactions that would complement our relocation business.

COMPETITION. Competition is based on service, quality and price. We are a leader in the United States, United Kingdom, and Australia/Southeast Asia for outsourced relocations. In the United States, we compete with in-house relocation solutions and with numerous providers of outsourced relocation services, the largest of which are GMAC Relocation Services and Prudential Relocation Management. Internationally, we compete with in-house solutions, local relocation providers and the international accounting firms.

MORTGAGE BUSINESS (9%, 9% and 7% of revenue for 2001, 2000 and 1999, respectively)

We originate, sell and service residential first mortgage loans in the United States. For 2001, Cendant Mortgage(sm) was the second largest lender of retail originated residential mortgages, and the sixth largest retail lender of residential mortgages in the United States. Cendant Mortgage is a centralized mortgage lender conducting its business in all 50 states.

We market our mortgage products to consumers through:

- an 800-number teleservices operation under programs for real estate organizations (Phone In, Move In-Registered Trademark-) and relocation clients and private label programs for financial institutions;

- a Web interface, containing educational materials, rate quotes and a full mortgage application, made available to the customers of our businesses such as Century 21, Coldwell Banker, ERA, Cendant Mobility, and our financial institution private label relationships, including American Express Centurion Bank, GE Financial Network and Merrill Lynch Credit Corporation;

- field sales professionals with processing, underwriting and other origination activities generally located in real estate offices around the U.S. equipped with software to obtain product information, quote interest rates and to help customers prepare mortgage applications; and

- purchasing closed loans from financial institutions and mortgage banks after underwriting the loans.



Cendant Mortgage customarily sells all mortgages it originates to investors (which include a variety of institutional investors) either as individual loans, mortgage-backed securities or participation certificates issued or guaranteed by Fannie Mae Corp., the Federal Home Loan Mortgage Corporation or the Government National Mortgage Association. Cendant Mortgage earns revenue from the sale of the mortgage loans to investors, as well as on the servicing of the loans for investors. 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 administering our mortgage loan servicing portfolio.

GROWTH. Our strategy is to increase sales by expanding all of our sources of business with emphasis on purchase mortgage volume through our teleservices and Internet programs. The Phone In, Move In program was developed in 1997 and has been established in over 5,600 real estate offices.

We will also expand our volume of mortgage originations resulting from corporate employee relocations by working with financial institutions which desire to outsource their mortgage origination operations through increased linkage with Cendant Mobility. Each of these growth opportunities is driven by our low cost teleservices platform. The competitive advantage of using a centralized, efficient and high quality teleservices platform allows us to more cost effectively capture a greater percentage of the highly fragmented mortgage marketplace.

COMPETITION. Competition is based on service, quality, products and price. Cendant Mortgage has increased its share of retail mortgage originations in the United States to 4.4% in 2001 from 2.1% in 2000. According to INSIDE MORTGAGE FINANCE, the industry leader for 2001 reported a 12.4% share in the United States. Competitive conditions can also be impacted by shifts in consumer preference for variable rate mortgages from fixed rate mortgages, depending upon the current interest rate market.

REAL ESTATE SERVICES SEASONALITY

The principal sources of revenue for our real estate franchise and mortgage businesses are based upon the timing of residential real estate sales, which are generally lower in the first calendar quarter each year. The principal sources of revenue for our relocation business are based upon the timing of transferee moves, which are generally lower in the first and last quarter of each year.

REAL ESTATE SERVICES TRADEMARKS AND INTELLECTUAL PROPERTY

The trademarks "CENTURY 21-Registered Trademark-", "Coldwell Banker-Registered Trademark-", "Coldwell Banker Commercial-Registered Trademark-", "ERA-Registered Trademark-", "Cendant Mobility-Registered Trademark-", and "Cendant Mortgage" and related trademarks and logos are material to our real estate franchise, relocation and mortgage businesses, respectively. Our franchisees and subsidiaries in our real estate services business actively use these marks and all of the material marks are registered (or have applications pending for registration) with the United States Patent and Trademark Office as well as major countries worldwide where these businesses have significant operations and are owned by us.

REAL ESTATE SERVICES EMPLOYEES

The businesses that make up our Real Estate Services segment employed approximately 8,893 persons as of December 31, 2001.

HOSPITALITY SEGMENT (17%, 20% and 15% of revenue for 2001, 2000 and 1999, respectively)

LODGING FRANCHISE BUSINESS (5%, 11% and 8% of revenue for 2001, 2000 and 1999, respectively)

We are the world's largest hotel franchisor, operating nine lodging franchise systems.

The lodging industry can be divided into four broad sectors based on price and services: upper upscale, with room rates above $110 per night; upscale, with

room rates between $80 and $110 per night; middle market, with room rates generally between $55 and $79 per night; and economy, with room rates generally less than $55 per night. The following is a summary description of our lodging franchise systems properties that are open and operating as of December 31, 2001.



| BRAND | PRIMARY DOMESTIC SECTOR SERVED | AVG. ROOMS PER PROPERTY | # OF PROPERTIES | # OF ROOMS | LOCATION* |
|---|---|---|---|---|---|
| AmeriHost | Middle Market | 68 | 86 | 5,827 | U.S. Only |
| Days Inn | Upper Economy | 84 | 1,946 | 164,092 | U.S. and International(1) |
| Howard Johnson | Middle Market | 99 | 503 | 49,831 | U.S. and International(2) |
| Knights Inn | Lower Economy | 80 | 227 | 18,145 | U.S. and International(3) |
| Ramada | Middle Market | 123 | 978 | 120,515 | U.S. Only(4) |
| Super 8 Motel | Economy | 61 | 2,054 | 125,016 | U.S. and International(3) |
| Travelodge | Upper Economy | 80 | 598 | 47,688 | U.S. and International(5) |
| Villager Lodge/ Villager Premier/ Hearthside by Villager | Lower Economy | 102 | 120 | 12,177 | International(5) |
| Wingate Inn | Upper Middle Market | 94 | 112 | 10,480 | Domestic |
| Total | | | 6,624 | 553,771 | |

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* Description of rights owned or licensed.

(1) Includes properties in Canada, China, Colombia, Czech Republic, Egypt, England, Hungary, India, Jordan, Mexico, Philippines, South Africa, Scotland and Uruguay.

(2) Includes properties in Argentina, Canada, China, Dominican Republic, Ecuador, England, Israel, Jordan, Lebanon, Malta, Mexico, Oman, Venezuela

and United Arab Emirates.
(3) Includes properties in Canada.
(4) Limited to the Continental U.S., Alaska and Hawaii.
(5) Includes properties in Canada and Mexico.

Our Lodging Franchise business derives substantially all of its revenue from initial franchise fees and continuing franchise fees, which are comprised of royalty and marketing/reservation fees and are normally charged as a percentage of the franchisee's gross room revenue. The royalty fee is intended to cover our operating expenses and the cost of the trademark, such as expenses incurred for franchise services, including group purchasing, administrative support and design and construction advice, and to provide the franchisor with operating profits. The marketing/reservation fee is intended to reimburse the franchisor for expenses associated with providing such franchise services as a central reservation system, national advertising and marketing programs and certain training programs.

Our lodging franchisees are dispersed geographically, which minimizes our exposure to any one hotel owner or geographic region. Of the more than 6,600 properties and 4,900 franchisees in our lodging systems, no individual hotel owner accounts for more than 2% of our franchised lodging properties.

On March 1, 2002, we entered into a venture with Marriott International, Inc. where we contributed our Days Inn trademarks and an amended license agreement relating to the Days Inn trademarks and Marriott contributed the domestic Ramada trademarks and the master license agreement relating to Cendant's license of the Ramada trademarks. As a result of the transaction, we have a 50.0001% interest in the venture and Marriott has a 49.9999% interest in the venture. Pursuant to the terms of the venture, we will share income from the venture with Marriott on a substantially equal basis. We currently expect the venture to redeem Marriott's interest for approximately $200 million, the projected fair market value, in March 2004. We expect to loan the venture approximately $200 million in March 2004 to meet its obligations to Marriott. Upon such redemption, we will own 100% of the venture. Under the terms of the venture agreement, we control the venture and therefore we will consolidate the venture into our results of operations, financial position and cash flows beginning on March 1, 2002. The venture has no third party liabilities.

GROWTH. The sale of long-term franchise agreements to operators of existing and newly constructed hotels is the leading source of revenue and earnings growth in our lodging franchise business. We also continue to seek opportunities to acquire or license additional hotel franchise systems, including established brands in the upper upscale and upscale sectors, where we are not currently represented.



We market franchises principally to independent hotel and motel owners, as well as to owners who have the right to terminate franchise affiliations of their properties with other hotel brands. We believe that our existing franchisees also represent a significant potential growth opportunity because many own, or may own in the future, other hotels, which can be converted to our brand names. Accordingly, a significant factor in our sales strategy is maintaining the satisfaction of our existing franchisees by providing quality services. We employ a national franchise sales force, compensated primarily through commissions, consisting of approximately 90 sales personnel.

We seek to expand our franchise systems on an international basis through license agreements with developers and franchisors based outside the United States. As of December 31, 2001, our franchising subsidiaries (other than Ramada and AmeriHost) have entered into international licensing agreements for part or all of approximately 24 countries on five continents.

In 2001, we repurchased master licenses for the Howard Johnson and Days Inn brands covering the United Kingdom. We assumed the obligations to existing franchisees and commenced a direct franchising program for these brands in the United Kingdom and Ireland similar to our direct franchise program in the United States. We established an office in London and a reservation center in Cork, Ireland to support this activity.

CENTRAL RESERVATION SYSTEMS. The lodging business is characterized by remote purchasing through travel agencies and through the use by consumers of toll-free telephone numbers and the Internet. We maintain five reservation centers that are located in: Knoxville and Elizabethton, Tennessee; Aberdeen, South Dakota; Saint John, New Brunswick, Canada; and Cork, Ireland. In 2001, our brand Web sites had approximately 222 million page views and booked an aggregate of approximately 2.0 million roomnights from Internet booking sources, compared with approximately 134 million page views and 1.3 million roomnights booked in 2000, increases of 66% and 54%, respectively.

COMPETITION. Competition among the national lodging brand franchisors to grow

and maintain their franchise systems is intense. Our primary national lodging brand competitors are the Holiday Inn-Registered Trademark- and Best Western-Registered Trademark- brands and Choice Hotels, which franchises seven brands, including the Comfort Inn-Registered Trademark-, Quality Inn-Registered Trademark- and Econo Lodge-Registered Trademark- brands. Our Days Inn, Travelodge and Super 8 brands principally compete with Comfort Inn, Red Roof Inn-Registered Trademark- and Econo Lodge in the economy sector. The chief competitors of our Ramada, Howard Johnson, Wingate Inn and AmeriHost Inn brands are Holiday Inn-Registered Trademark- and Hampton Inn-Registered Trademark- in the middle market sector. Our Knights Inn and Travelodge brands compete with Motel 6-Registered Trademark- properties. In addition, a lodging facility owner may choose not to affiliate with a franchisor but to remain independent.

We believe that competition for the sale of franchises in the lodging industry is based principally upon the perceived value and quality of the brand and services offered to franchisees. We believe that prospective franchisees value a franchise based upon their view of the relationship between affiliation and conversion costs and future charges to the potential for increased revenue and profitability and the reputation of the franchisor. We also believe that the perceived value of brand names to prospective franchisees is, to some extent, a function of the success of the brand's existing franchisees.

The ability of an individual franchisee to compete may be affected by the location and quality of its property, the number of competing properties in the vicinity, its affiliation with a recognized brand name, community reputation and other factors. A franchisee's success may also be affected by general, regional and local economic conditions. The potential negative effect of these conditions on our results of operations is substantially reduced by virtue of the diverse geographical locations of our franchised properties.

TIMESHARE EXCHANGE BUSINESS (6%, 9% and 7% of revenue for 2001, 2000 and 1999, respectively)

Our Resort Condominiums International LLC ("RCI") subsidiary is the world's largest provider of timeshare vacation exchange opportunities and services for approximately 2.9 million timeshare members from more than 3,700 resorts in nearly 100 countries around the world. Our RCI-Registered Trademark- business consists primarily of the operation of two exchange programs for owners of condominium timeshares or whole



units at affiliated resorts both in and outside the U.S., the publication of magazines and other periodicals related to the vacation and timeshare industry, travel-related services, resort management, and consulting services. RCI has significant operations in North America, Europe, the Middle East, Latin America, Africa, Australia and the Pacific Rim. RCI charges its members an annual membership fee and an exchange fee for each exchange resulting in fees totaling approximately $390 million during 2001.

GROWTH. The timeshare exchange industry has experienced significant growth over the past decade. We believe that the factors driving this growth include the demographic trend toward older, more affluent Americans who travel more frequently; the entrance of major hospitality and entertainment companies into timeshare development; a worldwide acceptance of the timeshare concept; and an increasing focus on leisure activities, family travel and a desire for value, variety and flexibility in a vacation experience. We believe that future growth of the timeshare exchange industry will be determined by general economic conditions both in the United States and worldwide, the public image of the industry, improved approaches to marketing and sales and a greater variety of products and price points. Accordingly, we cannot predict if future growth trends will continue at rates comparable to those of the recent past. Most RCI members are acquired through developers; only a small percentage of members are acquired through our direct solicitation activities. As a result, the growth of the timeshare exchange business is dependent on the sale of timeshare units by affiliated resorts. RCI affiliates consist of international brand names and independent developers, owners' associations and vacation clubs.

COMPETITION. The global timeshare exchange industry is comprised of a number of entities, including resort developers and owners. RCI's competitors include Interval International Inc., formerly our wholly owned subsidiary, as well as vacation club products and internal exchange programs offered by the Walt Disney Co., Marriott, Starwood, Hilton and Hyatt. RCI also competes with regional and local time share exchange companies and developers.

TIMESHARE SALES AND MARKETING BUSINESS (6% of revenue for 2001)

We acquired Fairfield Resorts, Inc. (formerly known as Fairfield Communities, Inc.) in April 2001. Fairfield Resorts is one of the largest vacation ownership companies in the United States in terms of property owners, vacation units constructed and revenue from sales of vacation ownership

interests. Fairfield sells and markets vacation products that provide quality recreational experiences to its more than 365,000 property owners. As of December 31, 2001, our portfolio of resorts consisted of 35 resorts located in 12 states. Of those resorts which are in various stages of development, 25 are located in destination areas with popular vacation attractions and 10 are located in scenic locations. We also provide consumer financing to individuals purchasing vacation ownership interests.

We derive revenue from the sale of vacation ownership interests and from the interest income earned on notes receivable and contracts receivable generated by providing financing to purchasers of those vacation ownership interests.

On February 11, 2002, we acquired Equivest Finance, Inc. Equivest is a timeshare vacation services company that develops, markets and sells vacation services and vacation ownership interests to consumers at 29 resorts and will be integrated into Fairfield Resorts.

On April 1, 2002, we announced that we entered into definitive agreements to acquire all of the outstanding common stock of Trendwest Resorts, Inc. through a tax-free exchange of our CD common stock. Trendwest, through its WorldMark Club, markets, sells, and finances vacation ownership interests and will provide significant geographic diversification to our company, as our existing timeshare operations, Fairfield Resorts and Equivest, are principally located in the eastern United States. Trendwest's 48 properties are located primarily in the western United States, British Columbia, Mexico, Hawaii and the South Pacific. The transaction is subject to the satisfaction of customary regulatory and closing conditions. For terms of the transaction, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

GROWTH. The growth strategy for our timeshare sales and marketing business is driven primarily by acquisitions and further development. We also continually explore strategic corporate alliances and other



transactions that would complement our timeshare sales and marketing business. We also plan to continue to further develop our existing destination resorts as well as develop additional resort locations.

COMPETITION. The timeshare sales and marketing industry is highly competitive and is comprised of a number of companies specializing primarily in timeshare development, sales and marketing. In addition, a number of national hospitality chains develop and sell vacation ownership interests to consumers. Our primary competitors are Disney, Marriott, Starwood, Hilton and Hyatt.

RELATIONSHIP WITH FFD DEVELOPMENT COMPANY, LLC. Prior to our acquisition of Fairfield Resorts, Fairfield's internal development function and much of its inventory were contributed to a new, separate company, FFD Development Company, LLC ("FFD"). Fairfield received convertible preferred interests in FFD that may be converted into FFD's common equity interest and a warrant to purchase additional common equity interests in exchange for approximately $60 million of vacation ownership units and $4 million of cash. The warrant is not exercisable until April 2004, except upon the occurence of specified events, including Fairfield's conversion of more than half of its preferred equity interest into common equity interests. If Fairfield exercises its preferred interests and warrant, Fairfield will own approximately 75% of FFD, on a fully diluted basis. During 2001, we received $6 million in preferred equity as a dividend on our preferred equity interest in FFD. FFD's common equity is held by an independent trust. FFD is our primary acquirer and developer of timeshare inventory. Fairfield Resorts utilizes FFD to develop new resorts or expand existing units as required by Fairfield or Equivest. We are only obligated to purchase the resort upon completion to the contractual specifications, upon delivery of a certificate of occupancy and when clear title is obtained. As of December 31, 2001, subject to FFD's completion of the construction of timeshare inventory in accordance with the contractual specifications and delivery of a certificate of occupancy with clear title, we would be obligated to purchase approximately $98 million of timeshare inventory from FFD. Certain officers of Cendant serve on the Board of Directors of FFD.

FFD has its own $125 million syndicated bank facility which is non-recourse to us. At December 31, 2001, $4 million was outstanding under the facility. We anticipate that FFD will increase its borrowings in 2002. 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 letters of credit will only be permitted if we fail to meet our payment obligations with respect to any such property. While we intend to issue such letters of credit in 2002, no such letters of credit are currently outstanding.

VACATION HOME RENTAL BUSINESS

In January, 2001, we acquired Holiday Cottages Group Ltd. ("Holiday Cottages"), a leading marketer of vacation rental homes in Europe, promoted under eight brands. Holiday Cottages has relationships with over 9,000 independent property owners in the United Kingdom, France and Ireland. These property owners contract annually with Holiday Cottages on an exclusive basis to market their rental properties. In 2001, Holiday Cottages sold approximately 175,000 rental weeks on behalf of vacation property owners. Holiday Cottages also markets boat rentals in the UK, the Netherlands and France.

In September, 2001, we acquired Cuendet Cie SpA, a leading Italian brand specializing in the marketing and renting of over 3,500 private vacation homes in Italy, France, Spain and Portugal. Our acquisition of Cuendet increased our vacation home rental portfolio to approximately 15,000 properties. Cuendet markets its properties through tour operators and travel agents in Italy, France, Germany and North America.

Our strategy is to provide sophisticated brand marketing and reservations for the benefit of owners of vacation home accommodations. We intend to increase our contract property portfolio and to make all contract inventory in our portfolio available to the global marketplace. Marketing strategies include establishing an optimal balance between direct partner and travel agent marketing.

HOSPITALITY TRADEMARKS AND INTELLECTUAL PROPERTY

The service marks "Days Inn," "Ramada," "Howard Johnson," "Super 8," "Travelodge," "Wingate Inn," "Villager," "Knights Inn," "AmeriHost Inn", "RCI", "Resort Condominiums International", "Fairfield"



and related trademarks and logos are material to our hospitality businesses. The subsidiaries that operate our timeshare businesses and our franchisees actively use the marks which are registered (or have applications pending) with the United States Patent and Trademark Office as well as major countries worldwide where our hospitality business has significant operations. We own all the marks listed above other than the "Ramada" and "Days Inn" marks. In connection with the creation of a venture with Marriott International in March 2002, in which we own a 50.0001% interest, we contributed to the venture our "Days Inn" marks and Marriott contributed its domestic "Ramada" marks. We now license the "Ramada" and "Days Inn" marks from the venture. Prior to March 2002, we licensed the "Ramada" marks from Marriott. We are limited to using the Ramada marks in the Continental U.S., Alaska and Hawaii market. During 2001, we received approximately $44 million in royalties from Ramada franchisees and paid $24 million in licensing fees to Marriott. We own the Travelodge mark only in North America.

HOSPITALITY SEASONALITY

Our lodging franchise business generates higher revenue during the summer months because of increased leisure travel. Therefore, any occurrence that disrupts travel patterns during the summer period could have a material adverse effect on our lodging franchisee's annual performance and consequently our annual performance. A principal source of timeshare exchange revenue relates to exchange services to members. Since members have historically shown a tendency to plan their vacations in the first quarter of the year, revenues are generally slightly higher in the first quarter. In timeshare sales, we rely upon tour flow in order to generate timeshare sales, consequently, sales volume tends to increase in the summer months as increased tourist travel results in additional increased tour flow. We cannot predict whether these trends will continue in the future as the timeshare sales business expands outside of the United States and Europe, and as global travel patterns shift with the aging of the world population.

HOSPITALITY EMPLOYEES

The businesses that make up our Hospitality segment employed approximately 13,724 persons as of December 31, 2001.

VEHICLE SERVICES SEGMENT (41%, 12% and 24% of revenue for 2001, 2000 and 1999, respectively)

With the acquisition of Avis Group Holdings, Inc. on March 1, 2001, the Vehicle Services Segment now consists of the car rental operations and fleet management services business of Avis Group in addition to the Avis franchise system and our parking facility business.

CAR RENTAL OPERATIONS AND FRANCHISE BUSINESSES (23%, 5%, 4% of revenue for 2001, 2000 and 1999, respectively)

We operate and/or franchise portions of the Avis-Registered Trademark- car rental system (the "Avis System"), which represents the second largest general

use car rental brand in the world, based on total revenue and volume of rental transactions. The Avis System is comprised of approximately 4,800 rental locations (of which 1,713 are operated and/or franchised by us), including locations at some of the largest airports and cities in the United States and foreign countries. We operate 867 Avis car rental locations in both airport and non-airport (downtown and suburban) locations in the United States, Canada, Puerto Rico, the U.S. Virgin Islands, Argentina, Australia and New Zealand. For the period March 1, 2001, the date we acquired Avis, through December 31, 2001, our Avis car rental operations had an average fleet of approximately 216,000 vehicles and generated total vehicle rental revenue of approximately $2.04 billion, of which approximately 90% was derived from U.S. operations.

We also franchise the Avis System to individual business owners in approximately 846 locations including locations in the United States, Latin America, Central America, South America and the Pacific region. Approximately 99.7% of the Avis System rental revenues in the United States are received from locations operated by us either directly or under agency arrangements, with the remainder being received from locations operated by independent franchisees. Independent franchisees pay fees based either on total time and mileage charges or total revenue. The Avis System in Europe, Africa, part of Asia and the Middle East is operated under franchise by Avis Europe Ltd., an unaffiliated third party.



The Avis System provides franchisees and our corporate locations access to the benefits of a variety of services, including: (i) the "Avis Cares-Registered Trademark-" driver and travel safety program, (ii) a standardized system identity for rental location presentation and uniforms; (iii) a training program, business policies, quality of service standards and data designed to monitor service commitment levels; (iv) marketing/advertising/ public relations support for national consumer promotions including Frequent Flyer/Frequent Stay programs and the avis.com site; and (v) brand awareness of the Avis System through the familiar "We Try Harder-Registered Trademark-" service announcements.

Avis System franchisees have access to the Wizard-Registered Trademark- System, which provides (i) global reservations processing, (ii) rental agreement generation and administration and (iii) fleet accounting and control. Franchisees pay a fee for each use of the Wizard System. We also offer Avis InterActive-Registered Trademark-, which provides corporate customers real-time access to aggregated information on car rental expenses to better manage their car rental expenditures.

GROWTH. The existing rental patterns of our business cause us to have excess capacity from Friday through Sunday. We intend to increase business during this period through a combination of advertising, targeted marketing programs to associations and customers of other Cendant brands and increased presence in the online arena. Our own Internet site, avis.com, as well as other Internet travel sites, including our cheaptickets. com Web site, present good opportunities to grow our business and improve our profitability through enhanced utilization of our fleet. We also intend to continue to grow our share of the corporate market through normal contract negotiations and by seeking clients that may be affected by fleet constraints of certain of our competitors.

FLEET MANAGEMENT. With respect to the car rental operations owned and operated by us, we participate in a variety of vehicle purchase programs with major domestic and foreign manufacturers, principally General Motors Corporation. Under the terms of our agreement with GM, which expires in 2004, we are required to purchase a certain number of vehicles from GM and maintain at least 51% GM vehicles in our U.S. fleet. Our current operating strategy is to maintain an average fleet age of approximately six months. For model year 2001, approximately 99% of our domestic fleet vehicles were subject to repurchase programs. Under these programs, subject to certain conditions, such as mileage and vehicle condition, a manufacturer is required to repurchase those vehicles at a pre-negotiated price thereby eliminating our risk on the resale of the vehicles. In 2001, approximately 3% of repurchase program vehicles did not meet the conditions for repurchase.

MARKETING. In 2001, approximately 75% of vehicle rental transactions generated from our owned and operated car rental locations were generated in the United States by travelers who used the Avis System under contracts between the Company and their employers or organizations of which they were members. Unaffiliated business travelers are solicited by direct mail, telesales and advertising campaigns.

Travel agents can make Avis System reservations by telephone, via our Web site, or through all major global distribution systems and can obtain access through these systems to our rental location, vehicle availability and applicable rate structures. An automated link between these systems and the Wizard System gives them the ability to reserve and confirm rentals directly through these systems. We also maintain strong links to the travel industry. We have arrangements with

frequent traveler programs of airlines such as Delta-Registered Trademark-, American-Registered Trademark-, Continental-Registered Trademark- and United-Registered Trademark-, and of hotels including the Hilton Corporation, Hyatt Corporation, Best Western, and Starwood Hotels and Resorts. These arrangements provide various incentives to all program participants and cooperative marketing opportunities for Avis and the partner. We also have an arrangement with our lodging brands whereby lodging customers who are making reservations by telephone will be transferred to Avis if they desire to rent a vehicle.

Internationally, we utilize a multi-faceted approach to sales and marketing throughout our global network by employing teams of trained and qualified account executives to negotiate contracts with major corporate accounts and leisure and travel industry partners. In addition, we utilize centralized telemarketing and direct mail initiatives to continuously broaden our customer base. Sales efforts are designed to secure customer commitment and support customer requirements for both domestic and international car rental needs. Our international operations maintain close relationships with the travel industry including



participation in several airline frequent flyer programs, such as those operated by Air Canada-Registered Trademark-, Varig-Registered Trademark- Brazilian Airlines, as well as participation in Avis Europe programs with British Airways-Registered Trademark-, Lufthansa-Registered Trademark- and other carriers.

AVIS.COM. Avis has a strong brand presence on the Internet through our Web site, www.avis.com. A steadily increasing number of Avis vehicle rental customers obtain rate, location and fleet information and then reserve their Avis rentals directly on the avis.com Web site. In addition, customers electing to use other Internet services such as Expedia-Registered Trademark-, Travelocity-Registered Trademark- and America Online-Registered Trademark- for their travel plans also have access to Avis reservations. During 2001, reservations through Internet sources increased to 9.5% of total reservations from 7.4% in the prior year for our owned operations.

COMPETITION. The vehicle rental industry is characterized by intense price and service competition. In any given location, we and our franchisees may encounter competition from national, regional and local companies, many of which, particularly those owned by the major automobile manufacturers, have greater resources than the Avis System. Nationally, our principal competitor is The Hertz Corporation, however, we also compete with Budget Rent A Car Corporation, National Car Rental System, Inc., Alamo Rent-A-Car, LLC, Dollar Rent A Car System, Inc. and Thrifty Rent-A-Car System, Inc. In addition, we compete with a large number of regional and local smaller vehicle rental companies throughout the country.

Competition in the U.S. vehicle rental operations business is based primarily upon price, reliability, ease of rental and return and other elements of customer service. In addition, competition is influenced strongly by advertising and marketing. In part, because of the Wizard System and Avis Interactive, we have been particularly successful in competing for commercial accounts.

FLEET MANAGEMENT SERVICES BUSINESS (14% and 15% of revenue for 2001 and 1999, respectively)

PHH Vehicle Management Services LLC (d/b/a PHH Arval), a leader in the fleet management services business, and Wright Express LLC, a leading proprietary fuel card service provider in the United States comprise our fleet management services business.

We provide corporate clients and government agencies the following services and products for which we are generally paid a monthly fee:

- FLEET LEASING AND FLEET MANAGEMENT. Services include vehicle leasing, fleet policy analysis and recommendations, benchmarking, vehicle recommendations, ordering and purchasing vehicles, arranging for vehicle delivery, administration of the title and registration process, as well as tax and insurance requirements, pursuing warranty claims and remarketing used vehicles. We also offer various leasing plans, financed primarily through the issuance of floating rate notes and borrowings through an asset backed structure. In 2001, we leased in excess of 315,000 units. The majority of the residual risk on the value of the vehicle at the end of the lease term remains with the lessee for approximately 97% of the vehicles financed by us in North America.

- FUEL AND EXPENSE MANAGEMENT. For the effective management and control of automotive business travel expenses, we provide charge cards permitting a client's representatives to purchase gasoline or other fleet related

products through a network of company-owned, distributor and independent merchant locations. The cards operate as a universal card with centralized billing designed to measure and manage costs. In the United States, Wright Express is the leading fleet charge card supplier with over 160,000 fuel facilities in its network and in excess of 3.1 million cards issued. Wright Express distributes its fleet cards and related offerings through three primary channels: (i) the Wright Express-Registered Trademark--branded universal card, which is issued directly to fleets by Wright Express; (ii) the private label card, under which Wright Express provides private label fuel cards and related services to commercial fleet customers of major petroleum companies; and (iii) the co-branded card, under which Wright Express fuel cards are co-branded and issued in conjunction with products and services of partners such as commercial vehicle leasing companies, including PHH Arval. Wright Express also issues MasterCard branded fleet, purchasing and travel and entertainment commercial charge cards.



- MAINTENANCE SERVICES. We offer customers vehicle maintenance charge cards that are used to facilitate repairs and maintenance payments. The vehicle maintenance cards provide customers with benefits such as (i) negotiated discounts off full retail prices through our convenient supplier network, (ii) access to our in-house team of certified maintenance experts that monitor card transactions for policy compliance, reasonability, and cost effectiveness, and (iii) inclusion of vehicle maintenance card transactions in a consolidated information and billing database that helps evaluate overall fleet performance and costs. We maintain an extensive network of service providers in the United States and Canada to ensure ease of use by the client's drivers.

- ACCIDENT MANAGEMENT SERVICES. We also provide our clients with comprehensive accident management services such as (i) immediate assistance after receiving the initial accident report from the driver (e.g., facilitating emergency towing services and car rental assistance), (ii) organizing the entire vehicle appraisal and repair process through a network of preferred repair and body shops, and (iii) coordinating and negotiating potential accident claims. Customers receive significant benefits from our accident management services such as (a) convenient coordinated 24-hour assistance from our call center, (b) access to our advantageous relationships with the repair and body shops included in our preferred supplier network, which typically provides customers with extremely favorable repair terms and (c) expertise of our damage specialists, who ensure that vehicle appraisals and repairs are appropriate, cost-efficient, and in accordance with each customer's specific repair policy. On February 6, 2002, we acquired driversshield.com FS Corp. to compliment our accident management business.

GROWTH. We intend to focus our efforts for growth on the large fleet segment and middle market fleets as well as fee based services to new and existing clients. We also intend to increase cross marketing the products offered by Wright Express and PHH Arval to our customers.

COMPETITION. The principal factors for competition in vehicle management services are service, quality and price. We are competitively positioned as a fully integrated provider of fleet management services with a broad range of product offerings. Among providers of outsourced fleet management services, we rank second in North America in the number of leased vehicles under management and first in the number of proprietary fuel and maintenance cards for fleet use in circulation. There are four other major providers of outsourced fleet management services in the United States, GE Capital Fleet Services, Wheels Inc. Automotive Resources International (ARI), and CitiCapital, hundreds of local and regional competitors, and numerous niche competitors who focus on only one or two products and do not offer the fully integrated range of products provided by us. In the United States, it is estimated that only 50% of fleets are leased by third-party providers. The unpenetrated demand and the continued focus by corporations on cost efficiency and outsourcing will provide the growth platform in the future.

PARKING FACILITY BUSINESS (4%, 7% and 5% of revenue for 2001, 2000 and 1999, respectively)

Our National Car Parks subsidiary is the largest private parking operator in the United Kingdom. NCP operates off-street commercial parking facilities and manages on-street parking and related operations on behalf of town and city administrations. NCP has over 60 years' experience of owning and/or managing a portfolio of approximately 535 car parks, located in major cities, towns and airports in the U.K.

NCP provides a high-quality, professional service, developing a total solution for its customers and for organizations such as town and city administrations

that wish to develop modern and professionally managed parking and traffic management operations.



NCP is a leader in airport parking facilities at United Kingdom airports, with over 41,000 car parking spaces in facilities close to passenger terminals at ten airports across the United Kingdom. Booking facilities are available through NCP's telesales service for convenient car parking reservation at these airports.

GROWTH. NCP is utilizing its recognized expertise in parking as a platform for delivering a wider range of services to local authorities and commercial property developers. Through this platform, NCP seeks to grow and diversify its income streams through affiliations with local authorities and the private sector in car parks, on-street parking enforcement and other broader parking and traffic management-related services.

COMPETITION. NCP's main competition is from non-commercial, local government authorities who manage parking operations in their respective cities and towns.

VEHICLE SERVICES TRADEMARKS AND INTELLECTUAL PROPERTY

The service mark "Avis," related marks incorporating the word "Avis", and related logos are material to our car rental business. Our subsidiaries and franchisees, actively use these marks. All of the material marks used in the Avis business are registered (or have applications pending for registration) with the United States Patent and Trademark Office as well as major countries worldwide where Avis franchises are in operation. We own the marks used in the Avis business. The service marks "Wright Express," "WEX," "PHH" and related trademarks and logos are material to our fleet services business. Wright Express, PHH Arval and their licensees actively use these marks. All of the material marks used by Wright Express and PHH Arval are registered (or have applications pending for registration) with the United States Patent and Trademark Office. All of the material marks used by PHH Arval are also registered in major countries throughout the world where the fleet management services are offered by Arval PHH. We own the marks used in Wright Express' and PHH Arval's business.

The service mark NCP-Registered Trademark- and related logos are owned by us and registered (or have applications pending for registration) with the UK Trademark Office and throughout the European Community.

VEHICLE SERVICES SEASONALITY

For our Avis vehicle rental business, the third quarter of the year, which covers the summer vacation period, represents the peak season for vehicle rentals. Any occurrence that disrupts travel patterns during the summer period could have a material adverse effect on Avis' annual performance. The fourth quarter is generally the weakest financial quarter for the Avis System. In 2001, our average monthly rental fleet, excluding franchisees, ranged from a low of 184,000 vehicles in November to a high of 244,000 vehicles in August. Rental utilization, which is based on the number of hours vehicles are rented compared to the total number of hours vehicles are available for rental, ranged from 66.7% in December to 82.6% in August and averaged 74.4% for all of 2001.

The fleet management services businesses are generally not seasonal.

NCP's business has a distinct seasonal trend with revenue from parking in city and town centers being closely associated with levels of retail business. Therefore, peaks in revenue are experienced particularly around the Christmas period. In respect of the airport parking side of the business, seasonal peaks are experienced in line with summer vacations.

VEHICLE SERVICES EMPLOYEES

The businesses that make up our Vehicle Services segment employed approximately 21,109 persons as of December 31, 2001.

TRAVEL DISTRIBUTION SEGMENT (5%, 2% and 1% of revenue for 2001, 2000 and 1999, respectively)

With the acquisitions of Galileo International, Inc. and Cheap Tickets, Inc. in October 2001, we added a new Travel Distribution segment which is comprised of (i) our global distribution services business through



Galileo International, (ii) our travel agency business, including Cheap Tickets, and (iii) our reservations processing, connectivity and information management services business through Wizcom.

GLOBAL DISTRIBUTION SERVICES BUSINESS (4% of revenue for 2001)

We provide, through Galileo, electronic global distribution and computer reservation services ("GDS") for the travel industry utilizing a computerized reservation system. Through our Apollo-Registered Trademark- and Galileo-Registered Trademark- computerized reservation systems, our GDS subsidiary provides travel agencies and other subscribers at approximately 45,000 locations, numerous Internet travel sites, as well as corporations and consumers who use our self-booking products, with the ability to access schedule and fare information, book reservations and issue tickets for more than 500 airlines. Our GDS subsidiary also provides subscribers with information and booking capabilities covering approximately 30 car rental companies and more than 200 hotel companies with approximately 52,000 properties throughout the world. Since our acquisition of Galileo, our GDS subsidiary completed approximately 60.4 million bookings. Our GDS subsidiary operates in 118 countries. Approximately 59% of our distribution revenues are generated outside the United States.

On December 3, 2001, we entered into an information technology services arrangement with IBM Global Services, pursuant to which IBM Global Services will manage information technology services for our various business units, including the Galileo GDS. Such services include the outsourcing of certain third party services provided by us.

Substantially all of our electronic GDS revenue is derived from booking fees paid by travel suppliers, such as airlines, car rental companies and hotel companies. Travel suppliers store, display, manage and sell their services through our systems. Airlines and other travel suppliers are offered varying levels of functionality at which they can participate in our systems. Our Apollo system is utilized in North America and Japan, and our Galileo system is utilized in the rest of the world. In 2001, approximately 93% of our booking fee revenues were generated from airlines. United Airlines is the largest single travel supplier utilizing our systems, generating revenues that accounted for approximately 12% of our total GDS revenues in 2001.

Travel agencies access our systems using hardware and software typically provided by us or by independent national distribution companies ("NDCs"), although travel agencies can choose to purchase their own hardware and certain software. We, internally or through our NDCs, also provide technical support and other assistance to travel agencies. Multinational travel agencies constitute an important category of subscribers due to the high volume of business that can be generated through a single relationship. Bookings generated by our five largest travel agency customers constituted 20% of the bookings made through our systems in 2001.

PRODUCT DISTRIBUTION. We distribute our products to subscribers primarily through our internal sales and marketing organization and our relationships with independent NDCs. Our local sales and marketing groups distribute our products in North America, the United Kingdom, Belgium, France, Germany, Spain, Portugal, the Netherlands, Switzerland, Sweden, Finland, Norway, Russia, Australia, New Zealand, Hong Kong, Singapore, the Philippines, Brazil and Venezuela. Bookings made in these countries collectively accounted for approximately 69% of our 2001 bookings.

In regions not supported directly by our sales and marketing organization, we provide services through our independent NDCs. The NDC is responsible for cultivating the relationship with subscribers in its territory, installing subscribers' computer equipment, maintaining the hardware and software supplied to the subscribers and providing ongoing customer support. The NDC earns a share of the booking fees generated in the NDC's territory, as well as all subscriber fees billed in that marketplace. NDCs, which are typically owned or operated by the national airline of the relevant country or a local travel-related business, accounted for approximately 31% of our booking volume in 2001.

GROWTH. In order to grow our GDS business, we intend to capitalize on our competitive strengths, the key elements of which are: (i) Cendant's business to business expertise and relationships, (ii) a diversified global presence, (iii) established relationships with a diverse group of travel suppliers and subscribers, (iv) a comprehensive offering of innovative products, and (v) new product initiatives with unique appeal to



travel consumers, agencies and suppliers. We believe that the distribution network established through our independent NDCs provides us with a local presence in countries throughout the world. In addition, we continue to strengthen our presence in developing and emerging economies that provide future growth opportunities, such as Eastern Europe, Africa, the Middle East and Asia. We believe that in-depth knowledge of the local travel economies in which we distribute our products is essential to developing and strengthening our ties to

travel suppliers and the local travel agencies that generate significant booking volumes.

We will continue to assess opportunities to acquire distributors in mature, highly automated markets, where we can realize attractive economic returns and enhance our customer service. Consistent with this strategy, in April 2001, Galileo International acquired Southern Cross Distribution Systems Pty Limited, its NDC for Australia and New Zealand, from an entity owned by the Qantas Airways group, Ansett Airlines and Air New Zealand. This acquisition raised the number of wholly owned sales and marketing organizations to 19, representing approximately 69% of our distribution.

We intend to continue to pursue opportunities to further open up our computerized reservation system to distribute travel through a variety of means and to continue to develop leading technologies, integrate additional travel content into our products, further strengthen our relationships with our agency and supplier customers and maintain our position as a leading player in the integrated electronic travel distribution marketplace. In October 2001, we acquired Highwire, Inc., a developer of corporate Internet travel tools and technology, which we expect will complement our product offerings and create new opportunities in the corporate online channel.

INFORMATION SERVICES. We currently provide fare quotation services through our GlobalFares-TM- quotation system to approximately 68 airlines worldwide. GlobalFares is used in conjunction with each airline's internal reservation system and provides pricing information.

We also provide internal reservation services to United Airlines pursuant to a computer services agreement which terminates at the end of 2004. Such services include the display of schedules and availability, the reservation, sale and ticketing of travel services and the display of other travel-related information to United Airlines' airport offices, city ticket offices and reservation centers internationally. In addition, we provide certain other internal management services to United Airlines, including network management, departure control, availability displays, inventory management, database management and software development.

COMPETITION. Our competitors include the three major global distribution system companies: Sabre-Registered Trademark-, Amadeus-Registered Trademark- and Worldspan-Registered Trademark-, the regional reservation systems including Abacus-Registered Trademark-, Axess(SM), Infini(SM) and Topas(SM), other travel infrastructure companies such as Pegasus Systems and Datalex, firms that operate in the virtual travel services sector such as Expedia-Registered Trademark-, Travelocity-Registered Trademark- and Orbitz(SM) and alternative channels by which travel products and services are distributed.

Competition to attract and retain travel agency subscribers is intense. As a result, we and other computerized reservation system service providers offer incentives to travel agency subscribers if certain productivity or booking volume growth targets are achieved. Although continued expansion of the use of such incentive payments could adversely affect our profitability, our failure to continue to make such incentive payments could result in the loss of some travel agency subscribers.

TRAVEL AGENCY SERVICES BUSINESS (1%, 2% and 1% of revenue for 2001, 2000 and 1999, respectively)

We provide travel services, through our travel agency subsidiaries RCI Travel, LLC, Cendant Travel, Inc. and Cheap Tickets, Inc. We are a full service travel agency operation providing airline, car rental, hotel and other travel reservation and fulfillment services. Such services are provided to members of Resort Condominiums International, LLC, our timeshare exchange company, as well as in connection with the travel programs offered through Trilegiant Corporation, an individual membership business, and Trip Network, Inc., an independent affiliate of Cendant and the operator of the cheaptickets.com(sm) and Trip.com(sm) travel Web sites.



We work directly with travel suppliers, such as airlines, car rental companies, hotel companies and tour and cruise operators to secure both non-published and regularly available fares, rates and tariffs to supply the best possible rates and discounted travel to our customers. Cheap Tickets' non-published fares are not available to consumers directly from the airlines. Rates are made available to customers through our call centers and through our branded sites, cheaptickets.com and trip.com, which are operated by Trip Network, Inc. See "Relationship with Trip Network, Inc." discussion below. Transactions are booked via global distribution service and fulfilled through our call center network and ticketing operations. As of December 31, 2001, we maintained a total of nine call centers located in: Lakeport, California, Colorado Springs, Denver and Englewood, Colorado, Tampa, Florida, Honolulu, Hawaii, Indianapolis (Carmel)

Indiana, Moore, Oklahoma and Nashville, Tennessee.

COMPETITION. As we provide services to our RCI members and to Trilegiant members through an outsourcing agreement, our primary competitors consist of other membership related travel services providers such as Memberworks, Quest, Encore Marketing and Damark. In addition, we compete with a large number of leisure travel agencies, including Liberty Travel, American Express Travel and AAA Travel Services, and Internet travel Web sites, such as Orbitz, Expedia, Travelocity, Priceline and Hotwire.

RELATIONSHIP WITH TRIP NETWORK, INC. Trip Network, Inc. ("TNI") was established in 2001 to develop and launch an Internet travel portal initiative, and is expected to significantly expand the Internet presence of our travel brands for the benefit of certain of our current and future franchisees. TNI was established with a $20 million contribution of assets by us in return for a preferred stock investment, which is convertible into approximately 80% of TNI's common stock. Additionally, we also funded TNI in the first quarter of 2001 with approximately $85 million, including $45 million in cash and 1.5 million shares of Homestore common stock, then valued at $34 million. Following our acquisitions of Galileo and Cheap Tickets, TNI licensed the rights for the online businesses, Trip.com and Cheaptickets.com, respectively, which combined provide access to 20 million registered users. TNI currently operates these online travel businesses and we provide TNI with call center, supplier relationship management and GDS services. TNI is developing Trip.com as its primary consumer portal and released a new version of Trip.com in December 2001 as a "soft launch." It is anticipated TNI will launch an extensive Trip.com marketing campaign later this year as TNI further develops Trip.com with improved technology, greater discounted travel inventory and personalized customer services.

At December 31, 2001, TNI had no debt outstanding nor are we contingently liable for any debt which TNI may incur. Certain officers of Cendant serve on the Board of Directors of TNI.

WIZCOM BUSINESS

WizCom is a global provider of electronic reservations processing, connectivity and computerized reservation system services for the travel industry. WizCom provides hotels, car rental businesses and tour/leisure travel operators, including Internet travel companies, with electronic distribution to the Global Distribution Systems (such as our Galileo GDS), Internet or other travel reservations systems, linking customers to all the major travel networks on six continents through telephone lines and satellite communications. These products allow for real time processing for travel agents, corporate travel departments and consumers. In addition, WizCom offers information management services that permit customers to maintain current information on property, vehicle or tour packages (such as rental rates and room amenity descriptions) and deliver the most current data to external distribution systems. Revenues are primarily comprised of up-front implementation fees and ongoing transaction and support fees.

GROWTH. WizCom expects to increase its Internet distribution reach, allowing hotel and car rental companies to further optimize their sales mix. WizCom is also planning enhancements to its product and service portfolio aimed at the hospitality sector. For example, WizCom will launch a new product to enable hotels to reduce rate description management resources and generate revenue growth for WizCom.

COMPETITION. In providing electronic distribution services to hotel customers, WizCom competes with third party connectivity providers such as Pegasus Solutions, and also with supplier direct connection



technology. WizCom competes with many companies to provide computerized reservation system services to hotel customers, including other hotels. Some of our competitors include Hotel Data Systems, Synix and Micros Systems.

TRAVEL DISTRIBUTION TRADEMARKS AND INTELLECTUAL PROPERTY

The trademarks and service marks "Galileo," "Apollo," "Cheap Tickets," "Trip.com" and "WizCom" and related trademarks and logos are material to the businesses in our travel distribution segment. Galileo, Cheap Tickets, Trip.com, WizCom and their subsidiaries and licensees actively use these marks. All of the material marks used by Galileo, Cheap Tickets, Trip.com and WizCom are registered (or have applications pending for registration) with the United States Patent and Trademark Office as well as major countries throughout the world where these businesses operate. We own the marks used in the travel distribution segment.

TRAVEL DISTRIBUTION SEASONALITY

We experience a seasonal pattern in our operating results, with the fourth quarter typically having the lowest total revenues and operating income due to early bookings by customers for holiday travel and a decrease in business travel during the holiday season.

TRAVEL DISTRIBUTION EMPLOYEES

The businesses that make up our Travel Distribution segment employed approximately 6,022 persons as of December 31, 2001.

FINANCIAL SERVICES SEGMENT (16%, 30% and 25% of our revenue for 2001, 2000 and 1999, respectively)

INSURANCE/WHOLESALE BUSINESS (5%, 10% and 7% of our revenue for 2001, 2000 and 1999, respectively)

Our insurance/wholesale business provides (i) enhancement packages for financial institutions through FISI Madison, (ii) marketing for accidental death and dismemberment insurance and certain other insurance products through FISI and BCI and (iii) marketing for long term care insurance products through LTPC. With nearly 39 million customers, we offer the following products and services:

ENHANCEMENT PACKAGE SERVICE. We sell enhancement packages for financial institution consumer and business checking and deposit account holders primarily through our FISI subsidiary. FISI's financial institution clients select a customized package of our products and services and then usually add their own services (such as unlimited check writing privileges, personalized checks, cashiers' or travelers' checks without issue charge, or discounts on safe deposit box charges or installment loan interest rates). With our marketing and promotional assistance, the financial institution then offers the complete package of enhancements to its checking account holders as a special program for a monthly fee. Most of these financial institutions choose a standard enhancement package, which generally includes $10,000 of common carrier insurance and travel discounts. Others may include Trilegiant's shopping and credit card registration services, a travel newsletter or pharmacy, eyewear or entertainment discounts as enhancements. The common carrier coverage is underwritten under group insurance policies with two referral underwriters. We generally charge a financial institution client an initial fee to implement this program and monthly fees thereafter based on the number of customer accounts participating in that financial institution's program. In January 2001, FISI acquired certain assets of MarketTrust, Inc., including its agreements to provide checking account enhancement packages to over 320 financial institutions located across the United States.

AD&D INSURANCE. Through our FISI and BCI subsidiaries, we serve as an agent and third-party administrator for marketing accidental death and dismemberment insurance throughout the country to the customers of financial institutions. These products are primarily marketed through direct mail solicitations which generally offer $1,000 of accidental death and dismemberment insurance at no cost to the customers and the opportunity to choose additional coverage of up to $250,000. The annual premium generally



ranges from $10 to $250. BCI also acts as an administrator for, and markets, term life and hospital accident insurance. FISI's and BCI's insurance products and other services are offered to customers of banks, credit unions, credit card issuers and mortgage companies.

LONG TERM CARE INSURANCE. Through our LTPC subsidiary, we are one of the largest independent marketers of long term care insurance products in the United States representing five national underwriters. LTPC's sales efforts are supported by over 350 captive agents and 1,300 brokers across the United States.

DISTRIBUTION CHANNELS. We market our products to consumers: (i) of financial institutions or other associations through direct marketing; (ii) of financial institutions or other associations through a direct sales force, participating merchants or general advertising; and (iii) through companies and various other entities.

GROWTH. Primary growth drivers include expanding our customer base to include larger financial institutions and targeted non-financial partners. In addition, we are expanding the array of products and services sold through the direct marketing channels to existing clients.

COMPETITION. Our checking account enhancement services compete with similar services offered by other companies, including insurance companies and other third-party marketers. In larger financial institutions, we may also compete with a financial institution's own marketing staff. Competition for the offering of our insurance products through financial institutions is growing and intense.

Our competitors include other third-party marketers and large national insurance companies with established reputations that offer products with rates, benefits and compensation similar to ours. The long term care insurance industry is highly competitive. Our competition primarily includes large national insurance companies, such as General Electric Financial Assurance Company.

LOYALTY SOLUTIONS (2%, 3% and 2% of our revenue for 2001, 2000 and 1999, respectively)

Our Cims subsidiary has developed customer loyalty solutions and insurance products for the benefit of financial institutions and businesses in other industries. As of December 31, 2001, Cims has expanded its clients' membership and customer base to approximately 15.3 million individuals. Cims clients include over 50 financial institutions throughout Europe, South Africa and Asia. Cims offers travel and real estate benefits and other services within its loyalty packages for the benefit of consumers. Cims also leverages its internal insurance competencies and strategic relationships to provide insurance benefits to consumers. We also have exclusive licensing agreements covering the use of our merchandising systems in Australia, Japan and certain other Asian countries under which licensees pay initial license fees and agree to pay royalties to us based on membership fees, access fees and merchandise service fees paid to them.

GROWTH. The primary growth drivers for Cims are (i) to increase the number of consumers, from within our existing client base, who participate in loyalty programs for their particular financial institution, (ii) to increase the number of financial institutions we partner with for their respective loyalty marketing programs, (iii) to develop marketing relationships with clients in other industries (wireless providers for example) and (iv) to offer multiple loyalty solutions to our clients.

COMPETITION. Cims represents an outsourcing alternative to marketing departments of large retail organizations. Cims competes with certain other niche loyalty solution providers throughout Europe.

TAX PREPARATION BUSINESS (1%, 1% and 1% of our revenue for 2001, 2000 and 1999, respectively)

Our Jackson Hewitt Inc. subsidiary ("Jackson Hewitt") is the second largest tax preparation service system in the United States. The Jackson Hewitt-Registered Trademark- franchise system is comprised of a 47-state network (and the District of Columbia) with approximately 3,800 offices operating under the trade name and service mark "Jackson Hewitt Tax Service-Registered Trademark-." Office locations range from stand-alone store front offices to kiosk offices within Wal-Mart-Registered Trademark- and Kmart-Registered Trademark- stores. Through the use of proprietary interactive tax preparation software, we are engaged in the preparation and electronic filing of federal and state individual income tax returns. During 2001, Jackson Hewitt prepared over 2.2 million tax returns, which represented an increase of 22.0% from the approximately 1.8 million tax returns prepared during 2000. To complement our tax



preparation services, we also offer accelerated check refunds and refund anticipation loans to our tax preparation customers through a designated bank. Franchisees pay a minimum initial fee and royalty and marketing fees.

H&R Block's recent shift to an owner/operator business model has resulted in Jackson Hewitt becoming the leading franchisor of tax preparation services.

GROWTH. We believe revenue and share growth in the tax preparation industry will come primarily from selling new franchises, the application of proven management techniques for existing franchise systems, and new product and service offerings.

During 1999, Jackson Hewitt, in conjunction with two of its largest franchisees, created an independent joint venture, Tax Services of America, Inc. ("TSA"), to maximize Jackson Hewitt's ability to add independent tax preparation firms to its franchise system. Jackson Hewitt initially contributed approximately 80 company-owned stores and as of December 31, 2001 had an approximate 89% interest in the form of preferred stock. On January 18, 2002, Jackson Hewitt purchased all of the common stock of TSA for approximately $4.0 million. TSA currently has over 400 offices and is expected to prepare over 350,000 tax returns in 2002. TSA's objective is to grow by acquiring independent tax preparation firms in areas where TSA is licensed to operate and convert them to the Jackson Hewitt system.

COMPETITION. Tax preparation businesses are highly competitive. There are a substantial number of tax preparation firms and accounting firms that offer tax preparation services. Commercial tax preparers are highly competitive with regard to price, service and reputation for quality. Our largest competitor, H&R

Block, is a nationwide tax preparation service with approximately 9,000 locations.

INDIVIDUAL MEMBERSHIP BUSINESS (8%, 16% and 15% of our revenue for 2001, 2000 and 1999, respectively)

On July 2, 2001, we entered into 40-year outsourcing and licensing agreements with Trilegiant Corporation, a direct marketing company established by former management of our Cendant Membership Services and Cendant Incentives subsidiaries. Pursuant to such agreements, we retain the economic benefits from existing members of our individual membership business and Trilegiant provides fulfillment services to these members for a servicing fee. Trilegiant will retain the economic benefits and service obligations for new members. We will receive a royalty fee (initially 5% increasing to approximately 16% over ten years) from Trilegiant in connection with those new members. Certain officers of Cendant serve on the Board of Directors of Trilegiant.

As of December 31, 2001, Trilegiant had approximately 23.8 million memberships, 18.9 million of which consist of our existing memberships. Trilegiant provides members with access to a variety of discounted products and services in such areas as retail shopping, travel, personal finance and auto and home improvement. Trilegiant also affiliates with business partners such as leading financial institutions, retailers, and oil companies to offer membership as an enhancement to their credit card, charge card or other customers. Participating institutions generally receive commissions on initial and renewal memberships, based on a percentage of the net membership fees. Individual membership programs offer consumers discounts on many brand categories by providing shop at home convenience in areas such as retail shopping, travel, automotive, dining and home improvement.

Trilegiant offers the following membership programs from which we receive a royalty on sales to new members: Shoppers Advantage-Registered Trademark-, a discount shopping program; Travelers Advantage-Registered Trademark-, a discount travel service program; The AutoVantage-Registered Trademark- Service, a program which offers preferred prices on new cars and discounts on maintenance, tires and parts; AutoVantage Gold-Registered Trademark-, a program which provides a premium version of the AutoVantage-Registered Trademark- Service; Credit Card Guardian-Registered Trademark- and "Hot-Line", services which enable consumers to register their credit and debit cards to keep the account numbers securely in one place; The PrivacyGuard-Registered Trademark- and Credentials-Registered Trademark-, services which provide monitoring of a member's credit history, driving records and medical files; The Buyers Advantage-Registered Trademark-, a service which extends manufacturer's warranties; CompleteHome-Registered Trademark-, a service designed to save members time and money in maintaining and improving their homes; The Family FunSaver Club-Registered Trademark-, a program which provides the opportunity to purchase family travel services and other family related products at a discount; and The HealthSaver(sm), a program which provides



discounts on prescription drugs, eyewear, eye care, dental care, selected health-related services and fitness equipment.

INVESTMENT IN TRILEGIANT. We own preferred stock, convertible into approximately 20% of Trilegiant. We also advanced approximately $100 million to support Trilegiant's marketing activities. We expense the marketing advance as Trilegiant incurs qualified marketing costs. As of December 31, 2001, we had expensed $66 million of this marketing advance. In addition, we have provided Trilegiant with a $35 million revolving line of credit under which advances are at our sole and unilateral discretion. At December 31, 2001, there were no advances outstanding under this line of credit. We are not obligated or contingently liable for any debt incurred by Trilegiant.

In connection with marketing agreements entered into with a third party, we provided a $75 million loan facility to Trilegiant under which we will advance funds to Trilegiant for marketing performed by Trilegiant on behalf of the third party. Under the terms of the agreements, Trilegiant will provide certain services to the third party in exchange for commissions. As part of our royalty arrangement with Trilegiant, we will participate in those commissions. Trilegiant will repay borrowings under this facility as commissions are received by Trilegiant from the third party. As of December 31, 2001, the outstanding balance under this loan facility was $24 million.

COMPETITION. The membership services industry is highly competitive. Competitors include membership services companies, as well as large retailers, travel agencies, insurance companies and financial service institutions, some of which have financial resources, product availability, technological capabilities or customer bases that may be greater than ours.

FINANCIAL SERVICES TRADEMARKS AND OTHER INTELLECTUAL PROPERTY.

The service marks "Jackson Hewitt" and "Jackson Hewitt Tax Service" and related marks and logos are material to Jackson Hewitt's business. We, through our franchisees, actively use these marks. The trademarks and logos are registered (or have applications pending for registration) with the United States Patent and Trademark Office. We own the marks used in the Jackson Hewitt business. The individual membership business trademarks and service marks listed above and related logos are material to the individual membership business. In connection with the Trilegiant outsourcing arrangement, we license the individual membership business trademarks and service marks listed above to Trilegiant in exchange for the licensing fee mentioned above. Individual membership business trademarks and logos are registered (or have applications pending for registration) with the United States Patent and Trademark Office, unless otherwise indicated above. We own the marks used in the individual membership business.

FINANCIAL SERVICES SEASONALITY.

Our direct marketing and individual membership businesses are generally not seasonal. However, since most of our franchisees' customers file their tax returns during the period from January through April of each year, substantially all franchise royalties are received during the first and second quarters of each year. As a result, Jackson Hewitt operates at a loss for the remainder of the year. Historically, such losses primarily reflect payroll of year-round personnel, the update of tax software and other costs and expenses relating to preparation for the following tax season.

FINANCIAL SERVICES EMPLOYEES

The businesses that make up our Financial Services segment employed approximately 2,470 persons as of December 31, 2001.

GEOGRAPHIC SEGMENTS

Financial data for geographic segments are reported in Note 26 to our Consolidated Financial Statements included in Item 8 of this Form 10-K.



REGULATION

FRANCHISE REGULATION. The sale of franchises is regulated by various state laws, as well as by the Federal Trade Commission (the "FTC"). The FTC requires that franchisors make extensive disclosure to prospective franchisees but does not require registration. Although no assurance can be given, proposed changes in the FTC's franchise rule should have no adverse impact on our franchised businesses. A number of states require registration or disclosure in connection with franchise offers and sales. In addition, several states have "franchise relationship laws" or "business opportunity laws" that limit the ability of the franchisor to terminate franchise agreements or to withhold consent to the renewal or transfer of these agreements. While our franchising operations have not been materially adversely affected by such existing regulation, we cannot predict the effect of any future federal or state legislation or regulation.

REAL ESTATE REGULATION. The federal Real Estate Settlement Procedures Act (RESPA) and state real estate brokerage laws restrict payments which real estate and mortgage brokers and other parties may receive or pay in connection with the sales of residences and referral of settlement services (e.g., mortgages, homeowners insurance, title insurance). Such laws may to some extent restrict preferred alliance arrangements involving our real estate brokerage franchisees, mortgage business and relocation business. Our mortgage business is also subject to numerous federal, state and local laws and regulations, including those relating to real estate settlement procedures, fair lending, fair credit reporting, truth in lending, federal and state disclosure and licensing. Currently, there are local efforts in certain states which could limit referral fees to our relocation business.

It is a common practice for online mortgage and real estate related companies to enter into advertising, marketing and distribution arrangements with other Internet companies and Web sites, whereby the mortgage and real estate related companies pay fees for advertising, marketing and distribution services and other goods and facilities. The applicability of RESPA's referral fee prohibitions to the compensation provisions of these arrangements is unclear and the Department of Housing and Urban Development has provided no guidance to date on the subject.

TIMESHARE EXCHANGE REGULATION. Our timeshare exchange business is subject to foreign, federal, state and local laws and regulations including those relating to taxes, consumer credit, environmental protection and labor matters. In addition, we are subject to state statutes in those states regulating timeshare exchange services, and must prepare and file annually certain disclosure guides

with regulators in states where required. While our timeshare exchange business is not subject to those state statutes governing the development of timeshare condominium units and the sale of timeshare interests, such statutes directly affect both our timeshare sales and marketing business (see below) and the other members and resorts that participate in the RCI exchange programs. Therefore, the statutes indirectly impact our timeshare exchange business.

TIMESHARE SALES AND MARKETING REGULATION. Our timeshare sales and marketing business is subject to extensive regulation by the states in which our resorts are located and in which its vacation ownership interests are marketed and sold. In addition, we are subject to federal legislation, including without limitation, the Federal Trade Commission Act; the Fair Housing Act; the Truth-in-Lending Act and Regulation Z promulgated thereunder, which require certain disclosures to borrowers regarding the terms of their loans; the Real Estate Settlement Procedures Act and Regulation X promulgated thereunder which require certain disclosures to borrowers regarding the settlement and servicing of loans; the Equal Credit Opportunity Act and Regulation B promulgated thereunder, which prohibit discrimination in the extension of credit on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, the Telemarketing and Fraud and Abuse Prevention Act, and the Civil Rights Acts of 1964, 1968 and 1991.

Many states have laws and regulations regarding the sale of vacation ownership interests. The laws of most states require a designated state authority to approve a timeshare public report, a detailed offering statement describing the resort operator and all material aspects of the resort and the sale of vacation ownership interests. In addition, the laws of most states in which we sell vacation ownership interests grant



the purchaser of such an interest the right to rescind a contract of purchase at any time within a statutory rescission period, which generally ranges from three to ten days. Furthermore, most states have other laws that regulate our timeshare sales and marketing activities, such as real estate licensing laws, travel sales licensing laws, anti-fraud laws, telemarketing laws, prize, gift and sweepstakes laws, labor laws and various regulations governing access and use of our resorts by disabled persons.

INTERNET REGULATION. Although our business units' operations on the Internet are not currently regulated by any government agency in the United States beyond regulations discussed above and applicable to businesses generally, it is likely that a number of laws and regulations may be adopted governing the Internet. In addition, existing laws may be interpreted to apply to the Internet in ways not currently applied. Regulatory and legal requirements are subject to change and may become more restrictive, making our business units' compliance more difficult or expensive or otherwise restricting their ability to conduct their businesses as they are now conducted.

VEHICLE RENTAL AND FLEET LEASING REGULATION. We are subject to federal, state and local laws and regulations including those relating to taxing and licensing of vehicles, franchising, consumer credit, environmental protection and labor matters. The principal environmental regulatory requirements applicable to our vehicle and rental operations relate to the ownership or use of tanks for the storage of petroleum products, such as gasoline, diesel fuel and waste oils; the treatment or discharge of waste waters; and the generation, storage, transportation and off-site treatment or disposal of solid or liquid wastes. We operate 271 locations at which petroleum products are stored in underground or aboveground tanks. We have instituted an environmental compliance program designed to ensure that these tanks are in compliance with applicable technical and operational requirements, including the replacement and upgrade of underground tanks to comply with the December 1998 EPA upgrade mandate and periodic testing and leak monitoring of underground storage tanks. We believe that the locations where we currently operate are in compliance, in all material respects, with such regulatory requirements.

We may also be subject to requirements related to the remediation of, or the liability for remediation of, substances that have been released to the environment at properties owned or operated by us or at properties to which we send substances for treatment or disposal. Such remediation requirements may be imposed without regard to fault and liability for environmental remediation can be substantial.

We may be eligible for reimbursement or payment of remediation costs associated with future releases from its regulated underground storage tanks and have established funds to assist in the payment of remediation costs for releases from certain registered underground tanks. Subject to certain deductibles, the availability of funds, compliance status of the tanks and the nature of the release, these tank funds may be available to us for use in remediating future releases from its tank systems.

A traditional revenue source for the vehicle rental industry has been the sale of loss damage waivers, by which rental companies agree to relieve a customer from financial responsibility arising from vehicle damage incurred during the rental period. Approximately 3.2% of our vehicle operations revenue during 2001 was generated by the sale of loss damage waivers. Approximately 40 states have considered legislation affecting the loss damage waivers. To date, 24 states have enacted legislation which requires disclosure to each customer at the time of rental that damage to the rented vehicle may be covered by the customer's personal automobile insurance and that loss damage waivers may not be necessary. In addition, in the late 1980's, New York enacted legislation which eliminated our right to offer loss damage waivers for sale and limited potential customer liability to $100. Moreover Nevada has capped rates for loss damage waivers at $15.00 per day. California has capped these rates at either $9.00 per day for cars with an MSRP of $19,000 or less, or $15.00 per day for cars with an MSRP of $19,000 to $34,999, but there is no cap for cars with an MSRP of $35,000 or more.

We are also subject to regulation under the insurance statutes, including insurance holding company statutes, of the jurisdictions in which its insurance company subsidiaries are domiciled. These regulations vary from state to state, but generally require insurance holding companies and insurers that are subsidiaries of insurance holding companies to register and file certain reports including information concerning their capital structure, ownership, financial condition and general business operations with the



state regulatory authority, and require prior regulatory agency approval of changes in control of an insurer and intercorporate transfers of assets within the holding company structure. Such insurance statutes also require that we obtain limited licenses to sell optional insurance coverage to our customers at the time of rental.

The payment of dividends to us by our insurance company subsidiaries is restricted by government regulations in Colorado, Bermuda and Barbados affecting insurance companies domiciled in those jurisdictions.

MARKETING REGULATION. Primarily through our insurance/wholesale business, we market our products and services via a number of distribution channels, including direct mail, telemarketing and online. These channels are regulated on the state and federal levels and we believe that these activities will increasingly be subject to such regulation. Such regulation may limit our ability to solicit new members or to offer one or more products or services to existing members. In addition to direct marketing, our insurance/wholesale business is subject to various state and local regulations including, as applicable, those of state insurance departments. While we have not been adversely affected by existing regulations, we cannot predict the effect of any future federal, state or local legislation or regulation.

In November 1999, the Federal Gramm-Leach-Bliley Act became law. This Act and its implementing regulations modernized the regulatory structure affecting the delivery of financial services to consumers and provided for new requirements and limitations relating to direct marketing by financial institutions to their customers. Compliance with the Act was required beginning July 1, 2001, and we have taken various steps to ensure our compliance; however, since specific aspects of the implementing regulations relating to this Act remain to be clarified, it is unclear what conclusive effect, if any, such regulations might have on our business.

We are also aware of, and are actively monitoring the status of, certain proposed privacy-related state legislation that might be enacted in the future; it is unclear at this point what effect, if any, such state legislation might have on our businesses.

GLOBAL DISTRIBUTION SERVICES REGULATION. Our global distribution services business is subject to regulation primarily in the United States, the European Union and Canada. Each jurisdiction's rules are largely based on the same set of core premises: that a computerized reservation system must treat all participating airlines equally, whether or not they are owners of the system; that airlines owning computerized reservations systems must not discriminate against the computerized reservation systems they do not own; and that computerized reservation system relationships with travel agencies should not be an impediment to competition from other computerized reservation systems or to the provision of services to the traveler. While each jurisdiction has focused on the computerized reservation system industry's role in the airline industry, the United States' and EC rules have the greatest impact on us because of the volume of business transacted by us in the United States and the European Union. Neither jurisdiction currently seeks to regulate computerized reservation system relationships with non-airline participants such as hotel and car rental companies, although the EC rules allow computerized reservation systems to

incorporate rail services into computerized reservation system displays and such rail services are therefore subject to certain sections of the EC rules.

Both the United States and the European Union require systems to provide airline displays for travel agencies that are ordered on the basis of neutral principles and that all airlines must be charged the same fees for the same level of participation. The EC rules go further and require that fees must be reasonably structured and reasonably related to the cost of the service provided and used. Moreover, under the EC rules, airlines have the ability to disallow certain types of bookings, unless they have already been accepted.

Both the United States and European Union regulators seek to redress the potential that a computerized reservation system used for internal reservation purposes would offer a travel agency subscriber superior access to the hosted airline and inferior access to all other airlines. The EC rules require a GDS to ensure that its distribution facilities are separated from any carrier's private inventory hosted on the system. If a connection between distribution facilities and private inventory is permitted by an application interface,



any such interface must be available to all carriers on a non-discriminatory basis. While the United States rules contain several principles outlining the requirement of unbiased displays, the EC rules prescribe a specific formula that a computerized reservation system must use to order its display of flights. U.S. regulations also require functional equivalence between the functionality offered to airlines whose internal reservation systems are hosted in the computerized reservation system and those provided to all other airlines. The EC rules require the owner airlines to provide the same data, and accept and confirm bookings with equal timeliness in all computerized reservation systems, when requested to do so. U.S. regulations contain no counterpart to the European requirement that subscribers be offered access to the computerized reservation system on a nondiscriminatory basis. Although U.S. regulations extend only to use of computerized reservation systems by travel agencies, European and Canadian rules apply to all subscriber uses of computerized reservation systems, whether by travel agencies, individuals or corporate travel departments. To the extent rules relating to computerized reservation systems are proposed or adopted by other countries, we expect they will be similar to the existing rules in other jurisdictions.

TRAVEL AGENCY REGULATION.  The products and services we provide are subject to various federal, state and local regulations. We must comply with laws and regulations relating to our sales and marketing activities, including those prohibiting unfair and deceptive advertising or practices. Our travel service is subject to laws governing the offer and/or sale of travel products and services, including laws requiring us to register as a "seller of travel," to comply with disclosure. In addition, many of our travel suppliers and global distribution systems are heavily regulated by the United States and other governments and we are indirectly affected by such regulation.

EMPLOYEES

As of December 31, 2001, we employed approximately 53,000 people. Management considers our employee relations to be satisfactory.

ITEM 2. PROPERTIES

Our principal executive offices are located in leased space at 9 West 57th Street, New York, NY 10019 with a lease term expiring in 2013. Many of our general corporate functions are conducted at leased offices at One Campus Drive, 1 Sylvan Way and 10 Sylvan Way and one owned facility located at 6 Sylvan Way, Parsippany, New Jersey 07054. Executive offices are also located at Landmark House, Hammersmith Bridge Road, London, England W69EJ.

Our lodging franchise business leases space for its reservations centers and data warehouse in Aberdeen, South Dakota; Phoenix, Arizona; Knoxville and Elizabethton, Tennessee; St. John, New Brunswick, Canada pursuant to leases that expire in 2004, 2007, 2004, 2002, and 2009 respectively. In addition, our lodging and real estate businesses share approximately four leased office spaces within the United States.

Our timeshare exchange business has three properties which we own; a 200,000 square foot facility in Carmel, Indiana, which serves as an administrative office; a 200,000 square foot call center in Cork, Ireland and a property located in Kettering, UK, which is RCI's European office. Our timeshare exchange business also has approximately 10 leased offices located within the United States and approximately 38 additional leased spaces in various countries outside the United States.

Our timeshare sales and marketing business owns a 60,500 square foot facility in Little Rock, Arkansas and leases space for call center and administrative

functions in Las Vegas, Nevada and Orlando, Florida, pursuant to leases expiring in 2006 and 2011, respectively. In addition, approximately 33 marketing and sales offices are leased throughout the United States.



Our relocation business has its main corporate operations in three leased buildings in Danbury, Connecticut with lease terms expiring in 2004, 2005, and 2008. There are also three regional offices located in Mission Viejo, California; Chicago, Illinois; and Irving, Texas, which provide operation support services. We own the office in Mission Viejo and the others we operate pursuant to leases that expire in 2004 and 2003 respectively. International offices are located in Hammersmith, Wexham and Swindon, United Kingdom; Melbourne and Brisbane, Australia; Hong Kong; and Singapore pursuant to leases that expire in 2012, 2012, 2013, 2005, 2003, 2002 and 2002, respectively.

Our mortgage business has centralized its operations to one main area occupying various leased offices in Mt. Laurel, New Jersey for a total of approximately 848,000 square feet. The lease terms expire over the next three years. Our mortgage business has recently entered into a lease for a new building expected to be completed in the beginning of 2003. This new building is expected to add 47,500 square feet to, and replace approximately 127,500 square feet at, the Mt. Laurel location. The lease for this new building expires in 2013. Regional sales offices are located in Englewood, Colorado; Jacksonville, Florida and Santa Monica, California, pursuant to leases that expire in 2002, 2005 and 2005, respectively.

Our vehicle services segment owns a 158,000 square foot facility in Virginia Beach, Virginia, which serves as a satellite administrative and reservations facility for WizCom and Avis rental car operations. Our Vehicle Services segment also leases space for its car reservations center in Tulsa, Oklahoma and Fredericton, New Brunswick, Canada pursuant to leases that expire in 2006 and 2009, respectively. In addition, there are approximately 19 leased office locations in the United States. Internationally, we lease office space in the United Kingdom and own one building in Birmingham, UK to support National Car Parks.

WizCom operates out of leased space in Garden City, New York.

We lease or have vehicle rental concessions relating to space at 676 locations in the United States and 191 locations outside the United States utilized in connection with our vehicle rental operation. Of those locations, 224 in the United States and 82 outside the United States are airports. Typically, an airport receives a percentage of vehicle rental revenues, with a guaranteed minimum. Because there is a limit to the number of vehicle rental locations in an airport, vehicle rental companies frequently bid for the available locations, usually on the basis of the size of the guaranteed minimums. We and other vehicle lease firms also lease parking space at or near airports and at their other vehicle rental locations.

PHH Arval leases office space and marketing centers in eight locations in the United States and Canada, with approximately 102,000 square feet in the aggregate. PHH Arval maintains a 200,000 square foot regional/processing office in Hunt Valley, Maryland. In addition, Wright Express leases approximately 187,000 square feet of office space in two domestic locations.

Our insurance/wholesale business leases five domestic office spaces in Brentwood and Franklin, Tennessee with lease terms ending in 2002, 2003, and 2009. In addition, there are ten leased locations internationally that function as sales and administrative office for Cims with the main office located in Portsmouth, UK.

Our leased space in Parsippany, New Jersey also supports our tax preparation business.

Our travel distribution business has three properties, which we own; a 256,000 square foot data center in Greenwood, Colorado; a 32,000 square foot facility in Atlanta, Georgia and a 20,000 square foot facility in Lakeport, California. The travel distribution business also leases 121,000 square feet of office space in Rosemont, Illinois; 256,000 square feet of office space among six locations in the Denver, Colorado area; approximately 20 additional properties within the United States and 50 leased spaces in various countries outside the United States.

Our travel operations have leased locations in Aurora, Colorado; Nashville, Tennessee; Arlington, Texas and Moore, Oklahoma. They occupy a total of approximately 152,000 square feet pursuant to leases expiring in 2006, 2006, 2002 and 2003, respectively.

We believe that such properties are sufficient to meet our present needs and we do not anticipate any difficulty in securing additional space, as needed, on

acceptable terms.



ITEM 3. LEGAL PROCEEDINGS

A. CLASS ACTION AND OTHER LITIGATION AND GOVERNMENT INVESTIGATIONS

After the April 15, 1998 announcement of the discovery of accounting irregularities in the former CUC business units, and prior to the date of this Annual Report on Form 10-K, approximately 70 lawsuits claiming to be class actions, three lawsuits claiming to be brought derivatively on our behalf and several other lawsuits and arbitration proceedings were filed in various courts against us and other defendants.

IN RE CENDANT CORPORATION LITIGATION, Master File No. 98-1664 (WHW) (D.N.J.) (the "Securities Action"), is a consolidated class action consisting of over sixty constituent class action lawsuits. The Securities Action is brought on behalf of all persons who acquired securities of the Company and CUC, except our PRIDES securities, between May 31, 1995 and August 28, 1998. Named as defendants are the Company; twenty-eight current and former officers and directors of the Company, CUC and HFS; and Ernst & Young LLP, CUC's former independent accounting firm.

The Amended and Consolidated Class Action Complaint in the Securities Action alleges that, among other things, the lead plaintiffs and members of the class were damaged when they acquired securities of the Company and CUC because, as a result of accounting irregularities, the Company's and CUC's previously issued financial statements were materially false and misleading, and the allegedly false and misleading financial statements caused the prices of the Company's and CUC's securities to be inflated artificially. The Amended and Consolidated Complaint alleges violations of Sections 11, 12(a)(2), and 15 of the Securities Act of 1933 (the "Securities Act") and Sections 10(b), 14(a), 20(a), and 20A of the Securities Exchange Act of 1934 (the "Exchange Act").

On January 25, 1999, the Company answered the Amended Consolidated Complaint and asserted Cross-Claims against Ernst & Young alleging that Ernst & Young failed to follow professional standards to discover, and recklessly disregarded, the accounting irregularities, and is therefore liable to the Company for damages in unspecified amounts. The Cross-Claims assert claims for breaches of Ernst & Young's audit agreements with the Company, negligence, breaches of fiduciary duty, fraud, and contribution.

On March 26, 1999, Ernst & Young filed Cross-Claims against the Company and certain of the Company's present and former officers and directors, alleging that any failure to discover the accounting irregularities was caused by misrepresentations and omissions made to Ernst & Young in the course of its audits and other reviews of the Company's financial statements. Ernst & Young's Cross-Claims assert claims for breach of contract, fraud, fraudulent inducement, negligent misrepresentation and contribution. Damages in unspecified amounts are sought for the costs to Ernst & Young associated with defending the various shareholder lawsuits and for harm to Ernst & Young's reputation.

On December 7, 1999, we announced that we had reached an agreement to settle the Securities Action for approximately $2.85 billion in cash which we will be required to fully fund by mid-July 2002. (See "Litigation Settlements" below and Note 14 to the Consolidated Financial Statements).

WELCH & FORBES, INC. V. CENDANT CORP., ET AL., No. 98-2819 (WHW) (the "PRIDES Action"), is a consolidated class action filed on June 15, 1998 on behalf of purchasers of the Company's PRIDES securities between February 24 and August 28, 1998. Named as defendants are the Company; Cendant Capital I, a statutory business trust formed by the Company to participate in the offering of PRIDES securities; seventeen current and former officers and directors of the Company, CUC and HFS; Ernst & Young; and the underwriters for the PRIDES offering, Merrill Lynch & Co.; Merrill Lynch, Pierce, Fenner & Smith Incorporated; and Chase Securities Inc.

The allegations in the Amended Consolidated Complaint in the PRIDES Action are substantially similar to those in the Securities Action. The PRIDES Action states claims under Sections 11, 12(a)(2) and 15 of the Securities Act and Sections 10(b) and 20(a) of the Exchange Act, and seeks damages in an unspecified amount. In January 2000, we announced a partial settlement of the PRIDES Action. (See Litigation Settlements below and Note 14 to the Consolidated Financial Statements).



SEMERENKO V. CENDANT CORP., ET AL., Civ. Action No. 98-5384 (D.N.J.), and P. SCHOENFIELD ASSET MANAGEMENT LLC V. CENDANT CORP., ET AL., Civ. Action No. 98-4734 (D.N.J.) (the "ABI Actions"), were initially commenced in October

and November of 1998, respectively, on behalf of a putative class of persons who purchased securities of American Bankers Insurance Group, Inc. ("ABI") between January 27, 1998 and October 13, 1998. Named as defendants are the Company, four former CUC officers and directors and Ernst & Young. The complaints in the ABI actions, as amended on February 8, 1999, assert violations of Sections 10(b), 14(e) and 20(a) of the Exchange Act. The plaintiffs allege that they purchased shares of ABI common stock at prices artificially inflated by the accounting irregularities after we announced a cash tender offer for 51% of ABI's outstanding shares of common stock in January 1998. Plaintiffs also allege that after the disclosure of the accounting irregularities, we misstated our intention to complete the tender offer and a second step merger pursuant to which the remaining shares of ABI stock were to be acquired by us. Plaintiffs seek, among other things, unspecified compensatory damages. On April 30, 1999, the United States District Court for the District of New Jersey dismissed the complaints on motions of the defendants. In an opinion dated August 10, 2000, the United States Court of Appeals for the Third Circuit vacated the District Court's judgment and remanded the ABI Actions for further proceedings. On December 15, 2000, we filed a motion to dismiss those claims based on ABI purchases after April 15, 1998, and the District Court granted this motion on May 7, 2001. The plaintiffs subsequently moved for leave to file a Second Amended Complaint. The Court has not yet ruled on that motion, which has been fully briefed.

B. OTHER LITIGATION

Prior to April 15, 1999, actions and other proceedings making substantially similar allegations to the allegations in the Securities Action were filed by various plaintiffs on their own behalf. Set forth below are summaries of certain of these matters.

DEUTCH V. SILVERMAN, ET AL., No. 98-1998 (WHW) (the "Deutch Action"), is a shareholder derivative action, purportedly filed on behalf of, and for the benefit of the Company. The Deutch Action was commenced on April 27, 1998 in the District of New Jersey against certain of the Company's current and former directors and officers; and, as a nominal defendant, the Company. The complaint in the Deutch Action alleges that individual officers and directors of the Company breached their fiduciary duties by selling shares of the Company's stock while in possession of non-public material information concerning the accounting irregularities, and by, among other things, causing and/or allowing the Company to make a series of false and misleading statements regarding the Company's financial condition, earnings and growth; entering into an agreement to acquire ABI and later paying $400 million to ABI in connection with termination of that agreement; re-pricing certain stock options previously granted to certain Company executives; and entering into certain severance and other agreements with Walter Forbes, the Company's former Chairman, under which Mr. Forbes received approximately $51 million from the Company pursuant to an employment agreement we had entered into with him in connection with the merger of HFS and CUC. Damages are sought on behalf of Cendant in unspecified amounts.

RESNIK V. SILVERMAN, ET. AL., No. 18329 (NC) (Del. Ch.) (the "Resnik Action"), is a purported derivative action filed in the Court of Chancery for the State of Delaware on or about September 19, 2000. The Complaint names as defendants those current and former members of Cendant's Board of Directors (the "Director Defendants") who were both named as defendants in, and approved the settlement of, the Securities Action (the "Settlement"). The Complaint alleges that the decision of the Director Defendants to approve the Settlement constituted a breach of their fiduciary duties of loyalty and good faith, and seeks a monetary judgment in an unspecified amount in favor of nominal defendant Cendant. On or about November 16, 2000, Cendant moved to dismiss the Resnik Action on the grounds that any challenge to the Director Defendants' decision to approve the Settlement is not ripe because Cendant has not yet incurred any liability under the Settlement, and may never do so if the District Court's approval of the Settlement is not affirmed on appeal. Also on or about November 16, 2000, the Director Defendants moved to stay the Resnik Action pending resolution of the Deutch Action. The plaintiff in the Resnik Action has not yet responded to either of these motions.



The SEC and the United States Attorney for the District of New Jersey conducted investigations relating to accounting irregularities. The investigation of the SEC as to Cendant concluded on June 14, 2000 when Cendant consented to an entry of an Order Instituting Public Administration Proceedings in which the SEC found that Cendant had violated certain record-keeping provisions of the federal securities laws, Sections 13(a) and 13(b) of the Exchange Act and Rules 12b-20, 13a-1, 13a-13, 13b2-1, and ordered Cendant to cease and desist from committing or causing any violation and any future violation of those provisions.

C. LITIGATION SETTLEMENTS.

SETTLEMENT OF COMMON STOCK CLASS ACTION LITIGATION

On December 7, 1999, the Company announced that it reached an agreement in principle to settle the Securities Action pending against the Company in the United States District Court for the District of New Jersey. In a settlement agreement executed March 17, 2000, the Company agreed to pay the class members approximately $2.85 billion in cash. On August 15, 2000, the District Court approved the settlement and the plan of allocation of the settlement proceeds and awarded fees and expenses to counsel for the Class. Certain parties who objected to the settlement, the plan of allocation or the award of attorneys' fees and expenses appealed the District Court's orders to the United States Court of Appeals for the Third Circuit. In August 2001, the Third Circuit affirmed the District Court's order approving the settlement and plan of allocation. On January 2, 2002, one party who had objected to the plan of allocation before the District Court and unsuccessfully appealed the District Court's approval of the plan of allocation filed a petition for a writ of certiorari in the United States Supreme Court seeking review of the Third Circuit's decision affirming the approval of the plan of allocation. The Supreme Court denied the petition in an order dated March 18, 2002.

As of December 31, 2001, we have made payments totaling $1.41 billion to a fund established for the benefit of the plaintiffs in this lawsuit. We intend to continue making quarterly payments of $250 million to such fund. We will be required to fund the remaining balance by mid-July 2002. We anticipate funding such amount from a combination of available cash, operating cash flow and, if necessary, revolving credit facility borrowings.

PARTIAL SETTLEMENT OF PRIDES CLASS ACTION LITIGATION

On March 17, 1999, we entered into an agreement to settle the claims of those Class members in the PRIDES Action who purchased their securities on or prior to April 15, 1998 ("eligible persons"). The settlement did not resolve claims based upon purchases of PRIDES after April 16, 1998. Under the settlement, each eligible person was entitled to receive a new security--a Right--for each PRIDES held on April 15, 1998. On June 15, 1999, the United States District Court for the District of New Jersey approved the settlement.

In April 2000, The Chase Manhattan Bank ("Chase"), acting as custodian of three mutual funds that sought a total of 2,020,000 Rights, filed a motion seeking relief from an order of the District Court that rejected the claims filed by Chase on behalf of the mutual funds. On June 7, 2000, the District Court denied Chase's motion, but on December 1, 2000 the Third Circuit vacated that order and remanded the case to the District Court for further proceedings. In August 2001, the District Court issued a decision that again rejected Chase's claims. Chase has appealed again to the Third Circuit. As the Rights expired on February 14, 2001, if Chase's claim is successful it will be satisfied with our CD Common Stock.

Pursuant to the settlement, we distributed 24,107,038 Rights to eligible persons. The Rights provided that we issue two New PRIDES to every person who delivered to us by February 14, 2001 three rights and two original PRIDES. The terms of the New PRIDES were the same as the original PRIDES, except that the conversion rate was revised so that, at the time the Rights were distributed, each of the New PRIDES had a value equal to $17.57 more than each original PRIDES, based upon a generally accepted valuation model. We issued approximately 15,485,000 New PRIDES upon exercise of Rights. Under the terms of the New PRIDES, each holder of a New PRIDES was required to purchase 2.3036 shares of our Common



Stock on February 16, 2001. In connection with this mandatory purchase, we distributed approximately 14,745,000 more shares of our Common Stock on February 16, 2001 than we otherwise would have under the terms of the original PRIDES.

In connection with the settlement, we recorded a charge of approximately $351 million ($228 million, after tax) in the fourth quarter of 1998. Such charge was reduced by $14 million ($9 million, after tax) and $41 million ($26 million, after tax) during 2001 and 2000, respectively, resulting from adjustments to the original estimate of the number of rights to be issued.

The settlements do not encompass all litigation asserting claims associated with the accounting irregularities. We do 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, we do not believe that the impact of such unresolved proceedings should result in a material liability to us in relation to our consolidated financial position or liquidity.

OTHER SETTLEMENTS

On March 6, 2002, we entered into an agreement to settle the claims under a pending arbitration proceeding filed on December 17, 1998, by Janice G. and Robert M. Davidson, former majority shareholders of a California-based computer software firm acquired by the Company in a July 1996 stock merger (the "Davidson Merger"). The Davidsons' Demand for Arbitration asserted claims against Cendant based upon allegations that the value of the Company securities they acquired in the Davidson Merger and through a May 1997 settlement agreement settling all disputes arising out of the Davidson Merger was artificially inflated due to the accounting irregularities.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable.



PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET PRICE ON COMMON STOCK

Our common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "CD". At March 15, 2002 the number of stockholders of record was approximately 10,093. The following table sets forth the quarterly high and low sales prices per share of CD common stock as reported by the NYSE for 2001 and 2000.

| 2001 | HIGH | LOW |
| --- | --- | --- |
| First Quarter | $14.760 | $ 9.625 |
| Second Quarter | 20.370 | 13.890 |
| Third Quarter | 21.530 | 11.030 |
| Fourth Quarter | 19.810 | 12.040 |

| 2000 | HIGH | LOW |
| --- | --- | --- |
| First Quarter | $ 24.313 | $ 16.188 |
| Second Quarter | 18.750 | 12.156 |
| Third Quarter | 14.875 | 10.626 |
| Fourth Quarter | 12.563 | 8.500 |

On March 15, 2002, the last sale price of our CD common stock on the NYSE was $18.86 per share.

DIVIDEND POLICY

We expect to retain our earnings for the development and expansion of our businesses and the repayment of indebtedness and do not anticipate paying dividends on common stock in the foreseeable future.



ITEM 6. SELECTED FINANCIAL DATA

| AT OR FOR THE YEAR ENDED DECEMBER 31, | 2001 | 2000 | 1999 |
|---|---|---|---|
| (IN MILLIONS, EXCEPT PER SHARE DATA) | | | |
| RESULTS OF OPERATIONS | | | |
| Net revenues | $ 8,950 | $ 4,659 | $ 6,076 |
| Income (loss) from continuing operations | $ 423 | $ 660 | $ (229) |
| Income (loss) from discontinued operations, net of tax | -- | -- | 174 |
| Extraordinary (loss) gain, net of tax | -- | (2) | -- |
| Cumulative effect of accounting changes, net of tax | (38) | (56) | -- |
| Net income (loss) | $ 385 | $ 602 | $ (55) |
| PER SHARE DATA CD COMMON STOCK | | | |
| Income (loss) from continuing operations: | | | |
| Basic | $ 0.47 | $ 0.92 | $ (0.30) |
| Diluted | 0.45 | 0.89 | (0.30) |
| Cumulative effect of accounting changes: | | | |
| Basic | $ (0.05) | $ (0.08) | $ -- |
| Diluted | (0.04) | (0.08) | -- |
| Net income (loss): | | | |
| Basic | $ 0.42 | $ 0.84 | $ (0.07) |
| Diluted | 0.41 | 0.81 | (0.07) |
| FINANCIAL POSITION | | | |
| Total assets | $ 33,452 | $ 15,072 | $ 15,149 |
| Total long-term debt, excluding Upper DECS | 6,132 | 1,948 | 2,845 |
| Upper DECS | 863 | -- | -- |
| Assets under management and mortgage programs | 11,950 | 2,861 | 2,726 |
| Debt under management and mortgage programs | 9,844 | 2,040 | 2,314 |
| 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
1,478 Stockholders'
equity 7,068 2,774
2,206
AT OR FOR THE YEAR
ENDED DECEMBER 31, ---
---------------------
---------------------
-- 1998 1997 ---------
------------- -------
---------------- (IN
MILLIONS, EXCEPT PER
SHARE DATA) RESULTS OF
OPERATIONS Net
revenues $ 6,585 $
5,429
======================
======================
Income (loss) from
continuing operations
$ 160 $ 66 Income
(loss) from
discontinued
operations, net of tax
380 (26) Extraordinary
(loss) gain, net of
tax -- 26 Cumulative
effect of accounting
changes, net of tax --
(283) ----------------
------- -------------
--------- Net income
(loss) $ 540 $ (217)
======================
======================
PER SHARE DATA CD
COMMON STOCK Income
(loss) from continuing
operations: Basic $
0.19 $ 0.08 Diluted
0.18 0.08 Cumulative
effect of accounting
changes: Basic $ -- $
(0.35) Diluted --
(0.35) Net income
(loss): Basic $ 0.64 $
(0.27) Diluted 0.61
(0.27) FINANCIAL
POSITION Total assets
$ 20,217 $ 14,073
Total long-term debt,
excluding Upper DECS
3,363 1,246 Upper DECS
-- -- Assets under
management and
mortgage programs
7,512 6,444 Debt under
management and
mortgage programs
6,897 5,603
Mandatorily redeemable
preferred interest in
a subsidiary -- --
Mandatorily redeemable
preferred securities
issued by subsidiary
holding solely senior
debentures issued by
the Company 1,472 --
Stockholders' equity
4,836 3,921

- ------------------------------

See Notes 4 and 7 to the Consolidated Financial Statements for a detailed discussion of net gains (losses) on dispositions of businesses and impairment of investments and other charges recorded for the years ended December 31, 2001, 2000 and 1999.

During 1998, we recorded restructuring and other unusual charges of $838 million ($545 million, after tax or $0.62 per diluted share) primarily associated with the termination of a proposed acquisition and the PRIDES litigation settlement.

During 1997, we recorded restructuring and other unusual charges of $704 million ($505 million, after tax or $0.58 per diluted share) primarily associated with the merger of HFS Incorporated and CUC International Inc. and the merger with PHH Corporation in April 1997.

Income (loss) from discontinued operations, net of tax includes the after tax results of discontinued operations and the gain on disposal of discontinued operations.



## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH OUR CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES THERETO INCLUDED ELSEWHERE HEREIN. UNLESS OTHERWISE NOTED, ALL DOLLAR AMOUNTS ARE IN MILLIONS AND THOSE RELATING TO OUR RESULTS OF OPERATIONS ARE PRESENTED BEFORE TAXES.

We are one of the foremost providers of travel and real estate services in the world. Our businesses provide a wide range of consumer and business services and are intended to complement one another and create cross-marketing opportunities both within and among our following five business segments. Our Real Estate Services segment franchises our three real estate brands, provides home buyers with mortgages and facilitates employee relocations; our Hospitality segment franchises our nine lodging brands, facilitates the sale and exchange of vacation ownership intervals and markets vacation rental properties in Europe; our Vehicle Services segment operates and franchises the Avis car rental brand, provides fleet management and fuel card services and operates car parking facilities in the United Kingdom; our Travel Distribution segment provides global distribution, computer reservation and travel agency services and our Financial Services segment provides enhancement products, insurance-based products and loyalty solutions, franchises tax preparation services and provides a variety of membership programs.

We seek organic growth augmented by the acquisition and integration of complementary businesses and routinely review and evaluate our portfolio of existing businesses to determine if they continue to meet our current objectives. As a result, we are currently engaged in a number of preliminary discussions concerning possible acquisitions, divestitures, joint ventures and related corporate transactions. We intend to continually explore and conduct discussions with regard to such transactions.

On April 1, 2002, we announced that we had entered into agreements to acquire all of the outstanding common stock of Trendwest Resorts, Inc. through a tax-free exchange of our CD common stock. Trendwest markets, sells and finances vacation ownership interests. As part of the planned acquisition, we will assume approximately $74 million of Trendwest net debt, which we intend 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.

On March 1, 2002, we entered into a venture with Marriott International, Inc. whereby we contributed our 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. We received a 50.0001% interest in the venture and Marriott received 49.9999% interest in the venture. Pursuant to the terms of the venture, we will share income from the venture with Marriott on a substantially equal basis. We currently expect the venture to redeem Marriott's interest for approximately $200 million, the projected fair market value, in March 2004. We expect to loan the venture such amount in March 2004 to enable the venture to meet its obligations to Marriott. Upon redemption, we will own 100% of the venture. Under the terms of the venture agreement, we control the venture and, therefore, will consolidate the venture into our results of operations, financial position and cash flows beginning on March 1,

2002. The venture has no third party liabilities.

During 2001, we acquired several businesses, which substantially contributed to our revenue growth and overall improvement in the cash flows we generate from operations. Avis Group Holdings, Inc., one of the world's leading service and information providers for comprehensive automotive transportation and vehicle management solutions, was acquired on March 1, 2001 for approximately $994 million and Fairfield Resorts, Inc. (formerly, Fairfield Communities, Inc.), one of the largest vacation ownership companies in the United States, was acquired on April 2, 2001 for approximately $760 million. In addition, on October 1, 2001 and October 5, 2001, we acquired Galileo International, Inc., a leading provider of electronic global



distribution services for the travel industry, for approximately $1.9 billion and Cheap Tickets, Inc., a leading seller of discount leisure travel products, for approximately $313 million, respectively.

During 2001, we also completed the sale of our real estate Internet portal, move.com, along with certain ancillary businesses to Homestore.com, Inc (see discussion in "Results of Consolidated Operations 2001 vs. 2000--Net Loss on Dispositions of Businesses and Impairment of Investments") and outsourced our individual membership and loyalty business to Trilegiant Corporation (see discussion in "Liquidity and Capital Resources").

The consolidated results of operations of the businesses we acquired have been included in our consolidated results of operations since their respective dates of acquisition and the consolidated results of operations of businesses we disposed of have only been included in our consolidated results of operations through their respective dates of disposition.

## CRITICAL ACCOUNTING POLICIES

In presenting our financial statements in conformity with generally accepted accounting principles, we are required to make estimates and assumptions that affect the amounts reported therein. Certain of the estimates and assumptions we are required to make relate to matters that are inherently uncertain as they pertain to future events. While we believe the estimates and assumptions used were the most appropriate, actual results could differ significantly from those estimates under different assumptions and conditions. Accordingly, we have reviewed the accounting policies of all our businesses to identify those policies where we are required to make particularly subjective and complex judgments.

The majority of our businesses operate in environments where we are paid a fee for a service performed, and therefore, the majority of our recurring operations are recorded in our financial statements using accounting policies that are not particularly subjective, nor complex. Following is a description of those accounting policies which we believe require subjective and complex judgments and could potentially affect reported results.

MORTGAGE SERVICING RIGHTS. A mortgage servicing right is the right to receive a portion of the interest coupon and fees collected from the mortgagor for performing specified servicing activities. The value of mortgage servicing rights is estimated based on expected future cash flows considering market prepayment estimates, historical prepayment rates, portfolio characteristics, interest rates and other economic factors. We estimate 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. To the extent that fair value is less than carrying value, we would consider the portfolio to have been impaired and record a related charge. During 2001, we determined that impairment had occurred due to interest rate reductions, which results in a greater level of mortgage prepayments than expected. Accordingly, we recorded net aggregate write-downs of $144 million through a valuation allowance, of which $94 million was directly related to unprecedented interest rate reductions subsequent to the September 11th terrorist attacks and $50 million was related to changes in estimates in the ordinary course of business. Further reductions in interest rates would have caused us to use different assumptions in the valuation of our mortgage servicing rights resulting in additional corresponding write-downs through a valuation allowance. We use derivatives to mitigate the prepayment risk associated with mortgage servicing rights. Such derivatives tend to increase in value as interest rates decline and conversely decline in value as interest rates increase. Additionally, as interest rates are reduced, we have historically experienced a greater level of refinancings, which partially mitigates the impact of the decline in the valuation of our mortgage servicing rights portfolio.

SECURITIZATIONS. We sell a significant portion of our residential mortgage loans, relocation receivables and timeshare receivables into securitization

entities as part of our financing strategy. We retain 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 our other assets for failure of debtors to pay when due. 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. We estimate fair value of retained interests based



upon the present value of expected future cash flows. The value of the retained interests is subject to the prepayment risks, expected credit losses and interest rate risks of the transferred financial assets. The effects of any adverse changes in the fair value of our retained interests are detailed in Note 24--Transfers and Servicing of Financial Assets to the Consolidated Financial Statements.

FINANCIAL INSTRUMENTS. We use derivative instruments as part of our overall strategy to manage and reduce the interest rate risk primarily related to our mortgage-related assets. Effective January 1, 2001, we account for our derivatives at fair value on the balance sheet in accordance with SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." The application of SFAS No. 133 is complex, as evidenced by amendments and significant interpretations to the original standard, which continue to evolve. Most of our derivatives and other financial instruments we use are not exchange traded. Values are determined by reference to dealer price indications, which involve significant judgments and estimates in the absence of quoted market prices. These estimates are based on valuation methodologies deemed appropriate in the circumstances, however, the use of different assumptions may have a material effect on the estimated fair value amounts recorded in the financial statements. In addition, hedge accounting requires that at the beginning of each hedge period, we justify an expectation that the relationship between the changes in fair value of derivatives designated as hedges compared to changes in the fair value of the underlying hedged items be highly effective. This effectiveness assessment involves estimation of changes in fair value resulting from changes in interest rates and corresponding changes in prepayment levels, as well as the probability of the occurrence of transactions for cash flow hedges. Use of different assumptions and changing market conditions may impact the results of the effectiveness assessment and ultimately the timing of when changes in derivative fair values and the underlying hedged items are recorded in earnings.

GOODWILL AND OTHER INTANGIBLE ASSETS. We have reviewed the carrying value of all our goodwill and other intangible assets in connection with the implementation of SFAS No. 142, "Goodwill and Other Intangible Assets," by comparing such amounts to their fair values. We determined that the carrying amounts of all our goodwill and other intangible assets did not exceed their respective fair values. Accordingly, the initial implementation of this standard will not impact earnings during 2002. We are required to perform this comparison at least annually, or more frequently if circumstances indicate possible impairment. When determining fair value, we utilize various assumptions, including projections of future cash flows. A change in these underlying assumptions will cause a change in the results of the tests and, as such, could cause fair value to be less than the carrying amounts. In such event, we would then be required to record a corresponding charge, which would impact earnings.

RESULTS OF CONSOLIDATED OPERATIONS--2001 VS. 2000

Our consolidated results from continuing operations comprised the following:

| | 2001 | 2000 | CHANGE |
| --- | --- | --- | --- |
| Net revenues | $8,950 | $4,659 | $4,291 |
| Expenses, excluding other charges and non-vehicle interest, net | 7,247 | 3,286 | 3,961 |
| Other charges | 671 | 111 | 560 |
| Non-vehicle interest, net | 249 | 148 | 101 |

------ Total expenses 8,167 3,545 4,622 ------ ------ ------ Net loss on dispositions of businesses and impairment of investments 24 8 16 ------ - ------ ---- -- Income before income taxes, minority interest and equity in Homestore.com 759 1,106 (347) Provision for income taxes 235 362 (127) Minority interest, net of tax 24 84 (60) Losses related to equity in Homestore.com, net of tax 77 -- 77 ------ ------ ------ Income from continuing operations $ 423 $ 660 $ (237) ====== ====== ======

Net revenues increased primarily as a result of the impact of acquired businesses (Avis, Fairfield, Galileo and Cheap Tickets), as well as substantial growth in mortgage refinancing activity and mortgage purchase volume. A detailed discussion of revenue trends is included in "Results of Reportable Segments--2001 vs.



2000." Total expenses also increased primarily as a result of the impact of acquired businesses, as well as other charges (discussed below) and an increase in net non-vehicle interest expense, which primarily resulted from interest expense accrued on our stockholder litigation settlement liability.

Our overall effective tax rate was 31.0% and 32.7% for 2001 and 2000, respectively. The effective rate for 2001 was lower, as the benefit from the recognition of foreign tax credits exceeded the negative impact of acquisitions. Minority interest, net of tax, decreased by $60 million due to the maturity of the Feline PRIDES in February 2001, at which time holders used the interest bearing trust preferred security to satisfy their obligation to purchase CD common stock. Additionally, we recorded after-tax charges of $77 million related to our equity ownership in Homestore, which was received in connection with the sale of move.com and certain ancillary businesses to Homestore in February 2001.

As a result of the above-mentioned items, income from continuing operations decreased $237 million, or 36%, during 2001.

OTHER CHARGES

RESTRUCTURING AND OTHER UNUSUAL CHARGES

RESTRUCTURING COSTS. During 2001 and 2000, we incurred restructuring charges of $110 million and $60 million, respectively. The 2001 charges were primarily recorded as a result of actions taken in response to the September 11th terrorist attacks, while the 2000 charges primarily related to the consolidation of business operations and rationalization of certain existing processes.

As a result of changes in business and consumer behavior following the

September 11th terrorist attacks, we formally committed to various strategic initiatives during fourth quarter 2001, which were generally aimed at aligning cost structures in our underlying businesses in response to anticipated levels of volume. Accordingly, we 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, Vehicle Services and Travel Distribution, respectively). We anticipate that these initiatives will be completed by the end of fourth quarter 2002. The initiatives are anticipated to increase pre-tax income by approximately $95 million to $100 million annually, commencing in first quarter 2002. 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, 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 BALANCE
AT BALANCE
AT
RESTRUCTURING
CASH OTHER
DECEMBER 31,

| | CHARGE | CASH PAYMENTS | OTHER REDUCTIONS | DECEMBER 31, 2000 | CASH PAYMENTS | OTHER REDUCTIONS | 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 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 (including the reduction in the fleet, as well as corresponding personnel reductions), (iv) $8 million related to the abandonment of certain software projects also in response to the September 11th terrorist attacks and (v) $7 million related to a contribution to the Cendant Charitable Foundation, which we established in September 2000 to serve as a vehicle for making charitable contributions to qualified organizations. The 2000 charges primarily consisted of (i) $21 million of costs to fund an irrevocable contribution to 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.

ACQUISITION AND INTEGRATION RELATED COSTS

During 2001, we incurred charges of $112 million primarily in connection with the outsourcing of our information technology operations and the integration of our existing travel agency businesses to Galileo's computerized reservations system. We outsourced our data operations, including our global distribution system, desktop support and other related services in order to provide high quality services to our customers and to support our future endeavors, while achieving significant annual cost reductions. Included in this charge are the costs of certain actions taken by management in connection with the acquisitions that did not meet the accounting criteria for capitalization.

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. Accordingly, we recorded an impairment charge of $94 million.



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 and 2000, we recorded net losses of $24 million and $8 million, respectively, in connection with the dispositions of businesses and the impairment of certain investments. The 2001 losses are net of a $436 million gain originally recorded on the sale of our real estate Internet portal and certain ancillary businesses to Homestore. Ultimately, we recorded a loss of $407 million during fourth quarter 2001 as a result of a decline in the value of our investment in Homestore. At December 31, 2001, our investment in Homestore was recorded at zero and we had no future obligations relating to this investment. Additionally, during fourth quarter 2001, we recorded losses of $34 million in connection with declines in the value of our investments in certain other businesses and $19 million in connection with the dispositions of certain non-strategic businesses in 1999. The 2000 losses related to the dispositions of certain non-strategic businesses and were partially offset by 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, and is 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. 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 |
| Vehicle Services(e) | 3,659 | 568 | * | 403 | 306 | * |
| Travel Distribution(f) | 437 | 99 | * | 108 | 10 | * |
| Financial Services | 1,402 | 1,380 | 2 | 310 | 373 | (17) |
| Total Reportable Segments | 8,879 | 4,426 | | 2,273 | 1,826 | |
| Corporate and Other(g) | 71 | 233 | * | (69) | (101) | * |
| Total Company | $8,950 | $4,659 | | $2,204 | $1,725 | |

- --------------------------

* 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 loan production 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 $16 million of other fees received in 2001, including the termination of a franchise agreement. 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. Fairfield contributed revenues and Adjusted EBITDA of $568 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 $97 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, franchise royalties received from Avis and the operations of our National Car Parks subsidiary. The acquisition of Avis contributed incremental revenues and Adjusted EBITDA of $3.1 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, fuel card management and UK parking businesses were not materially impacted by the September 11th terrorist attacks. The remaining segment results reflect the operations of our National Car Parks subsidiary, which had lower income due to a reduction in property disposals.

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 and Cheap Tickets contributed revenues and Adjusted EBITDA of $345 million and $101 million, respectively. 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 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"). Excluding these items, Adjusted EBITDA increased $44 million (12%). 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 $162 million while Adjusted EBITDA increased $32 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.

RESULTS OF CONSOLIDATED OPERATIONS--2000 VS. 1999

Our consolidated results from continuing operations comprised the following:

| | 2000 | 1999 | CHANGE |
| --- | --- | --- | --- |
| Net revenues | $4,659 | $6,076 | $(1,417) |
| Expenses, excluding other charges and non-vehicle interest, net | 3,286 | 4,528 | (1,242) |
| Other charges | 111 | 3,032 | (2,921) |
| Non-vehicle interest, net | 148 | 199 | (51) |
| Total expenses | 3,545 | 7,759 | (4,214) |
| Net loss (gain) on dispositions of businesses and impairment of investments | 8 | (1,109) | 1,117 |
| Income (loss) before | | | |

| income taxes and minority interest | 1,106 | (574) | 1,680 |
|---|---|---|---|
| Provision (benefit) for income taxes | 362 | (406) | 768 |
| Minority interest, net of tax | 84 | 61 | 23 |
| Income (loss) from continuing operations | $ 660 | $ (229) | $ 889 |

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), as well as growth attributable to higher relocation service-based fees, increased mortgage production and loan servicing revenues and greater royalty fees generated from our real estate franchised brands. 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 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 $362 million in 2000, or an effective tax rate of 32.7%, compared to a benefit of $406 million in 1999, or an effective tax rate of 70.7%. 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 $889 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, (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

| | 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) |
| Vehicle Services | 568 | 1,430 | * | 306 | 364 | * |
| Travel Distribution | 99 | 91 | 9 | 10 | 7 | 43 |
| Financial Services(c) | 1,380 | 1,518 | (9) | 373 | 305 | 22 |
| Total Reportable Segments | 4,426 | 5,342 | | 1,826 | 1,823 | |
| Corporate and Other(d) | 233 | 734 | * | (101) | 96 | * |
| Total Company | $4,659 | $6,076 | | $1,725 | $1,919 | |

- ------------------------------

(*) 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-Registered Trademark-, Coldwell Banker-Registered Trademark-, and ERA-Registered Trademark- 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 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, royalties received from Avis and the results of operations of our National Car Parks subsidiary. Revenues and Adjusted EBITDA decreased $862 million and $58 million, respectively. Such decreases are significantly due to the disposition of our fleet businesses in June 1999 which contributed revenues and Adjusted EBITDA of $881 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 $19 million (3%) and $23 million (8%), respectively. National Car Parks, our subsidiary in the United Kingdom that provides car parking services, contributed a $16 million increase in revenues principally due to increased occupancy of owned and leased car parking spaces and increased income from property disposals. The existing infrastructure of our car parks business absorbed the volume increase with no corresponding increases in expenses. 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. 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 $501 million and $197 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 and Adjusted EBITDA of $502 million and $78 million, respectively. Excluding the impact of divested businesses on 1999 operating results, revenues remained constant while Adjusted EBITDA decreased $119 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 | $21,502 | $12,211 | $9,291 |
| Assets under management and mortgage programs | 11,950 | 2,861 | 9,089 |
| Total liabilities exclusive of liabilities under management and mortgage programs | 15,115 | 7,724 | 7,391 |
| 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. At December 31, 2001, we had approximately $2.0 billion of cash on hand, an increase of approximately $1.0 billion from $944 million at December 31, 2000. The following table summarizes such increase:

| | 2001 | 2000 | CHANGE |
|---|---|---|---|
| Net cash provided by (used in): | | | |
| Operating activities | $ 2,784 | $ 1,417 | $ 1,367 |
| Investing activities | (6,398) | (1,172) | (5,226) |
| Financing activities | 4,643 | (483) | 5,126 |
| Effects of exchange rate changes on cash and cash equivalents | (2) | 18 | (20) |
| Net change in cash and cash equivalents | $ 1,027 | $ (220) | $ 1,247 |

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 $349 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.

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 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, 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.

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.

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.

The following table summarizes the components of our corporate indebtedness:

| | 2001 | 2000 | CHANGE |
|---|---|---|---|
| 3% convertible subordinated notes(a) | $ 390 | $ 548 | $ (158) |
| 7 3/4% notes | 1,150 | 1,149 | 1 |
| 6.875% notes | 850 | -- | 850 |
| 11% senior subordinated notes | 584 | -- | 584 |
| 3 7/8% convertible senior debentures | 1,200 | -- | 1,200 |
| Zero coupon senior convertible contingent notes | 920 | -- | 920 |
| Zero coupon convertible debentures | 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 | 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.

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

| | MATURITY DATE | PRINCIPAL AMOUNT | GROSS PROCEEDS RECEIVED | CONVERSION RATE | SHARES POTENTIALLY ISSUABLE |
|---|---|---|---|---|---|
| 3 7/8% convertible senior debentures(a) | November 2011 | $1.2 billion | $1.2 billion | 41.58 | 49.9 million |
| Zero coupon senior convertible contingent notes(b) | February 2021 | $1.5 billion | $ .9 billion | 33.40 | 49.4 million |
| Zero coupon convertible debentures(c) | May 2021 | $1.0 billion | $1.0 billion | 39.08 | 39.1 million |

- ------------------------

(a) We may be required to pay additional interest on these notes commencing in 2004 if the average price of CD common stock is less than a stipulated amount during a specified time period. The notes are only convertible upon the satisfaction of specific contingencies. Such contingencies include the satisfaction of a specific market price condition, notice of redemption or the occurrence of specified corporate transactions. 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.

(b) 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 cash payments in specified circumstances. The notes are only convertible upon the satisfaction of specific contingencies. Such contingencies include the satisfaction of a specific market price condition, notice of redemption, a credit rating downgrade below investment grade or the occurrence of specified corporate transactions. 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 discount through the redemption date. In addition, holders of the notes may require us to repurchase the notes on February 13, 2004, 2009 or 2014 at stipulated prices. 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.

(c) We are required to pay interest on these notes commencing in 2004 if the average price of CD common stock is less than a stipulated amount during a specified time period. The notes are only convertible upon the satisfaction of specific contingencies. Such contingencies include the satisfaction of a specific market price condition, the satisfaction of a specific trading price condition, notice of redemption, a credit rating downgrade below investment grade or the occurrence of specified corporate transactions. 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.

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. The forward purchase contract component requires the holder to purchase a minimum of 1.7593 shares and a maximum of 2.3223 shares of CD common stock, based upon the average closing price of CD common stock during a stipulated period, in



August 2004. 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).

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 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 $2.2 billion of outstanding debt under the Greyhound Funding program, of which $1.9 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 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 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.

Also included in out total indebtedness in addition to corporate indebtedness and debt related to our management and mortgage program, is a 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.

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 effective 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. 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.

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.

Neither we nor 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.

PHH also sells certain 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 December 31, 2004, or prior to such date should we elect not to renew the lease, PHH will be required to purchase the property at an amount to be determined, which approximated $80 million as of December 31, 2001. PHH also has the option to purchase the property at any time during the lease term. We bear all the residual risk resulting from this lease.

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.

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. We 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. 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, 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 connection with the termination of a franchise agreement. 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. 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.

NRT's common stock is owned by Apollo. We own all of NRT's preferred stock, which approximated $384 million as of December 31, 2001. 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. 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.

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 an independent technology trust. 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 upon the achievement of certain valuations beginning on March 31, 2003 or upon a change of control at Trip Network.

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. 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. 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.

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. In exchange for this contribution, 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 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. During 2001, we recognized dividend income of $6 million, which was paid-in-kind, related to our preferred equity interest in FFD. 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. 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. 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 are currently outstanding. We are not obligated or contingently liable for any other debt 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 to members of our individual membership business that existed as of the transaction date in exchange for a servicing fee and licenses and/or leases from us the assets of our individual membership business in order to service these members and also to obtain new members. 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 retains the economic benefits and service obligations for 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, 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 to support Trilegiant's marketing activities and made a $20 million convertible preferred stock investment in Trilegiant, which is convertible into approximately 20% of Trilegiant's common stock on a fully diluted basis. We



expense the marketing advance as Trilegiant incurs qualified marketing costs. During 2001, we expensed $66 million of the marketing advance. The preferred stock investment is 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. During 2001, we paid Trilegiant $128 million in connection with services provided under the new servicing arrangement and Trilegiant collected $212 million of cash on the Company's behalf in connection with membership renewals.

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 participate in those commissions. 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 balance under this facility was $24 million. Such amount will be repaid to us 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, upon the achievement of certain financial results, 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 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 pre-tax net income from the application of the non-amortization provisions of SFAS No. 142 would have approximated $215 million, $110 million and $126 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 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: March 31, 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
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----- ----
/s/ HENRY
R.
SILVERMAN
Chairman
of the
Board,
President,
March 31,
2002 -----
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---- Chief
Executive
Officer
and (Henry
R.
Silverman)
Director
/s/ JAMES
E. BUCKMAN
Vice
Chairman,
General
Counsel
and March
31, 2002 -
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Director
(James E.
Buckman)
/s/
STEPHEN P.
HOLMES
Vice
Chairman
and
Director
March 31,
2002 -----
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----
(Stephen
P. Holmes)
/s/ KEVIN
M. SHEEHAN
Senior
Executive
Vice
President
March 31,
2002 -----
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---- and
Chief
Financial
Officer
(Kevin M.
Sheehan)
/s/ TOBIA
IPPOLITO
Executive
Vice
President
and Chief
March 31,
2002 -----
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----
Accounting
Officer
(Tobia
Ippolito)
/s/ MYRA
J.
BIBLOWIT
Director
March 31,
2002 -----
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---- (Myra
J.
Biblowit)
/s/ THE
HONORABLE
WILLIAM S.
COHEN
Director
March 31,
2002 -----
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---- (The
Honorable
William S.
Cohen) /s/
LEONARD S.
COLEMAN
Director
March 31,
2002 -----
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(Leonard
S.
Coleman)
/s/ MARTIN
L. EDELMAN
Director
March 31,
2002 -----
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----
(Martin L.
Edelman)
/s/ JOHN
C. MALONE
Director
March 31,
2002 -----
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---- (Dr.

John C. Malone)



SIGNATURE TITLE DATE --------- - ---- ----

/s/ CHERYL D. MILLS Director March 31, 2002 ------ ----------- ----------- -----------
(Cheryl D. Mills)

/s/ BRIAN MULRONEY Director March 31, 2002 ------ ----------- ----------- -----------
(The Rt. Hon. Brian Mulroney, P.C., L.L.D.)

/s/ ROBERT E. NEDERLANDER Director March 31, 2002 ------ ----------- ----------- -----------
(Robert E. Nederlander)

Director March 31, 2002 ------ ----------- ----------- -----------
(Robert W. Pittman)

/s/ SHELI Z. ROSENBERG Director March 31, 2002 ------ ----------- ----------- -----------
(Sheli Z. Rosenberg)

/s/ ROBERT F. SMITH Director March 31, 2002 ------ ----------- ----------- -----------
(Robert F. Smith)



INDEX TO FINANCIAL STATEMENTS

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Consolidated Balance Sheets as of December 31, 2001 and 2000 F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999 F-5
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2001, 2000 and 1999 F-7
Notes to Consolidated Financial Statements F-9



# 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 for interest income and impairment of beneficial interests in 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.

/s/ Deloitte & Touche LLP
New York, New York
February 7, 2002
(April 1, 2002 as to Note 28)



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 | $5,456 | $4,215 | $4,844 |
| Vehicle-related | 3,426 | 292 | 1,042 |
| Other | 68 | 152 | 190 |
| Net revenues | 8,950 | 4,659 | 6,076 |
| EXPENSES | | | |
| Operating | 2,937 | 1,350 | 1,733 |
| Vehicle depreciation, lease charges and interest, net | 1,799 | -- | 674 |
| Marketing and reservation | 1,021 | 896 | 1,009 |
| General and administrative | 989 | 688 | 741 |
| Non-vehicle depreciation and amortization | 501 | 352 | 371 |
| 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 $94, $77 and $41) 249 148 199 ------ ------ ------
Total expenses 8,167 3,545 7,759 ------ ------ ------
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 759 1,106 (574)
Provision (benefit) for income taxes 235 362 (406)
Minority interest, net of tax 24 84 61
Losses related to equity in Homestore.com, net of tax 77 -- -- ------ ------ ------
INCOME (LOSS) FROM CONTINUING OPERATIONS 423 660 (229)
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 $
0.47 $ 0.92
$(0.30) Net
income (loss)
0.42 0.84
(0.07)
DILUTED
Income (loss)
from
continuing
operations $
0.45 $ 0.89
(0.30) 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
2000 ------
-- --------
ASSETS
Current
assets:
Cash and
cash
equivalents
$ 1,971 $
944
Receivables
(net of
allowance
for
doubtful
accounts of
$106 and
$77) 1,339
769
Stockholder
litigation
settlement
trust 1,410
-- Deferred
income
taxes 697
174 Other
current
assets
1,075 783 -
------ ----
--- Total
current
assets
6,492 2,670
Property
and
equipment,

net 1,951
1,345
Stockholder
litigation
settlement
trust --
350
Deferred
income
taxes 679
1,108
Franchise
agreements
(net of
accumulated
amortization
of $322 and
$264) 1,656
1,462
Goodwill
(net of
accumulated
amortization
of $546 and
$388) 7,978
3,176 Other
intangibles,
net 1,210
647 Other
noncurrent
assets
1,536 1,453
------- ---
---- Total
assets
exclusive
of assets
under
programs
21,502
12,211 ----
--- -------
Assets
under
management
and
mortgage
programs:
Mortgage
loans held
for sale
1,244 879
Relocation
receivables
292 329
Vehicle-
related,
net 8,115 -
- Timeshare
receivables
262 --
Mortgage
servicing
rights, net
2,037 1,653
------- ---
---- 11,950
2,861 -----
-- -------
TOTAL
ASSETS
$33,452
$15,072
=======
=======

LIABILITIES AND STOCKHOLDERS' EQUITY
Current liabilities:

| | | |
|---|---|---|
| Accounts payable and other current liabilities | $ 3,521 | $ 1,413 |
| Current portion of long-term debt | 401 | -- |
| Stockholder litigation settlement | 2,850 | -- |
| Deferred income | 916 | 1,023 |
| Total current liabilities | 7,688 | 2,436 |
| 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 | 536 | 79 |
| Total liabilities exclusive of liabilities under programs | 15,115 | 7,724 |
| 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 |
| 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 | $33,452 | $15,072 |

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 | 38 | 58 | (174) |

-- Income (loss) from continuing operations 423 660 (229) Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities: Non-vehicle depreciation and amortization 501 352 371 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 402 (1) 252 Net change in operating assets and liabilities, excluding the impact of acquisitions and dispositions: Receivables 8 187 (193) Income taxes (193) 344 (739) Accounts payable and other current liabilities 219 (227) 107 Deferred income (162) (74) (88) Other, net (193) (241) (243) -------- -------- -------- NET CASH PROVIDED BY OPERATING ACTIVITIES

EXCLUSIVE OF MANAGEMENT AND MORTGAGE PROGRAMS 1,437 1,032 1,031 -------- -------- --------
MANAGEMENT AND MORTGAGE PROGRAMS:
Depreciation and amortization 1,667 153 698
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 -------- -------- --------
1,347 385 2,001 -------- -------- --------
NET CASH PROVIDED BY OPERATING ACTIVITIES 2,784 1,417 3,032 -------- -------- --------
INVESTING ACTIVITIES
Property and equipment additions (349) (246) (277)
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) (111) (205)
Net proceeds from dispositions of businesses 109 4 3,509
Other, net (32) 5 47 -------- -------- --------
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES EXCLUSIVE OF MANAGEMENT AND MORTGAGE PROGRAMS (4,189) (850) 3,125
-------- -------- --------



CENDANT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(IN MILLIONS)

YEAR ENDED DECEMBER 31, ------------------------------ 2001 2000 1999 -------- -------- --------
MANAGEMENT AND MORTGAGE PROGRAMS:
Investment in vehicles $(14,921) $ -- $ (2,378)
Payments received on investment in vehicles 13,331 -- 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 -------- -------- -------- (2,209) (322) (1,265) -------- -------- -------- NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES (6,398) (1,172) 1,860 -------- -------- -------- 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

(2) 18 51 -
------- ---
----- -----
--- Net increase (decrease) in cash and cash equivalents 1,027 (220) 155 Cash and cash equivalents, beginning of period 944 1,164 1,009 -----
--- -------
- --------
CASH AND CASH EQUIVALENTS, END OF PERIOD $ 1,971 $ 944 $ 1,164
========
========
========
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION Interest payments $ 609 $ 263 $ 451 Income tax payments (refunds), net $ 52 $ (67) $ (46)

See Notes to Consolidated Financial Statements.



CENDANT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN MILLIONS)

ACCUMULATED COMMON STOCK ADDITIONAL OTHER TREASURY STOCK TOTAL ---
---------------
- PAID-IN RETAINED COMPREHENSIVE -
---------------
---
STOCKHOLDERS' SHARES AMOUNT CAPITAL EARNINGS INCOME (LOSS) SHARES AMOUNT EQUITY -
------- -------
- ---------- --
------ --------
------ --------
-------- ------
------- 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
-------- -------- ---------- -------- ------- ------- ------- -------- -------- ------------



CENDANT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (CONTINUED)
(IN MILLIONS)

ACCUMULATED COMMON STOCK ADDITIONAL OTHER TREASURY STOCK TOTAL
------------------
- PAID-IN RETAINED

COMPREHENSIVE -
--------------
---
STOCKHOLDERS'
SHARES AMOUNT
CAPITAL
EARNINGS LOSS
SHARES AMOUNT
EQUITY --------
-------- ------
---- -------- -
------------- -
------- -------
- -------------
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").

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.

## 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.

The Company applies generally accepted accounting principles and interpretations when evaluating whether it should consolidate the 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."

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, of which $94 million was directly related to unprecedented interest rate reductions subsequent to the September 11th terrorist attacks and $50 million was related to changes in estimates in the ordinary course of business.

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, the Company recognized non-refundable subscription revenue at the time of contract execution and cash receipt. 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. During the construction phase, the Company recognizes revenues using the percentage-of-completion method of accounting as inventory is purchased. The completion percentage is determined by the proportion of real estate inventory and certain sales and marketing costs incurred to total estimated costs. The remaining revenue and related costs of sales, including commissions and direct expenses, are deferred and recognized as the remaining costs are incurred. Until a contract for sale qualifies for revenue recognition, all payments received are accounted for as deposits. Commissions and other direct selling 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. 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. Amounts charged to the lessees for interest 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 can 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 and other fleet management services revenues are recognized over the period in which services are provided and the related expenses are incurred.

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.

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 owned by the Company are stated at cost, net of accumulated depreciation. Rental vehicles are depreciated at rates ranging from 11% to 28% per annum based on manufacturer repurchase programs. Leased vehicles are depreciated on a straight-line basis over their estimated useful lives, ranging from 3 to 6 years. Depreciation expense is net of the amortization of certain incentives and allowances provided by various vehicle manufacturers. 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.

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." 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 certain 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 adoption of SAB No. 101 also 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.

Based upon a preliminary assessment, the Company expects that the increase in pre-tax net income from the application of the non-amortization provisions of SFAS No. 142 would have approximated $215 million, $110 million and $126 million for 2001, 2000 and 1999, respectively.

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.

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 | $168 | $722 | $(215) |
| Cendant Group's retained interest in Move.com Group | 238 | (56) | (14) |
| Income (loss) from continuing operations for basic EPS | 406 | 666 | (229) |
| 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 | $414 | $677 | $(229) |
| 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 |

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) |
| Net income (loss) | $9.87 | $(1.76) |
| Diluted | | |
| Income (loss) from continuing operations | $9.81 | $(1.76) |
| 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.

Basic and diluted loss per share of CD common stock from the cumulative effect of accounting changes was $0.05 and $0.04, respectively, for 2001 and $0.08 each for 2000. Basic and diluted gain per share of CD common stock from the disposal of discontinued operations was $0.23 each for 1999.



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 | |

| | |
|---|---|
| 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 |

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 |
| | ====== |

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, $63 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 Statement of Operations since their respective dates of acquisition.

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 | $10,857 | $10,167 |
| Income from continuing operations | 641 | 1,092 |
| Net income | 596 | 1,034 |
| CD COMMON STOCK INCOME PER SHARE: | | |
| BASIC | | |
| Income from continuing operations | $ 0.63 | $ 1.31 |
| Net income | 0.59 | 1.24 |
| DILUTED | | |
| Income from continuing operations | $ 0.61 | $ 1.26 |
| 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 of Homestore common stock, then-valued at

$718 million. 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 the contribution of approximately 1.5 million shares of Homestore common stock to Trip Network, Inc. ("Trip Network"), formerly Travel Portal, Inc. and 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, whereby Avis acquired the net assets of the fleet businesses through the assumption and subsequent repayment of $1.44 billion of intercompany debt 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 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 and the unamortized deferred gain, which aggregated $409 million, were accounted for as components of Cendant's net investment in Avis (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).

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

During 1999, the Company completed the sale of Cendant Software Corporation, which was classified as a discontinued operation during 1998, for net cash proceeds of $770 million and recognized a gain on the disposal of this business of $299 million ($174 million, after tax).

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. During 2001, the Company's tax preparation subsidiary sold approximately 700 franchised units, increasing the total units franchised by this subsidiary to approximately 4,000.

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. 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.

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. 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 BALANCE
AT
RESTRUCTURING
CASH OTHER
DECEMBER 31,
CHARGE
PAYMENTS
REDUCTIONS
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 an independent technology trust responsible for providing technology initiatives for the benefit of certain 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 in response to the September 11th terrorist attacks (including the reduction in the fleet, as well as corresponding personnel reductions), (iv) $8 million related to the abandonment of certain software projects also in response to the September 11th terrorist attacks and (v) $7 million related to a contribution to the Cendant Charitable Foundation, which the Company established in September 2000 to serve as a vehicle for making charitable contributions to qualified organizations.

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 and contract terminations 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 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.

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., a company that was created to pursue the development and expansion of interactive businesses, (ii) $23 million primarily related to an irrevocable contribution to 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 charges of $112 million primarily in connection with the outsourcing of its information technology operations and the integration of existing travel agency businesses to Galileo's computerized reservations system. The Company outsourced its data operations, including its global distribution system, desktop support and other related services. Included in this charge are the costs of certain actions taken by management in connection with the acquisitions that did not meet the accounting criteria for capitalization.

MORTGAGE SERVICING RIGHTS IMPAIRMENT

As previously discussed, 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 | 59 | 52 | 44 |
| | 128 | 152 | 359 |
| DEFERRED | | | |
| Federal | 113 | 220 | (748) |
| State | (5) | (9) | (24) |
| Foreign | (1) | (1) | 7 |
| | 107 | 210 | (765) |

PROVISION
(BENEFIT)
FOR
INCOME
TAXES
$235
$362
$(406)
====
====
=====

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
230 210
219 ---
- -----
- -----
Pre-tax
income
(loss)
$759
$1,106
$(574)
====
======
=====

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 14
23 Valuation
allowance(a)
(378) (161)
------ -----
- Noncurrent
deferred
income tax
assets 1,243
1,660 ------
------
NONCURRENT
DEFERRED
INCOME TAX
LIABILITIES
Depreciation
and
amortization
564 533
Other -- 19
------ -----
- Noncurrent
deferred
income tax
liabilities
564 552 ----
-- ------
NONCURRENT
NET DEFERRED
INCOME TAX
ASSET $ 679
$1,108
======
======

----------------------------

(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 $320 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
1.2 0.6
(1.8)
Amortization
of non-
deductible

| | | | |
|---|---|---|---|
| goodwill | 3.9 | 1.6 | 2.9 |
| Taxes on foreign operations at rates different than U.S. federal statutory rates | (2.9) | (1.3) | (5.3) |
| Taxes on repatriated and accumulated foreign income, net of tax credits | (2.8) | -- | -- |
| Changes in valuation reserve | (2.0) | -- | -- |
| Nontaxable gain on disposal | -- | (1.4) | (31.0) |
| Other | (1.4) | (1.8) | (0.5) |
| | 31.0% | 32.7% | (70.7)% |

9. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of:

| | DECEMBER 31, 2001 | DECEMBER 31, 2000 |
|---|---|---|
| Land | $ 402 | $ 391 |
| Building and leasehold improvements | 609 | 450 |
| Furniture, fixtures and equipment | 1,673 | 1,051 |
| | 2,684 | 1,892 |
| Less: accumulated depreciation and amortization | (733) | (547) |
| | $1,951 | $1,345 |

10. OTHER INTANGIBLES, NET

Other intangibles, net consisted of:

DECEMBER

| December 31, | 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 | | | |
| Balance, January 1 | -- | -- | -- |
| Additions | (144) | (2) | |

(5)

| | | | |
|---|---|---|---|
| Reductions | -- | 2 | 5 |
| Balance, December 31 | (144) | -- | -- |
| Mortgage Servicing Rights, net | $2,037 | $1,653 | $1,084 |

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 | 140 | 43 |
| | 3,873 | 4,270 |
| Less: accumulated depreciation | (402) | (879) |
| | $3,471 | $3,391 |

During 2001, depreciation expense for car rental vehicles and fleet leasing vehicles was $560 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 certain 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 | $ 992 | $ 233 |
| Acquisition and integration related | 448 | 114 |
| Restructuring and other unusual | 115 | 14 |
| Accrued payroll and related | 423 | 252 |
| Income taxes payable | 261 | 158 |
| Other | 1,282 | 642 |
| | $3,521 | $1,413 |

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 certain short-term borrowings on a long-term basis, debt aggregating $1.0 billion and having a current redemption date has been reclassified to long-term debt on the Company's Consolidated Balance Sheet as of December 31, 2001.



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 |
| | 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 |

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 (see Note 28--Subsequent Events).

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 2004 if the average price of CD common stock is less than a stipulated amount during a specified time period. Each $1,000 principal amount at maturity may be converted, subject to satisfaction of specific contingencies, into 41.58 shares of CD common stock. Such contingencies include the satisfaction of a specific market price condition, notice of redemption or the occurrence of specified corporate transactions. 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 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 cash payments in specified circumstances. Each $1,000 principal amount at maturity may be converted, subject to satisfaction of specific contingencies, into 33.4 shares of CD common stock. Such contingencies include the satisfaction of a specific market price condition, notice of redemption, a credit rating downgrade below investment grade or the occurrence of specified corporate transactions. 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 discount through the redemption date. In addition, holders of the notes may require the Company to repurchase the notes on February 13, 2004, 2009 or 2014 at stipulated prices. 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 zero-coupon zero-yield senior convertible notes for gross proceeds of $1.0 billion. The notes mature in May 2021. The Company may be required to pay interest on these notes commencing in 2004 if the average price of CD common stock is less than a stipulated amount during a specified time period. Each $1,000 principal amount at maturity may be converted, subject to satisfaction of specific contingencies, into 39.08 shares of CD common stock. Such contingencies include the satisfaction of a specific market price condition, the satisfaction of a specific trading price condition, notice of redemption, a credit rating downgrade below investment grade or the occurrence of specified corporate transactions. 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 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 the Company's existing and future unsecured and unsubordinated debt and ranks senior to any future subordinated indebtedness. The forward purchase contracts require the holder to purchase a minimum of 1.7593 shares and a maximum of 2.3223 shares of CD common stock, based upon the average closing price of CD common stock during a stipulated period, in August 2004. 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). The discounted expected future cash flows recorded by the Company associated with these distributions approximated $26 million.

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.



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 $2.2



billion of outstanding debt under the Greyhound Funding program, of which $1.9 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. Also included in secured 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 collateralized by vehicles owned by the Company's fleet leasing subsidiary. 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 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 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 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 | $ 300 |
| 2003 | 241 |
| 2004 | 189 |
| 2005 | 142 |
| 2006 | 113 |
| Thereafter | 453 |
| | $ 1,438 |



During 2001, 2000 and 1999, the Company incurred total rental expense of $413 million, $187 million and $200 million, respectively, inclusive of contingent rental expense of $97 million, $45 million and $49 million, respectively, principally based on car rental volume or profitability at certain parking facilities. The Company has been granted rent abatements for varying periods on certain facilities. Deferred rent relating to those abatements is amortized on a straight-line basis over the applicable lease terms. 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. Commitments under capital leases are not significant.

The Company leases certain office buildings on an annual basis from an unaffiliated finance company which holds the title to the property. The Company has the option to renew this lease each year through 2004. At December 31, 2004, or prior to such date should the Company elect not to renew the lease, the Company will be required to purchase the property at an amount to be determined, which approximated $80 million as of December 31, 2001. The Company also has the option to purchase the property at any time during the lease term. The Company bears all the residual risk resulting

from this lease. 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:

UNREALIZED
UNREALIZED
MINIMUM GAINS
(LOSSES)
ACCUMULATED
CURRENCY LOSSES
ON PENSION ON
OTHER
TRANSLATION
CASH FLOW
LIABILITY
AVAILABLE-FOR-
SALE
COMPREHENSIVE
ADJUSTMENTS
HEDGES
ADJUSTMENT
SECURITIES 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 ---
--------
--------
--------
--------
--- ----
--------
-------
WEIGHTED
WEIGHTED
WEIGHTED
AVERAGE
AVERAGE
AVERAGE
EXERCISE
EXERCISE
EXERCISE
OPTIONS
PRICE
OPTIONS
PRICE
OPTIONS
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 ---
--------
--------
--------
--------
--- ----
--------
-------
WEIGHTED
WEIGHTED
WEIGHTED
AVERAGE
AVERAGE
AVERAGE
EXERCISE
EXERCISE
EXERCISE
OPTIONS
PRICE
OPTIONS
PRICE
OPTIONS
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 --
----------
----------
----------
- --------
----------
- WEIGHTED
AVERAGE
WEIGHTED
WEIGHTED
NUMBER
REMAINING
AVERAGE
NUMBER
AVERAGE
RANGE OF
OF
CONTRACTUAL
EXERCISE
OF
EXERCISE
EXERCISE
PRICES
OPTIONS
LIFE PRICE
OPTIONS
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 $402 million and $149 million at December 31, 2001 and 2000, respectively. The fair value of the plan assets was $306 million and $146 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 | $ 1,971 | $ 1,971 | $ 944 | $ 944 |
| 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).



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
RELOCATION
TIMESHARE
SECURITIES

MSR
RECEIVABLES
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
RELOCATION
TIMESHARE
SECURITIES
MSR(A)
RECEIVABLES
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 Company participates in acquisitions made by NRT by acquiring intangible assets and, in some cases, mortgage operations of the real estate brokerage firms acquired by NRT. 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, 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. 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. 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.

NRT's common stock is owned by Apollo. The Company owns all of NRT's preferred stock, which is mandatorily redeemable and, therefore, classified as an available-for-sale debt security and accounted for at fair value. 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. 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 and $2 million 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.

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.

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 an independent technology trust. 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.

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 upon the achievement of certain financial results beginning in October 2003 or upon a change of control of Trip Network. 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. 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.

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. In exchange for this contribution, 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 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. During 2001, the Company recognized dividend income of $6 million, which was paid-in-kind, related to its preferred equity interest in FFD. 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. 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. 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 other 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 to members of the Company's individual membership business that existed as of the

transaction date in exchange for a servicing fee and licenses and/or leases 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 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 retains the economic benefits and service obligations for 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, 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). The Company licensed various tradenames, trademarks, logos, service marks, and other intellectual property relating to its 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, the Company advanced approximately $100 million to support Trilegiant's marketing activities and made a $20 million convertible preferred stock investment in Trilegiant, which is convertible into approximately 20% of Trilegiant's common stock on a fully diluted basis. The Company expenses the marketing advance as Trilegiant incurs qualified marketing costs. During 2001, the Company expensed $66 million of the marketing advance. 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. Such amount is included as a component of operating expenses in the Company's Consolidated Statement of Operations. During 2001, the Company paid Trilegiant $128 million in connection with services provided under the outsourcing arrangement and Trilegiant collected $212 million of cash on the Company's behalf in connection with membership renewals.

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 participate in those commissions. 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 balance under this facility was $24 million. Such amount will be repaid to the Company 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, upon the achievement of certain financial results, 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-Registered Trademark- 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 investement 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 several 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. 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 limited to its equity ownership interest. 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.

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, provides fleet management and fuel card services and operates car parking facilities in the United Kingdom. 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
VEHICLE
TRAVEL
SERVICES

HOSPITALITY(A)
SERVICES
DISTRIBUTION
----------- -
-------------
------------
------------
Net
revenues(d) $
1,859 $ 1,522
$ 3,659 $ 437
Adjusted
EBITDA 939
513 403 108
Non-vehicle
depreciation
and
amortization
116 119 126
26 Total
assets
exclusive of
assets under
programs(c)
3,826 2,917
5,528 3,854
Assets under
management
and mortgage
programs
3,573 262
8,115 --
Capital
expenditures
41 70 94 22

FINANCIAL
CORPORATE
SERVICES(B)
AND
OTHER(C)
TOTAL -----
------ ----
-------- --
----------
Net
revenues(d)
$ 1,402 $
71 $ 8,950
Adjusted
EBITDA 310
(69) 2,204
Non-vehicle
depreciation
and
amortization
73 41 501
Total
assets
exclusive
of assets
under
programs(c)
1,611 3,766
21,502
Assets
under
management
and
mortgage
programs --
-- 11,950
Capital
expenditures
64 58 349

YEAR ENDED DECEMBER 31, 2000

| | REAL ESTATE SERVICES | HOSPITALITY(A) | VEHICLE SERVICES | TRAVEL DISTRIBUTION | FINANCIAL SERVICES(B) | CORPORATE AND OTHER(C) | TOTAL |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Net revenues(d) | $ 1,461 | $ 918 | $ 568 | $ 99 | $ 1,380 | $ 233 | $ 4,659 |
| Adjusted EBITDA | 752 | 385 | 306 | 10 | 373 | (101) | 1,725 |
| Non-vehicle depreciation and amortization | 103 | 80 | 52 | 2 | 59 | 56 | 352 |
| Total assets exclusive of assets under programs(c) | 3,262 | 1,906 | 2,694 | 22 | 1,525 | 2,802 | 12,211 |
| Assets under management and mortgage programs | 2,861 | -- | -- | -- | -- | -- | 2,861 |
| Capital expenditures | 39 | 38 | 55 | 1 | 74 | 39 | 246 |

YEAR ENDED DECEMBER 31, 1999

REAL ESTATE
VEHICLE
TRAVEL
SERVICES
HOSPITALITY(A)
SERVICES
DISTRIBUTION
----------- -
-------------
------------
------------
Net
revenues(d) $
1,383 $ 920 $
1,430 $ 91
Adjusted
EBITDA 727
420 364 7
Non-vehicle
depreciation
and
amortization
95 76 68 2
Total assets
exclusive of
assets under
programs(c)
3,225 1,908
2,762 21
Assets under
management
and mortgage
programs
2,726 -- -- -
- Capital
expenditures
69 51 62 1

FINANCIAL
CORPORATE
SERVICES(B)
AND
OTHER(C)
TOTAL -----
------ ----
-------- --
----------
Net
revenues(d)
$ 1,518 $
734 $ 6,076
Adjusted
EBITDA 305
96 1,919
Non-vehicle
depreciation
and
amortization
58 72 371
Total
assets
exclusive
of assets
under
programs(c)
1,415 3,092
12,423
Assets
under
management
and
mortgage
programs --
-- 2,726
Capital

expenditures
47 47 277

---------------------------------
(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) Net revenues include gains of $23 million, $33 million and $23 million during 2001, 2000 and 1999, respectively, on the sales of car parking facilities.

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

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

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
$2,204
$1,725 $
1,919 Non-
vehicle
depreciation
and
amortization
(501) (352)
(371) 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 (249)
(148) (199)
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 | $ 759 | $1,106 | $ (574) |

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 | $ 577 | $ 531 | $8,950 |
| Total assets | 28,386 | 2,049 | 3,017 | 33,452 |
| Net property and equipment | 1,229 | 637 | 85 | 1,951 |
| 2000 Net revenues | $ 3,955 | $ 500 | $ 204 | $4,659 |
| Total assets | 13,026 | 1,924 | 122 | 15,072 |
| Net property and equipment | 672 | 637 | 36 | 1,345 |
| 1999 Net revenues | $ 4,916 | $ 869 | $ 291 | $6,076 |
| Total | | | | |

| | | | | |
|---|---|---|---|---|
| assets | 11,722 | 3,215 | 212 | 15,149 |
| Net property and equipment | 590 | 723 | 34 | 1,347 |

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 | $ 1,486 | $ 2,403 | $ 2,481 | $ 2,580 |
| Adjusted EBITDA | $ 443 | $ 587 | $ 603 | $ 571 |
| Income (loss) from continuing operations | $ 277 | $ 242 | $ 210 | $ (307) |
| 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 $ 0.32 $ 0.29 $ 0.25 $ (0.31) Net income (loss) $ 0.28 $ 0.29 $ 0.25 $ (0.31) Weighted average shares 790 851 857 978 Diluted Income (loss) from continuing operations $ 0.30 $ 0.27 $ 0.23 $ (0.31) 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 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 | $ 1,128 | $ 1,137 | $ 1,225 | $ 1,169 |
| Adjusted EBITDA | $ 412 | $ 404 | $ 490 | $ 419 |
| Income from continuing operations | $ 127 | $ 175 | $ 214 | $ 145 |
| 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 $
0.18 $ 0.25
$ 0.30 $
0.20 Net
income $
0.10 $ 0.25
$ 0.30 $
0.20
Weighted
average
shares 717
722 725 731
Diluted
Income from
continuing
operations $
0.17 $ 0.24
$ 0.29 $
0.20 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 and $4 million ($2 million, after-tax) 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 interest 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 approximately $74 million of Trendwest net 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.

* * * *



EXHIBIT INDEX

EXHIBIT NO. DESCRIPTION
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- ----------
- 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) 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) 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).



EXHIBIT NO. DESCRIPTION
- ----------
- ----------
- 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 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). 4.15 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).



EXHIBIT NO. DESCRIPTION
- ----------
- ----------
- 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). 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).



EXHIBIT NO. DESCRIPTION - ----------- - ----------

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).

EXHIBIT NO. DESCRIPTION - ----------- - ----------
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).



EXHIBIT NO. DESCRIPTION - ----------- - ----------

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). 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).



EXHIBIT NO. DESCRIPTION - ----------- - ----------

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).



EXHIBIT NO. DESCRIPTION
- ----------
- ----------
- 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).



EXHIBIT NO. DESCRIPTION - ----------- - ----------
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

Pro Forma Financial Information for the year ended December 31, 2001.

Exhibit 4.2

CONFORMED

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CENDANT CORPORATION

TO

THE BANK OF NOVA SCOTIA TRUST COMPANY OF NEW YORK,

Trustee

---

Indenture

Dated as of February 24, 1998

---

CONVERTIBLE AND NON-CONVERTIBLE

SENIOR DEBT SECURITIES

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CENDANT CORPORATION

Reconciliation and tie between Trust Indenture Act
of 1939 and Indenture, dated as of January , 1998

| Trust Indenture Act Section | | Indenture |
|---|---|---|
| ss. 310(a)(1) | ........................................ | 607(a) |
| (a)(2) | ........................................ | 607(a) |
| (b) | ........................................ | 608 |
| ss. 312(c) | ........................................ | 701 |
| ss. 314(a) | ........................................ | 703 |
| (a)(4) | ........................................ | 1004 |
| (c)(1) | ........................................ | 102 |
| (c)(2) | ........................................ | 102 |
| (e) | ........................................ | 102 |
| ss. 315(b) | ........................................ | 601 |
| ss. 316(a)(last sentence) | ........................................ | 101 ("Outstanding") |
| (a)(1)(A) | ........................................ | 502, 512 |
| (a)(1)(B) | ........................................ | 513 |
| (b) | ........................................ | 508 |
| (c) | ........................................ | 104(e) |
| ss. 317(a)(1) | ........................................ | 503 |
| (a)(2) | ........................................ | 504 |
| (b) | ........................................ | 1003 |
| ss. 318(a) | ........................................ | 111 |

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Note: This reconciliation and tie shall not, for any purpose, be deemed to be a part of the Indenture.

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TESTIMONIUM

SIGNATURES AND SEALS

EXHIBIT A-1 FORM OF CERTIFICATE TO BE GIVEN BY PERSON ENTITLED TO RECEIVE BEARER SECURITY OR TO OBTAIN INTEREST PAYABLE PRIOR TO THE EXCHANGE DATE

EXHIBIT A-2 FORM OF CERTIFICATE TO BE GIVEN BY EUROCLEAR AND CEDEL S.A. IN CONNECTION WITH THE EXCHANGE OF A PORTION OF A TEMPORARY GLOBAL SECURITY OR TO OBTAIN INTEREST PAYABLE PRIOR TO THE EXCHANGE DATE

(1) NOTE: THIS TABLE OF CONTENTS SHALL NOT, FOR ANY PURPOSE, BE DEEMED TO BE A PART OF THE INDENTURE.



PARTIES

INDENTURE, dated as of February 24, 1998, between CENDANT CORPORATION, a corporation duly organized and existing under the laws of the State of Delaware (herein called the "Company"), having its principal office at

6 Sylvan Way, Parsippany, New Jersey 07054, and THE BANK OF NOVA SCOTIA TRUST COMPANY OF NEW YORK, a New York banking corporation duly organized and existing under the laws of the State of New York, as Trustee (herein called the "Trustee") having its principal office at One Liberty Plaza, 23rd Floor, New York, New York 10006.

RECITALS OF THE COMPANY

The Company has duly authorized the execution and delivery of this Indenture to provide for the issuance from time to time of its unsecured debentures, notes or other evidences of indebtedness (herein called the "Securities"), which may or may not be convertible into or exchangeable for any securities of any Person (including the Company), to be issued in one or more series as provided in this Indenture.

This Indenture is subject to the provisions of the Trust Indenture Act of 1939, as amended, that are required to be part of this Indenture and shall, to the extent applicable, be governed by such provisions.

All things necessary to make this Indenture a valid agreement of the Company, in accordance with its terms, have been done.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Securities or of any series thereof, as follows:

## ARTICLE I

## DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

### Section 1.1 DEFINITIONS.

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(1) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;

(2) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein, and the terms "cash transaction" and "self-liquidating paper", as used in TIA Section 311, shall have the

meanings assigned to them in the rules of the Commission adopted under the Trust Indenture Act;

(3) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles, and, except as otherwise herein expressly provided, the term "generally accepted accounting principles" with respect to any computation required or permitted hereunder shall mean such accounting principles as are generally accepted at the date of such computation; and

(4) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

Certain terms, used principally in Article Three, are defined in that Article.

"Act", when used with respect to any Holder, has the meaning specified in Section 104.

"Additional Amounts" has the meaning specified in Section 1005.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the

foregoing.

"Authenticating Agent" means any Person authorized by the Trustee to act on behalf of the Trustee to authenticate Securities.

"Authorized Newspaper" means a newspaper, in the English language or in an official language of the country of publication, customarily published on each Business Day, whether or not published on Saturdays, Sundays or holidays, and of general circulation in each place in connection with which the term is used or in the financial community of each such place. Where successive publications are required to be made in Authorized Newspapers, the successive publications may be made in the same or in different newspapers in the same city meeting the foregoing requirements and in each case on any Business Day.

"Bearer Security" means any Security except a Registered Security.

"Beneficial Owner" of shares of Capital Stock means, with respect to any Person, any such shares:

(a) which such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the sole or shared right to vote or dispose of or has "beneficial ownership" of (as determined pursuant to Rule 13d-3 promulgated under the Exchange Act or pursuant to any successor provision), including, but not limited to, pursuant to any agreement, arrangement or understanding, whether or not in writing; PROVIDED, that a Person shall not be deemed the "Beneficial Owner" of, or



to "Beneficially Own", any security under this subparagraph as a result of an agreement, arrangement or understanding to vote such security that both (y) arises solely from a revocable proxy given in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable provisions of the rules and regulations promulgated under the Exchange Act and (z) is not reportable by such person on Schedule 13D promulgated under the Exchange Act (or any comparable or successor report) without giving effect to any applicable waiting period, or Exchange Act (or any comparable or successor report) without giving effect to any applicable waiting period; or

(b) which are Beneficially Owned, directly or indirectly, by any other person (or any Affiliate or Associate thereof) with which such person (or any of such person's Affiliates or Associates) has any agreement, arrangement or understanding, whether or not in writing, for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in the proviso to subparagraph (a) above) or disposing of any Capital Stock;

PROVIDED, that (i) no director or officer of the Corporation (nor any Affiliate or Associate of any such director or officer) shall, solely by reason of any or all of such directors or officers acting in their capacities as such, be deemed the "Beneficial Owner" of or to "Beneficially Own" any shares of Capital Stock that are Beneficially Owned by any other such director or officer, and (ii) no person shall be deemed the "Beneficial Owner" of or to "Beneficially Own" any shares of Capital Stock held in any voting trust, any employee stock ownership plan or any similar plan or trust if such person does not possess the right to vote, to direct the voting of or to be consulted with respect to the voting of such shares.

For the purposes of this definition, the terms "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 promulgated under the Securities Exchange Act of 1934, as amended as in effect on June 14, 1996 (the term "registrant" in said Rule 12b-2 meaning in this case the Company).

"Board of Directors" means either the board of directors of the Company or any duly authorized committee of that board.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors (or a committee of the Board of Directors empowered to exercise all of the powers of the Board of Directors) and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Business Day" means each Monday, Tuesday, Wednesday, Thursday

and Friday which is not a day on which banking institutions in The City of New York or in the city in which the Corporate Trust Office is located are authorized or obligated by law or executive order to close.

"Capital Stock" means any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock of the Company or any Subsidiary.

"CEDEL S.A." means Cedel, S.A., or its successor.

"Commission" means the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934, or, if at any time after the execution of this



Indenture such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Common Depositary" has the meaning specified in Section 304.

"Company" means the Person named as the "Company" in the first paragraph of this Indenture until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean such successor Person.

"Company Request" or "Company Order" means a written request or order signed in the name of the Company by its Chairman, its President, any Vice President, its Treasurer or an Assistant Treasurer, and delivered to the Trustee.

"Corporate Trust Office" means the principal corporate trust office of the Trustee, at which at any particular time its corporate trust business shall be administered, which office on the date of execution of this Indenture is located at One Liberty Plaza, N.Y., N.Y., except that with respect to presentation of Securities for payment or for registration of transfer or exchange, such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate agency business shall be conducted.

"corporation" includes corporations, associations, companies and business trusts.

"coupon" means any interest coupon appertaining to a Bearer Security.

"Currency" means any currency or currencies, composite currency or currency unit or currency units, including, without limitation, the ECU, issued by the government of one or more countries or by any recognized confederation or association of such governments.

"Currency Conversion Date" has the meaning specified in Section 312(d).

"Currency Conversion Event" means the cessation of use of (i) a Foreign Currency both by the government of the country which issued such Currency and by a central bank or other public institution of or within the international banking community for the settlement of transactions, (ii) the ECU both within the European Monetary System and for the settlement of transactions by public institutions of or within the European Communities or (iii) any currency unit (or composite currency) other than the ECU for the purposes for which it was established.

"Debt" means notes, bonds, debentures or other similar evidences of indebtedness for money borrowed.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"Defaulted Interest" has the meaning specified in Section 307.

"Dollar" or "$" means a dollar or other equivalent unit in such coin or currency of the United States of America as at the time shall be legal tender for the payment of public and private debts.

"Dollar Equivalent of the Currency Unit" has the meaning specified in Section 312(g).

"Dollar Equivalent of the Foreign Currency" has the meaning specified in Section 312(f).

"ECU" means the European Currency Unit as defined and revised from time to time by the Council of the European Communities.

"Election Date" has the meaning specified in Section 312(h).

"Euroclear" means Morgan Guaranty Trust Company of New York, Brussels Office, or its successor as operator of the Euroclear System.

"European Communities" means the European Economic Community, the European Coal and Steel Community and the European Atomic Energy Community.

"European Monetary System" means the European Monetary System established by the Resolution of December 5, 1978 of the Council of the European Communities.

"Event of Default" has the meaning specified in Section 501.

"Exchange Date" has the meaning specified in Section 304.

"Exchange Rate Agent" means, with respect to Securities of or within any series, unless otherwise specified with respect to any Securities pursuant to Section 301, a New York Clearing House bank, designated pursuant to Section 301 or Section 313.

"Exchange Rate Officer's Certificate" means a tested telex or a certificate setting forth (i) the applicable Market Exchange Rate and (ii) the Dollar or Foreign Currency amounts of principal (and premium, if any) and interest, if any (on an aggregate basis and on the basis of a Security having the lowest denomination principal amount determined in accordance with Section 302 in the relevant Currency), payable with respect to a Security of any series on the basis of such Market Exchange Rate, sent (in the case of a telex) or signed (in the case of a certificate) by the Treasurer, any Vice President or any Assistant Treasurer of the Company.

"Federal Bankruptcy Code" means the Bankruptcy Act of Title 11 of the United States Code, as amended from time to time.

"Foreign Currency" means any Currency other than Currency of the United States.

"Government Obligations" means, unless otherwise specified with respect to any series of Securities pursuant to Section 301, securities which are (i) direct obligations of the government which issued the Currency in which the Securities of a particular series are payable or (ii) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the government which issued the Currency in which the Securities of such series are payable, the payment of which is unconditionally guaranteed by such government, which, in either case, are full faith and credit obligations of such government payable in such Currency and are not callable or redeemable at the option of the issuer thereof and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such Government



Obligation or a specific payment of interest on or principal of any such Government Obligation held by such custodian for the account of the holder of a depository receipt; PROVIDED that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the Government Obligation or the specific payment of interest or principal of the Government Obligation evidenced by such depository receipt.

"Holder" means, in the case of a Registered Security, the Person in whose name a Security is registered in the Security Register and, in the case of a Bearer Security, the bearer thereof and, when used with respect to any coupon, shall mean the bearer thereof.

"Indenture" means this instrument as originally executed and as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, and shall include the terms of any particular series of Securities established as contemplated by Section 301; PROVIDED, HOWEVER, that, if at any time more than one Person is acting as Trustee under this instrument, "Indenture" shall

mean, with respect to any one or more series of Securities for which such Person is Trustee, this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof and shall include the terms of particular series of Securities for which such Person is Trustee established as contemplated by Section 301, exclusive, however, of any provisions or terms which relate solely to other series of Securities for which such Person is not Trustee, regardless of when such terms or provisions were adopted, and exclusive of any provisions or terms adopted by means of one or more indentures supplemental hereto executed and delivered after such Person had become such Trustee but to which such Person, as such Trustee, was not a party.

"Indexed Security" means a Security the terms of which provide that the principal amount thereof payable at Stated Maturity may be more or less than the principal face amount thereof at original issuance.

"interest", when used with respect to an Original Issue Discount Security which by its terms bears interest only after Maturity, means interest payable after Maturity at the rate prescribed in such Original Issue Discount Security.

"Interest Payment Date", when used with respect to any Security, means the Stated Maturity of an installment of interest on such Security.

"Issue Date" with respect to a Security means the date of first issuance of such Security under this Indenture.

"Lien" means any pledge, mortgage, lien, charge, encumbrance or security interest except that a Lien shall not mean any license or right to use intellectual property of the Company or a Subsidiary granted by the Company or a Subsidiary.

"Market Exchange Rate" means, unless otherwise specified with respect to any Securities pursuant to Section 301, (i) for any conversion involving a currency unit on the one hand and Dollars or any Foreign Currency on the other, the exchange rate between the relevant currency unit and Dollars or such Foreign Currency calculated by the method specified pursuant to Section 301 for the Securities of the relevant series, (ii) for any conversion of Dollars into any Foreign Currency, the noon (New York City time) buying



rate for such Foreign Currency for cable transfers quoted in New York City as certified for customs purposes by the Federal Reserve Bank of New York and (iii) for any conversion of one Foreign Currency into Dollars or another Foreign Currency, the spot rate at noon local time in the relevant market at which, in accordance with normal banking procedures, the Dollars or Foreign Currency into which conversion is being made could be purchased with the Foreign Currency from which conversion is being made from major banks located in either New York City, London or any other principal market for Dollars or such purchased Foreign Currency, in each case determined by the Exchange Rate Agent. Unless otherwise specified with respect to any Securities pursuant to Section 301, in the event of the unavailability of any of the exchange rates provided for in the foregoing clauses (i), (ii) and (iii), the Exchange Rate Agent shall use, in its sole discretion and without liability on its part, such quotation of the Federal Reserve Bank of New York as of the most recent available date, or quotations from one or more major banks in New York City, London or another principal market for the Currency in question, or such other quotations as the Exchange Rate Agent shall deem appropriate. Unless otherwise specified by the Exchange Rate Agent, if there is more than one market for dealing in any Currency by reason of foreign exchange regulations or otherwise, the market to be used in respect of such Currency shall be that upon which a non-resident issuer of securities designated in such Currency would purchase such Currency in order to make payments in respect of such securities.

"Maturity", when used with respect to any Security, means the date on which the principal of such Security or an installment of principal becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, notice of redemption, notice of option to elect repayment or otherwise.

"Officers' Certificate" means a certificate signed by the Chairman, the President or a Vice President, and by the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary of the Company, and delivered to the Trustee.

"Opinion of Counsel" means a written opinion of counsel, who may be counsel for the Company, including an employee of the Company, and who

shall be acceptable to the Trustee.

"Optional Reset Date" has the meaning specified in Section 307(b).

"Original Issue Discount Security" means any Security which provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 502.

"Outstanding", when used with respect to Securities, means, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, EXCEPT:

(i) Securities theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;

(ii) Securities, or portions thereof, for whose payment or redemption or repayment at the option of the Holder money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities and any coupons appertaining thereto; PROVIDED that, if such



Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made;

(iii) Securities, except to the extent provided in Sections 1402 and 1403, with respect to which the Company has effected defeasance and/or covenant defeasance as provided in Article Fourteen; and

(iv) Securities which have been paid pursuant to Section 306 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Securities are held by a bona fide purchaser in whose hands such Securities are valid obligations of the Company;

PROVIDED, HOWEVER, that in determining whether the Holders of the requisite principal amount of the Outstanding Securities have given any request, demand, authorization, direction, notice, consent or waiver hereunder or are present at a meeting of Holders for quorum purposes, and for the purpose of making the calculations required by TIA Section 313, (i) the principal amount of an Original Issue Discount Security that may be counted in making such determination or calculation and that shall be deemed to be Outstanding for such purpose shall be equal to the amount of principal thereof that would be (or shall have been declared to be) due and payable, at the time of such determination, upon a declaration of acceleration of the maturity thereof pursuant to Section 502, (ii) the principal amount of any Security denominated in a Foreign Currency that may be counted in making such determination or calculation and that shall be deemed Outstanding for such purpose shall be equal to the Dollar equivalent, determined as of the date such Security is originally issued by the Company as set forth in an Exchange Rate Officer's Certificate delivered to the Trustee, of the principal amount (or, in the case of an Original Issue Discount Security, the Dollar equivalent as of such date of original issuance of the amount determined as provided in clause (i) above), of such Security, (iii) the principal amount of any Indexed Security that may be counted in making such determination or calculation and that shall be deemed outstanding for such purpose shall be equal to the principal face amount of such Indexed Security at original issuance, unless otherwise provided with respect to such Security pursuant to Section 301, and (iv) Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in making such calculation or in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Securities which the Trustee knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or such other obligor.

"Paying Agent" means any Person (including the Company acting

as Paying Agent) authorized by the Company to pay the principal of (or premium, if any, on) or interest on any Securities on behalf of the Company.

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.



"Place of Payment" means, when used with respect to the Securities of or within any series, the place or places where the principal of (and premium, if any, on) and interest on such Securities are payable as specified as contemplated by Sections 301 and 1002.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 306 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security or a Security to which a mutilated, destroyed, lost or stolen coupon appertains shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Security or the Security to which the mutilated, destroyed, lost or stolen coupons appertains, as the case may be.

"Principal Property" means any reservation centers, leaseholds, telecommunications contracts, computerized systems contracts, intellectual property rights, or Franchise Contracts, owned by the Company or any Subsidiary and located in the United States, the gross book value (without deduction of any reserve for depreciation) of which on the date as of which the determination is being made is an amount which exceeds 5% of Total Assets, other than any such property which, in the opinion of the Board of Directors, is not of material importance to the total business conducted by the Company and its Subsidiaries, taken as a whole.

"Redemption Date", when used with respect to any Security to be redeemed, in whole or in part, means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price", when used with respect to any Security to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

"Registered Security" means any Security registered in the Security Register.

"Regular Record Date" for the interest payable on any Interest Payment Date on the Registered Securities of or within any series means the date specified for that purpose as contemplated by Section 301.

"Repayment Date" means, when used with respect to any Security to be repaid at the option of the Holder, the date fixed for such repayment pursuant to this Indenture.

"Repayment Price" means, when used with respect to any Security to be repaid at the option of the Holder, the price at which it is to be repaid pursuant to this Indenture.

"Responsible Officer", when used with respect to the Trustee, means the chairman or any vice- chairman of the board of directors, the chairman or any vice-chairman of the executive committee of the board of directors, the chairman of the trust committee, the president, any vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, the cashier, any assistant cashier, any trust officer or assistant trust officer, the controller or any assistant controller or any other officer of the Trustee customarily performing functions similar to those performed by any of the above-designated officers, and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.



"Securities" has the meaning stated in the first recital of this Indenture and more particularly means any Securities authenticated and delivered under this Indenture; PROVIDED, HOWEVER, that if at any time there is more than one Person acting as Trustee under this Indenture, "Securities" with respect to the Indenture as to which such Person is Trustee shall have the meaning stated in the first recital of this Indenture and shall more

particularly mean Securities authenticated and delivered under this Indenture, exclusive, however, of Securities of any series as to which such Person is not Trustee.

"Security Register" and "Security Registrar" have the respective meanings specified in Section 305.

"Special Record Date" for the payment of any Defaulted Interest on the Registered Securities of or within any series means a date fixed by the Trustee pursuant to Section 307.

"Stated Maturity", when used with respect to any Security or any installment of principal thereof or interest thereon, means the date specified in such Security or a coupon representing such installment of interest as the fixed date on which the principal of such Security or such installment of principal or interest is due and payable, as such date may be extended pursuant to the provisions of Section 308.

"Subordinated Indenture" means the indenture to be entered into between the Company and The Bank of Nova Scotia Trust Company of New York in connection with the January 1998 shelf registration of the Company.

"Subsidiary" means any corporation of which at the time of determination the Company, directly and/or indirectly through one or more Subsidiaries, owns more than 50% of the shares of Voting Stock.

"Total Assets" means the total amount of assets (less applicable reserves and other properly deductible items), as set forth on the most recent balance sheet of the Company and its consolidated Subsidiaries and computed in accordance with generally accepted accounting principles.

"Trust Indenture Act" or "TIA" means the Trust Indenture Act of 1939 as in force at the date as of which this Indenture was executed, except as provided in Section 905.

"Trustee" means the Person named as the "Trustee" in the first paragraph of this Indenture until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean or include each Person who is then a Trustee hereunder; PROVIDED, HOWEVER, that if at any time there is more than one such Person, "Trustee" as used with respect to the Securities of any series shall mean only the Trustee with respect to Securities of that series.

"United States" means, unless otherwise specified with respect to any Securities pursuant to Section 301, the United States of America (including the states and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction.

"United States person" means, unless otherwise specified with respect to any Securities pursuant to Section 301, an individual who is a citizen or resident of the United States, a corporation,



partnership or other entity created or organized in or under the laws of the United States or an estate or trust the income of which is subject to United States federal income taxation regardless of its source.

"Valuation Date" has the meaning specified in Section 312(c).

"Vice President", when used with respect to the Company or the Trustee, means any vice president, whether or not designated by a number or a word or words added before or after the title "vice president".

"Voting Stock" means stock of the class or classes having general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees of a corporation (irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

"Yield to Maturity" means the yield to maturity, computed at the time of issuance of a Security (or, if applicable, at the most recent redetermination of interest on such Security) and as set forth in such Security in accordance with generally accepted United States bond yield computation principles.

Section 1.2 COMPLIANCE CERTIFICATES AND OPINIONS.

Upon any application or request by the Company to the Trustee

to take any action under any provision of this Indenture, the Company shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent, if any, provided for in this Indenture (including any covenant compliance with which constitutes a condition precedent) relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application or request, including, without limitation, the certificate of authentication provided pursuant to Section 303, no additional certificate or opinion need be furnished.

Every certificate or opinion with respect to compliance with a covenant or condition provided for in this Indenture (other than pursuant to Section 1004) shall include:

(1) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of each such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether, in the opinion of each such individual, such covenant or condition has been complied with.



Section 1.3 FORM OF DOCUMENTS DELIVERED TO TRUSTEE.

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Section 1.4 ACTS OF HOLDERS.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders of the Outstanding Securities of all series or one or more series, as the case may be, may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agents duly appointed in writing. If Securities of a series are issuable as Bearer Securities, any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders of such series may, alternatively, be embodied in and evidenced by the record of Holders of Securities of such series voting in favor thereof, either in person or by proxies duly appointed in writing, at any meeting of Holders of Securities of such series duly called and held in accordance with the provisions of Article Fifteen, or a combination of such instruments and any such record. Except as herein otherwise expressly

provided, such action shall become effective when such instrument or instruments or record or both are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments and any such record (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments or so voting at any such meeting. Proof of execution of any such instrument or of a writing appointing any such agent, or of the holding by any Person of a Security, shall be sufficient for any purpose of this Indenture and conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section. The record of any meeting of Holders of Securities shall be proved in the manner provided in Section 1506.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual



signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

(c) The principal amount and serial numbers of Registered Securities held by any Person, and the date of holding the same, shall be proved by the Security Register.

(d) The principal amount and serial numbers of Bearer Securities held by any Person, and the date of holding the same, may be proved by the production of such Bearer Securities or by a certificate executed, as depositary, by any trust company, bank, banker or other depositary, wherever situated, if such certificate shall be deemed by the Trustee to be satisfactory, showing that at the date therein mentioned such Person had on deposit with such depositary, or exhibited to it, the Bearer Securities therein described; or such facts may be proved by the certificate or affidavit of the Person holding such Bearer Securities, if such certificate or affidavit is deemed by the Trustee to be satisfactory. The Trustee and the Company may assume that such ownership of any Bearer Security continues until (1) another certificate or affidavit bearing a later date issued in respect of the same Bearer Security is produced, or (2) such Bearer Security is produced to the Trustee by some other Person, or (3) such Bearer Security is surrendered in exchange for a Registered Security, or (4) such Bearer Security is no longer Outstanding. The principal amount and serial numbers of Bearer Securities held by any Person, and the date of holding the same, may also be proved in any other manner which the Trustee deems sufficient.

(e) If the Company shall solicit from the Holders of Registered Securities any request, demand, authorization, direction, notice, consent, waiver or other Act, the Company may, at its option, by or pursuant to Board Resolution, fix in advance a record date for the determination of Holders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other Act, but the Company shall have no obligation to do so. Notwithstanding TIA Section 316(c), such record date shall be the record date specified in or pursuant to such Board Resolution, which shall be a date not earlier than the date 30 days prior to the first solicitation of Holders generally in connection therewith and not later than the date such solicitation is completed. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other Act may be given before or after such record date, but only the Holders of record at the close of business on such record date shall be deemed to be Holders for the purposes of determining whether Holders of the requisite proportion of Outstanding Securities have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other Act, and for that purpose the Outstanding Securities shall be computed as of such record date; PROVIDED that no such authorization, agreement or consent by the Holders on such record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture not later than eleven months after the record date.

(f) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.



Section 1.5 NOTICES, ETC. TO TRUSTEE AND COMPANY.

Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other documents provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee by any Holder or by the Company shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, or

(2) the Company by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first- class postage prepaid, to the Company addressed to it at the address of its principal office specified in the first paragraph of this Indenture or at any other address previously furnished in writing to the Trustee by the Company.

Section 1.6 NOTICE TO HOLDERS; WAIVER.

Where this Indenture provides for notice of any event to Holders of Registered Securities by the Company or the Trustee, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each such Holder affected by such event, at his address as it appears in the Security Register within the time prescribed for the giving of such notice. In any case where notice to Holders of Registered Securities is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders of Registered Securities or the sufficiency of any notice to Holders of Bearer Securities given as provided. Any notice mailed to a Holder in the manner herein prescribed shall be conclusively deemed to have been received by such Holder, whether or not such Holder actually receives such notice.

In case, by reason of the suspension of or irregularities in regular mail service or by reason of any other cause, it shall be impractical to mail notice of any event to Holders of Registered Securities when such notice is required to be given pursuant to any provision of this Indenture, then any manner of giving such notice as shall be satisfactory to the Trustee shall be deemed to be sufficient giving of such notice for every purpose hereunder.

Except as otherwise expressly provided herein or otherwise specified with respect to any Securities pursuant to Section 301, where this Indenture provides for notice to Holders of Bearer Securities of any event, such notice shall be sufficiently given to Holders of Bearer Securities if published in an Authorized Newspaper in The City of New York and in such other city or cities as may be specified in such Securities on a Business Day at least twice, the first such publication to be not earlier than the earliest date, and not later than the latest date, prescribed for the giving of such notice. Any such notice shall be deemed to have been given on the date of the first such publication.

In case by reason of the suspension of publication of any Authorized Newspaper or Authorized Newspapers or by reason of any other cause it shall be impracticable to publish any notice to Holders of Bearer Securities as provided above, then such notification to Holders of Bearer Securities as shall be given



with the approval of the Trustee shall constitute sufficient notice to such Holders for every purpose hereunder. Neither the failure to give notice by publication to Holders of Bearer Securities as provided above, nor any defect in any notice so published, shall affect the sufficiency of such notice with respect to other Holders of Bearer Securities or the sufficiency of any notice

to Holders of Registered Securities given as provided herein.

Any request, demand, authorization, direction, notice, consent or waiver required or permitted under this Indenture shall be in the English language, except that any published notice may be in an official language of the country of publication.

Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Section 1.7 EFFECT OF HEADINGS AND TABLE OF CONTENTS.

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 1.8 SUCCESSORS AND ASSIGNS.

All covenants and agreements in this Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

Section 1.9 SEPARABILITY CLAUSE.

In case any provision in this Indenture or in any Security or coupon shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 1.10 BENEFITS OF INDENTURE.

Nothing in this Indenture or in the Securities or coupons, express or implied, shall give to any Person, other than the parties hereto, any Authenticating Agent, any Paying Agent, any Securities Registrar and their successors hereunder and the Holders of Securities or coupons, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 1.11 GOVERNING LAW.

THIS INDENTURE AND THE SECURITIES AND COUPONS SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK. THIS INDENTURE IS SUBJECT TO THE PROVISIONS OF THE TRUST INDENTURE ACT OF 1939, AS AMENDED, THAT ARE REQUIRED TO BE PART OF THIS INDENTURE AND SHALL, TO THE EXTENT APPLICABLE, BE GOVERNED BY SUCH PROVISIONS.



Section 1.12 LEGAL HOLIDAYS.

In any case where any Interest Payment Date, Redemption Date, sinking fund payment date or Stated Maturity or Maturity of any Security shall not be a Business Day at any Place of Payment, then (notwithstanding any other provision of this Indenture or of any Security or coupon other than a provision in the Securities of any series which specifically states that such provision shall apply in lieu of this Section) payment of interest or principal (and premium, if any) need not be made at such Place of Payment on such date, but may be made on the next succeeding Business Day at such Place of Payment with the same force and effect as if made on the Interest Payment Date or Redemption Date or sinking fund payment date, or at the Stated Maturity or Maturity; PROVIDED that no interest shall accrue for the period from and after such Interest Payment Date, Redemption Date, sinking fund payment date, Stated Maturity or Maturity, as the case may be.

Section 1.13 TRUST INDENTURE ACT.

This Indenture is subject to the provisions of the Trust Indenture Act that are required to be part of this Indenture and shall, to the extent applicable, be governed by such provisions.

ARTICLE II

SECURITY FORMS

Section 2.1 FORMS GENERALLY.

The Registered Securities, if any, of each series and the Bearer Securities, if any, of each series and related coupons shall be in

substantially the forms as shall be established by or pursuant to a Board Resolution or in one or more indentures supplemental hereto, in each case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or as may, consistently herewith, be determined by the officers executing such Securities or coupons, as evidenced by their execution of the Securities or coupons. If the forms of Securities or coupons of any series are established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Company Order contemplated by Section 303 for the authentication and delivery of such Securities or coupons. Any portion of the text of any Security may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Security.

Unless otherwise specified as contemplated by Section 301, Securities in bearer form shall have interest coupons attached.

The Trustee's certificate of authentication on all Securities shall be in substantially the form set forth in this Article.

The definitive Securities and coupons shall be printed, lithographed or engraved on steel- engraved borders or may be produced in any other manner, all as determined by the officers of the Company executing such Securities, as evidenced by their execution of such Securities or coupons.



Section 2.2 FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION.

Subject to Section 611, the Trustee's certificate of authentication shall be in substantially the following form:

This is one of the Securities of the series designated therein referred to in the within- mentioned Indenture.

THE BANK OF NOVA SCOTIA TRUST
COMPANY OF NEW YORK,
as Trustee

By________________________
Authorized Officer

Section 2.3 SECURITIES ISSUABLE IN GLOBAL FORM.

If Securities of or within a series are issuable in global form, as specified as contemplated by Section 301, then, notwithstanding clause (8) of Section 301, any such Security shall represent such of the Outstanding Securities of such series as shall be specified therein and may provide that it shall represent the aggregate amount of Outstanding Securities of such series from time to time endorsed thereon and that the aggregate amount of Outstanding Securities of such series represented thereby may from time to time be increased or decreased to reflect exchanges. Any endorsement of a Security in global form to reflect the amount, or any increase or decrease in the amount, of Outstanding Securities represented thereby shall be made by the Trustee in such manner and upon instructions given by such Person or Persons as shall be specified therein or in the Company Order to be delivered to the Trustee pursuant to Section 303 or Section 304. Subject to the provisions of Section 303 and, if applicable, Section 304, the Trustee shall deliver and redeliver any Security in permanent global form in the manner and upon instructions given by the Person or Persons specified therein or in the applicable Company Order. If a Company Order pursuant to Section 303 or Section 304 has been, or simultaneously is, delivered, any instructions by the Company with respect to endorsement or delivery or redelivery of a Security in global form shall be in writing but need not comply with Section 102 and need not be accompanied by an Opinion of Counsel.

The provisions of the last sentence of Section 303 shall apply to any Security represented by a Security in global form if such Security was never issued and sold by the Company and the Company delivers to the Trustee the Security in global form together with written instructions (which need not comply with Section 102 and need not be accompanied by an Opinion of Counsel) with regard to the reduction in the principal amount of Securities represented thereby, together with the written statement contemplated by the last sentence

of Section 303.

Notwithstanding the provisions of Section 307, unless otherwise specified as contem plated by Section 301, payment of principal of and any premium and interest on any Security in permanent global form shall be made to the Person or Persons specified therein.



Notwithstanding the provisions of Section 309 and except as provided in the preceding paragraph, the Company, the Trustee and any agent of the Company and the Trustee shall treat as the Holder of such principal amount of Outstanding Securities represented by a permanent global Security (i) in the case of a permanent global Security in registered form, the Holder of such permanent global Security in registered form, or (ii) in the case of a permanent global Security in bearer form, Euroclear or CEDEL as specified by the common depositary for such global securities.

ARTICLE III

THE SECURITIES

Section 3.1 AMOUNT UNLIMITED; ISSUABLE IN SERIES.

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture and the Subordinated Indenture is unlimited.

The Securities may be issued in one or more series. There shall be established in one or more Board Resolutions or pursuant to authority granted by one or more Board Resolutions and, subject to Section 303, set forth in, or determined in the manner provided in, an Officers' Certificate, or established in one or more indentures supplemental hereto, prior to the issuance of Securities of any series, any or all of the following, as applicable (each of which (except for the matters set forth in clauses (1), (2) and (17) below), if so provided, may be determined from time to time by the Company with respect to unissued Securities of the series and set forth in such Securities of the series when issued from time to time):

(1) the title of the Securities of the series (which shall distinguish the Securities of the series from all other series of Securities);

(2) any limit upon the aggregate principal amount of the Securities of the series that may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of the series pursuant to Section 304, 305, 306, 906, 1107 or 1305);

(3) the date or dates, or the method by which such date or dates will be determined or extended, on which the principal of the Securities of the series is payable;

(4) the rate or rates at which the Securities of the series shall bear interest, if any, or the method by which such rate or rates shall be determined, the date or dates from which such interest shall accrue, or the method by which such date or dates shall be determined, the Interest Payment Dates on which such interest shall be payable and the Regular Record Date, if any, for the interest payable on any Registered Security on any Interest Payment Date, or the method by which such date or dates shall be determined, and the basis upon which interest shall be calculated if other than on the basis of a 360-day year of twelve 30-day months;

(5) the place or places, if any, other than or in addition to the Borough of Manhattan, The City of New York, where the principal of (and premium, if any, on) and



any interest on Securities of the series shall be payable, any Registered Securities of the series may be surrendered for registration of transfer, Securities of the series may be surrendered for exchange and, if different than the location specified in Section 106, the place or places where notices or demands to or upon the Company in respect of the Securities of the series and this Indenture may be served;

(6) the period or periods within which, the price or prices at which, the Currency in which, and other terms and conditions upon which Securities of the series may be redeemed, in whole or in part, at the option of the Company, if the Company is to have that option;

(7) the obligation, if any, of the Company to redeem, repay or purchase Securities of the series pursuant to any sinking fund or analogous provision or at the option of a Holder thereof, and the period or periods within which, the price or prices at which, the Currency in which, and other terms and conditions upon which Securities of the series shall be redeemed, repaid or purchased, in whole or in part, pursuant to such obligation;

(8) if other than denominations of $1,000 and any integral multiple thereof, the denominations in which any Registered Securities of the series shall be issuable and, if other than the denomination of $5,000, the denomination or denominations in which any Bearer Securities of the series shall be issuable;

(9) if other than the Trustee, the identity of each Security Registrar and/or Paying Agent;

(10) if other than the principal amount thereof, the portion of the principal amount of Securities of the series that shall be payable upon declaration of acceleration of the Maturity thereof pursuant to Section 502 or the method by which such portion shall be determined;

(11) if other than Dollars, the Currency in which payment of the principal of (and premium, if any, on) or interest, if any, on the Securities of the series shall be payable or in which the Securities of the series shall be denominated and the particular provisions applicable thereto in accordance with, in addition to or in lieu of any of the provisions of Section 312;

(12) whether the amount of payments of principal of (and premium, if any, on) or interest on the Securities of the series may be determined with reference to an index, formula or other method (which index, formula or method may be based, without limita tion, on one or more Currencies, commodities, equity indices or other indices), and the manner in which such amounts shall be determined;

(13) whether the principal of (and premium, if any, on) and interest, if any, on the Securities of the series are to be payable, at the election of the Company or a Holder thereof, in a Currency other than that in which such Securities are denominated or stated to be payable, the period or periods within which (including the Election Date), and the terms



and conditions upon which, such election may be made, and the time and manner of determining the exchange rate between the Currency in which such Securities are denomi nated or stated to be payable and the Currency in which such Securities are to be so payable, in each case in accordance with, in addition to or in lieu of any of the provisions of Section 312;

(14) the designation of the initial Exchange Rate Agent, if any;

(15) any provisions in modification of, in addition to or in lieu of the provisions of Article Fourteen that shall be applicable to the Securities of the series;

(16) provisions, if any, granting special rights to the Holders of Securities of the series upon the occurrence of such events as may be specified;

(17) any deletions from, modifications of or additions to the Events of Default or covenants of the Company with respect to Securities of the series, whether or not such Events of Default or covenants are consistent with the Events of Default or covenants set forth herein;

(18) whether Securities of the series are to be issuable as Registered Securities, Bearer Securities (with or without coupons) or both, any restrictions applicable to the offer, sale or delivery of

Bearer Securities, whether any Securities of the series are to be issuable initially in temporary global form and whether any Securities of the series are to be issuable in permanent global form with or without coupons and, if so, whether benefi cial owners of interests in any such permanent global Security may exchange such interests for Securities of such series and of like tenor of any authorized form and denomination and the circumstances under which any such exchanges may occur, if other than in the manner provided in Section 305, whether Registered Securities of the series may be exchanged for Bearer Securities of the series (if permitted by applicable laws and regulations), whether Bearer Securities of the series may be exchanged for Registered Securities of the series, and the circumstances under which and the place or places where such exchanges may be made and if Securities of the series are to be issuable in global form, the identity of any initial depository therefor;

(19) the date as of which any Bearer Securities of the series and any temporary global Security representing Outstanding Securities of the series shall be dated if other than the date of original issuance of the first Security of the series to be issued;

(20) the Person to whom any interest on any Registered Security of the series shall be payable, if other than the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, the manner in which, or the Person to whom, any interest on any Bearer Security of the series shall be payable, if otherwise than upon presentation and surrender of the coupons appertaining thereto as they severally mature, and the extent to which, or the manner in which, any interest payable on a temporary global Security on an Interest Payment Date will be paid if other than in the manner provided in Section 304;



(21) if Securities of the series are to be issuable in definitive form (whether upon original issue or upon exchange of a temporary Security of such series) only upon receipt of certain certificates or other documents or satisfaction of other conditions, the form and/or terms of such certificates, documents or conditions;

(22) if the Securities of the series are to be issued upon the exercise of warrants or upon the conversion or exchange of other securities, the time, manner and place for such Securities to be authenticated and delivered;

(23) whether and under what circumstances the Company will pay Additional Amounts as contemplated by Section 1005 on the Securities of the series to any Holder who is not a United States person (including any modification to the definition of such term) in respect of any tax, assessment or governmental charge and, if so, whether the Company will have the option to redeem such Securities rather than pay such Additional Amounts (and the terms of any such option);

(24) if the Securities of the series are to be convertible into or exchangeable for any securities of any Person (including the Company), the terms and conditions upon which such Securities will be so convertible or exchangeable;

(25) any other terms, conditions, rights and preferences (or limitations on such rights and preferences) relating to the series (which terms shall not be inconsistent with the requirements of the Trust Indenture Act or the provisions of this Indenture).

All Securities of any one series and the coupons appertaining to any Bearer Securities of such series shall be substantially identical except, in the case of Registered Securities, as to denomination and except as may otherwise be provided in or pursuant to such Board Resolution (subject to Section 303) and set forth in such Officers' Certificate or in any such indenture supplemental hereto. Not all Securities of any one series need be issued at the same time, and, unless otherwise provided, a series may be reopened for issuances of additional Securities of such series.

If any of the terms of the series are established by action taken pursuant to one or more Board Resolutions, such Board Resolutions shall be delivered to the Trustee at or prior to the delivery of the Officers' Certificate setting forth the terms of the series.

Section 3.2 DENOMINATIONS.

All Securities shall be issuable in such denominations as shall be specified as contem plated by Section 301. With respect to Securities of any series denominated in Dollars, in the absence of any such provisions, the Registered Securities of such series, other than Registered Securities issued in global form (which may be of any denomination), shall be issuable in denominations of $1,000 and any integral multiple thereof and the Bearer Securities of such Series, other than the Bearer Securities issued in global form (which may be of any denomination), shall be issuable in a denomination of $5,000.



Section 3.3 EXECUTION, AUTHENTICATION, DELIVERY AND DATING.

The Securities and any coupons appertaining thereto shall be executed on behalf of the Company by its Chairman, its President or a Vice President, under its corporate seal reproduced thereon attested by its Secretary or an Assistant Secretary. The signature of any of these officers on the Securities or coupons may be the manual or facsimile signatures of the present or any future such authorized officer and may be imprinted or otherwise reproduced on the Securities.

Securities or coupons bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities or coupons.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities of any series together with any coupon appertaining thereto, executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Securities, and the Trustee in accordance with such Company Order shall authenticate and deliver such Securities; PROVIDED, HOWEVER, that, in connection with its original issuance, no Bearer Security shall be mailed or otherwise delivered to any location in the United States; and PROVIDED FURTHER that, unless otherwise specified with respect to any series of Securities pursuant to Section 301, a Bearer Security may be delivered in connection with its original issuance only if the Person entitled to receive such Bearer Security shall have furnished a certificate in the form set forth in Exhibit A-1 to this Indenture, dated no earlier than 15 days prior to the earlier of the date on which such Bearer Security is delivered and the date on which any temporary Security first becomes exchangeable for such Bearer Security in accordance with the terms of such temporary Security and this Indenture. If any Security shall be represented by a permanent global Bearer Security, then, for purposes of this Section and Section 304, the notation of a beneficial owner's interest therein upon original issuance of such Security or upon exchange of a portion of a temporary global Security shall be deemed to be delivered in connection with its original issuance of such beneficial owner's interest in such permanent global Security. Except as permitted by Section 306, the Trustee shall not authenticate and deliver any Bearer Security unless all appurtenant coupons for interest then matured have been detached and cancelled. If not all the Securities of any series are to be issued at one time and if the Board Resolution or supplemental indenture establishing such series shall so permit, such Company Order may set forth procedures acceptable to the Trustee for the issuance of such Securities and determining terms of particular Securities of such series such as interest rate, maturity date, date of issuance and date from which interest shall accrue.

In authenticating such Securities, and accepting the additional responsibilities under this Indenture in relation to such Securities, the Trustee shall be entitled to receive, and (subject to TIA Sections 315(a) through 315(d)) shall be fully protected in relying upon, an Opinion of Counsel stating:

(a) that the form or forms of such Securities and any coupons have been established in conformity with the provisions of this Indenture;

(b) that the terms of such Securities and any coupons have been established in conformity with the provisions of this Indenture;

(c) that such Securities, together with any coupons appertaining thereto, when completed by appropriate insertions and executed and delivered by the Company to the Trustee for authentication in accordance with this Indenture, authenticated and delivered by the Trustee in accordance with this Indenture and issued by the Company in the manner and subject to any conditions specified in such Opinion of Counsel, will constitute the legal, valid and binding obligations of the Company, enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency, reorganization and other similar laws of general applicability relating to or affecting the enforcement of creditors' rights, to general equitable principles and to such other qualifications as such counsel shall conclude do not materially affect the rights of Holders of such Securities and any coupons;

(d) that all laws and requirements in respect of the execution and delivery by the Company of such Securities, any coupons and of the supplemental indentures, if any, have been complied with (except for the federal securities laws, the Trust Indenture Act of 1939, as amended, and the securities or blue sky laws of the various states, as to which no opinion need be expressed) and that authentication and delivery of such Securities and any coupons and the execution and delivery of the supplemental indenture, if any, by the Trustee will not violate the terms of the Indenture;

(e) that the Company has the corporate power to issue such Securities and any coupons, and has duly taken all necessary corporate action with respect to such issuance; and

(f) that the issuance of such Securities and any coupons will not contravene the articles of incorporation or by-laws of the Company or result in any violation of any of the terms or provisions of any law or regulation or of any indenture, mortgage or other agreement known to such Counsel by which the Company is bound.

Notwithstanding the provisions of Section 301 and of the preceding two paragraphs, if less than all the Securities of any series are to be issued at one time, it shall not be necessary to deliver the Officers' Certificate otherwise required pursuant to Section 301 or the Company Order and Opinion of Counsel otherwise required pursuant to the preceding two paragraphs prior to or at the time of issuance of each Security, but such documents shall be delivered prior to or at the time of issuance of the first Security of such series.

The Trustee shall not be required to authenticate and deliver any such Securities if the issue of such Securities pursuant to this Indenture will affect the Trustee's own rights, duties or immuni ties under the Securities and this Indenture or otherwise in a manner which is not reasonably acceptable to the Trustee.

Each Registered Security shall be dated the date of its authentication; and each Bearer Security shall be dated as of the date specified as contemplated by Section 301.

No Security or coupon shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substan tially in the form provided for herein duly executed by the Trustee by manual signature of an authorized officer, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder and is entitled to the benefits of this



Indenture. Notwithstanding the foregoing, if any Security shall have been authenticated and delivered hereunder but never issued and sold by the Company, and the Company shall deliver such Security to the Trustee for cancellation as provided in Section 310 together with a written statement (which need not comply with Section 102 and need not be accompanied by an Opinion of Counsel) stating that such Security has never been issued and sold by the Company, for all purposes of this Indenture such Security shall be deemed never to have been authenticated and delivered hereunder and shall never be entitled to the benefits of this Indenture.

Section 3.4 TEMPORARY SECURITIES.

Pending the preparation of definitive Securities of any series, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomina

tion, substantially of the tenor of the definitive Securities in lieu of which they are issued, in registered form or, if authorized, in bearer form with one or more coupon or without coupons, and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as conclusively evidenced by their execution of such Securities. In the case of Securities of any series, such temporary Securities may be in global form.

Except in the case of temporary Securities in global form (which shall be exchanged in accordance with the provisions of the following paragraphs), if temporary Securities of any series are issued, the Company will cause definitive Securities of that series to be prepared without unreasonable delay. After the preparation of definitive Securities of such series, the temporary Securities of such series shall be exchangeable for definitive Securities of such series, upon surrender of the temporary Securities of such series at the office or agency of the Company in a Place of Payment for that series, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities of any series (accompanied by any unmatured coupons appertaining thereto), the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a like principal amount of definitive Securities of the same series of authorized denominations; PROVIDED, HOWEVER, that no definitive Bearer Security shall be delivered in exchange for a temporary Registered Security; and PROVIDED FURTHER that a definitive Bearer Security shall be delivered in exchange for a temporary Bearer Security only in compliance with the conditions set forth in Section 303. Until so exchanged the temporary Securities of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of such series.

If temporary Securities of any series are issued in global form, any such temporary global Security shall, unless otherwise provided therein, be delivered to the London office of a depositary or common depositary (the "Common Depositary"), for the benefit of Euroclear and CEDEL S.A., for credit to the respective accounts of the beneficial owners of such Securities (or to such other accounts as they may direct).

Without unnecessary delay, but in any event not later than the date specified in, or determined pursuant to the terms of, any such temporary global Security (the "Exchange Date"), the Company shall deliver to the Trustee definitive Securities, in aggregate principal amount equal to the principal amount of such temporary global Security, executed by the Company. On or after the Exchange Date such temporary global Security shall be surrendered by the Common Depositary to the Trustee, as the Company's agent for such purpose, to be exchanged, in whole or from time to time in part, for definitive Securities without charge and the Trustee shall authenticate and deliver, in exchange for each



portion of such temporary global Security, an equal aggregate principal amount of definitive Securities of the same series of authorized denominations and of like tenor as the portion of such temporary global Security to be exchanged. The definitive Securities to be delivered in exchange for any such temporary global Security shall be in bearer form, registered form, permanent global bearer form or permanent global registered form, or any combination thereof, as specified as contemplated by Section 301, and, if any combination thereof is so specified, as requested by the beneficial owner thereof; PROVIDED, HOWEVER, that, unless otherwise specified in such temporary global Security, upon such presentation by the Common Depositary, such temporary global Security is accompanied by a certificate dated the Exchange Date or a subsequent date and signed by Euroclear as to the portion of such temporary global Security held for its account then to be exchanged and a certificate dated the Exchange Date or a subsequent date and signed by CEDEL S.A. as to the portion of such temporary global Security held for its account then to be exchanged, each in the form set forth in Exhibit A-2 to this Indenture (or in such other form as may be established pursuant to Section 301); and PROVIDED FURTHER that definitive Bearer Securities shall be delivered in exchange for a portion of a temporary global Security only in compliance with the require ments of Section 303.

Unless otherwise specified in such temporary global Security, the interest of a beneficial owner of Securities of a series in a temporary global Security shall be exchanged for definitive Securities of the same series and of like tenor following the Exchange Date when the account holder instructs Euroclear or CEDEL S.A., as the case may be, to request such exchange on his behalf and delivers to Euroclear or CEDEL S.A., as the case may be, a certificate in the form set forth in Exhibit A-1 to this Indenture (or in such other form as may be established pursuant to Section 301), dated no earlier than 15 days prior to the Exchange Date, copies of which certificate shall be available from the offices of Euroclear and CEDEL S.A., the Trustee, any Authenticating Agent appointed for such series of Securities and each Paying

Agent. Unless otherwise specified in such temporary global Security, any such exchange shall be made free of charge to the beneficial owners of such temporary global Security, except that a Person receiving definitive Securities must bear the cost of insurance, postage, transportation and the like in the event that such Person does not take delivery of such definitive Securities in person at the offices of Euroclear or CEDEL S.A. Definitive Securities in bearer form to be delivered in exchange for any portion of a temporary global Security shall be delivered only outside the United States.

Until exchanged in full as hereinabove provided, the temporary Securities of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of the same series and of like tenor authenticated and delivered hereunder, except that, unless otherwise specified as contemplated by Section 301, interest payable on a temporary global Security on an Interest Payment Date for Securities of such series occurring prior to the applicable Exchange Date shall be payable to Euroclear and CEDEL S.A. on such Interest Payment Date upon delivery by Euroclear and CEDEL S.A. to the Trustee of a certificate or certificates in the form set forth in Exhibit A-2 to this Indenture (or in such other form as may be established pursuant to Section 301), for credit without further interest on or after such Interest Payment Date to the respective accounts of the Persons who are the beneficial owners of such temporary global Security on such Interest Payment Date and who have each delivered to Euroclear or CEDEL S.A., as the case may be, a certificate dated no earlier than 15 days prior to the Interest Payment Date occurring prior to such Exchange Date in the form set forth in Exhibit A-1 to this Indenture (or in such other form as may be established pursuant to Section 301). Notwith standing anything to the contrary herein contained, the certifications made pursuant to this paragraph shall satisfy the certification requirements of the preceding two paragraphs of this Section and of the third paragraph of Section 303 of this Indenture and the interests of the Persons who are the beneficial owners



of the temporary global Security with respect to which such certification was made will be exchanged for definitive Securities of the same series and of like tenor on the Exchange Date or the date of certification if such date occurs after the Exchange Date, without further act or deed by such beneficial owners. Except as otherwise provided in this paragraph, no payments of principal or interest owing with respect to a beneficial interest in a temporary global Security will be made unless and until such interest in such temporary global Security shall have been exchanged for an interest in a definitive Security. Any interest so received by Euroclear and CEDEL S.A. and not paid as herein provided shall be returned to the Trustee immediately prior to the expiration of two years after such Interest Payment Date in order to be repaid to the Company in accordance with Section 1003.

Section 3.5 REGISTRATION, REGISTRATION OF TRANSFER AND EXCHANGE.

The Company shall cause to be kept at the Corporate Trust Office of the Trustee a register for each series of Securities (the registers maintained in the Corporate Trust Office of the Trustee and in any other office or agency of the Company in a Place of Payment being herein sometimes collectively referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Registered Securities and of transfers of Registered Securities. The Security Register shall be in written form or any other form capable of being converted into written form within a reasonable time. At all reasonable times, the Security Register shall be open to inspection by the Trustee. The Trustee is hereby initially appointed as security registrar (the "Security Registrar") for the purpose of registering Registered Securities and transfers of Registered Securities as herein provided.

Upon surrender for registration of transfer of any Registered Security of any series at the office or agency in a Place of Payment for that series, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee, one or more new Registered Securities of the same series, of any authorized denominations and of a like aggregate principal amount and tenor.

At the option of the Holder, Registered Securities of any series may be exchanged for other Registered Securities of the same series, of any authorized denomination and of a like aggregate principal amount, upon surrender of the Registered Securities to be exchanged at such office or agency. Whenever any Registered Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Registered Securities which the Holder making the exchange is entitled to receive. Unless otherwise specified with respect to any series of Securities as contemplated by

Section 301, Bearer Securities may not be issued in exchange for Registered Securities.

If (but only if) expressly permitted in or pursuant to the applicable Board Resolution and (subject to Section 303) set forth in the applicable Officers' Certificate, or in any indenture supplemental hereto, delivered as contemplated by Section 301, at the option of the Holder, Bearer Securities of any series may be exchanged for Registered Securities of the same series of any authorized denomination and of a like aggregate principal amount and tenor, upon surrender of the Bearer Securities to be exchanged at any such office or agency, with all unmatured coupons and all matured coupons in default thereto appertaining. If the Holder of a Bearer Security is unable to produce any such unmatured coupon or coupons or matured coupon or coupons in default, any such permitted exchange may be effected if the Bearer Securities are accompanied by payment in funds acceptable to the Company in an amount equal to the face amount of such missing coupon or coupons, or the surrender of such missing coupon or coupons may be waived by the Company and the Trustee if there is furnished to them such security or indemnity



as they may require to save each of them and any Paying Agent harmless. If thereafter the Holder of such Security shall surrender to any Paying Agent any such missing coupon in respect of which such a payment shall have been made, such Holder shall be entitled to receive the amount of such payment; PROVIDED, HOWEVER, that, except as otherwise provided in Section 1002, interest represented by coupons shall be payable only upon presentation and surrender of those coupons at an office or agency located outside the United States. Notwithstanding the foregoing, in case a Bearer Security of any series is surrendered at any such office or agency in a permitted exchange for a Registered Security of the same series and like tenor after the close of business at such office or agency on (i) any Regular Record Date and before the opening of business at such office or agency on the relevant Interest Payment Date, or (ii) any Special Record Date and before the opening of business at such office or agency on the related proposed date for payment of Defaulted Interest, such Bearer Security shall be surrendered without the coupon relating to such Interest Payment Date or proposed date for payment, as the case may be, and interest or Defaulted Interest, as the case may be, will not be payable on such Interest Payment Date or proposed date for payment, as the case may be, in respect of the Registered Security issued in exchange for such Bearer Security, but will be payable only to the Holder of such coupon when due in accordance with the provisions of this Indenture.

Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

Notwithstanding the foregoing, except as otherwise specified as contemplated by Section 301, any permanent global Security shall be exchangeable only as provided in this paragraph. If any beneficial owner of an interest in a permanent global Security is entitled to exchange such interest for Securities of such series and of like tenor and principal amount of another authorized form and denomi nation, as specified as contemplated by Section 301 and provided that any applicable notice provided in the permanent global Security shall have been given, then without unnecessary delay but in any event not later than the earliest date on which such interest may be so exchanged, the Company shall deliver to the Trustee definitive Securities in aggregate principal amount equal to the principal amount of such beneficial owner's interest in such permanent global Security, executed by the Company. On or after the earliest date on which such interests may be so exchanged, such permanent global Security shall be surrendered by the Common Depositary or such other depositary as shall be specified in the Company Order with respect thereto to the Trustee, as the Company's agent for such purpose, to be exchanged, in whole or from time to time in part, for definitive Securities without charge, and the Trustee shall authenticate and deliver, in exchange for each portion of such permanent global Security, an equal aggregate principal amount of definitive Securities of the same series of authorized denominations and of like tenor as the portion of such permanent global Security to be exchanged which, unless the Securities of the series are not issuable both as Bearer Securities and as Registered Securities, as specified as contemplated by Section 301, shall be in the form of Bearer Securities or Registered Securities, or any combination thereof, as shall be specified by the beneficial owner thereof; PROVIDED, HOWEVER, that no such exchanges may occur during a period beginning at the opening of business 15 days before any selection of Securities to be redeemed and ending on the relevant Redemption Date if the Security for which exchange is requested may be among those selected for redemption; and PROVIDED FURTHER that no Bearer Security delivered in exchange for a portion of a permanent global Security shall be mailed or otherwise delivered to any location in the United States. If a Registered Security is issued in exchange for any portion of a

permanent global Security after the close of business at the office or agency where such exchange occurs on (i) any Regular Record Date and before the opening of business at such office or



agency on the relevant Interest Payment Date, or (ii) any Special Record Date and the opening of business at such office or agency on the related proposed date for payment of interest or Defaulted Interest, as the case may be, will not be payable on such Interest Payment Date or proposed date for payment, as the case may be, in respect of such Registered Security, but will be payable on such Interest Payment Date or proposed date for payment, as the case may be, only to the Person to whom interest in respect of such portion of such permanent global Security is payable in accordance with the provisions of this Indenture.

All Securities issued upon any registration of transfer or exchange of Securities shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Registered Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Security Registrar) be duly endorsed, or be accompanied by a written instrument of transfer, in form satisfactory to the Company and the Security Registrar, duly executed by the Holder thereof or his attorney duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange of Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 304, 906, 1107 or 1305 not involving any transfer.

The Company shall not be required (i) to issue, to register the transfer of or to exchange Securities of any series during a period beginning at the opening of business 15 days before the day of the selection for redemption of Securities of that series under Section 1103 or 1203 and ending at the close of business on (A) if Securities of the series are issuable only as Registered Securities, the day of the mailing of the relevant notice of redemption and (B) if Securities of the series are issuable as Bearer Securities, the day of the first publication of the relevant notice of redemption or, if Securities of the series are also issuable as Registered Securities and there is no publication, the mailing of the relevant notice of redemption, or (ii) to register the transfer of or exchange any Registered Security so selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part, or (iii) to exchange any Bearer Security so selected for redemption except that such a Bearer Security may be exchanged for a Registered Security of that series and like tenor; PROVIDED that such Registered Security shall be simultaneously surrendered for redemption, or (iv) to issue, to register the transfer of or to exchange any Security which has been surrendered for repayment at the option of the Holder, except the portion, if any, of such Security not to be so repaid.

### Section 3.6 MUTILATED, DESTROYED, LOST AND STOLEN SECURITIES.

If any mutilated Security or a Security with a mutilated coupon appertaining to it is surrendered to the Trustee, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Security of the same series and of like tenor and principal amount and bearing a number not contemporaneously outstanding, with coupons corresponding to the coupons, if any, appertaining to the surrendered Security, or, in case any such mutilated Security or coupon has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, with coupons corresponding to the coupons, if any, appertaining to the surrendered Security, pay such Security or coupon.



If there shall be delivered to the Company and to the Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Security or coupon and (ii) such security or indemnity as may be required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Security or coupon has been acquired by a bona fide purchaser, the Company shall execute and upon Company Order the Trustee shall authenticate and deliver, in lieu of any such

destroyed, lost or stolen Security or in exchange for the Security for which a destroyed, lost or stolen coupon appertains (with all appurtenant coupons not destroyed, lost or stolen), a new Security of the same series and of like tenor and principal amount and bearing a number not contemporaneously outstanding, with coupons corresponding to the coupons, if any, appertaining to such destroyed, lost or stolen Security or to the Security to which such destroyed, lost or stolen coupon appertains, or, in case any such destroyed, lost or stolen Security or coupon has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, with coupons corresponding to the coupons, if any, appertaining to such destroyed, lost or stolen Security or to the Security to which such destroyed, lost or stolen coupon appertains, pay such Security or coupon.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security of any series with its coupons, if any, issued pursuant to this Section in lieu of any destroyed, lost or stolen Security or in exchange for a Security to which a destroyed, lost or stolen coupon appertains, shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security and its coupons, if any, or the destroyed, lost or stolen coupon shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of that series and their coupons, if any, duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities or coupons.

Section 3.7 PAYMENT OF INTEREST; INTEREST RIGHTS PRESERVED; OPTIONAL INTEREST RESET.

(a) Unless otherwise provided as contemplated by Section 301 with respect to any series of Securities, interest on any Registered Security which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name such Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest at the office or agency of the Company maintained for such purpose pursuant to Section 1002; PROVIDED, HOWEVER, that each installment of interest on any Registered Security may at the Company's option be paid by (i) mailing a check for such interest, payable to or upon the written order of the Person entitled thereto pursuant to Section 309, to the address of such Person as it appears on the Security Register or (ii) transfer to an account maintained by the payee located in the United States.



Unless otherwise provided as contemplated by Section 301 with respect to the Securities of any series, payment of interest may be made, in the case of a Bearer Security, by transfer to an account maintained by the payee with a bank located outside the United States.

Unless otherwise provided as contemplated by Section 301, every permanent global Security will provide that interest, if any, payable on any Interest Payment Date will be paid to each of Euroclear and CEDEL S.A. with respect to that portion of such permanent global Security held for its account by the Common Depositary, for the purpose of permitting each of Euroclear and CEDEL S.A. to credit the interest received by it in respect of such permanent global Security to the accounts of the beneficial owners thereof.

Any interest on any Registered Security of any series which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date shall forthwith cease to be payable to the Holder on the relevant Regular Record Date by virtue of having been such Holder, and such defaulted interest and, if applicable, interest on such defaulted interest (to the extent lawful) at the rate specified in the Securities of such series (such defaulted interest and, if applicable, interest thereon herein collectively called "Defaulted Interest") may be paid by the Company, at its election in each case, as provided in clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Registered Securities of such series (or their respective Predecessor Securities) are registered

at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Registered Security of such series and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 301 for the Securities of such series and except, if applicable, as provided in Sections 312(b), 312(d) and 312(e)) equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrange ments satisfactory to the Trustee for such deposit on or prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed pay ment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be given in the manner provided in Section 106, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so given, such Defaulted Interest shall be paid to the Persons in whose name the Registered Securities of such series (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following clause (2).



(2) The Company may make payment of any Defaulted Interest on the Registered Securities of any series in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

(b) The provisions of this Section 307(b) may be made applicable to any series of Securities pursuant to Section 301 (with such modifications, additions or substitutions as may be specified pursuant to such Section 301). The interest rate (or the spread or spread multiplier used to calculate such interest rate, if applicable) on any Security of such series may be reset by the Company on the date or dates specified on the face of such Security (each an "Optional Reset Date"). The Company may exercise such option with respect to such Security by notifying the Trustee of such exercise at least 50 but not more than 60 days prior to an Optional Reset Date for such Note. Not later than 40 days prior to each Optional Reset Date, the Trustee shall transmit, in the manner provided for in Section 106, to the Holder of any such Security a notice (the "Reset Notice") indicating whether the Company has elected to reset the interest rate (or the spread or spread multiplier used to calculate such interest rate, if applicable), and if so (i) such new interest rate (or such new spread or spread multiplier, if applicable) and (ii) the provisions, if any, for redemption during the period from such Optional Reset Date to the next Optional Reset Date or if there is no such next Optional Reset Date, to the Stated Maturity Date of such Security (each such period a "Subsequent Interest Period"), including the date or dates on which or the period or periods during which and the price or prices at which such redemption may occur during the Subsequent Interest Period.

Notwithstanding the foregoing, not later than 20 days prior to the Optional Reset Date, the Company may, at its option, revoke the interest rate (or the spread or spread multiplier used to calculate such interest rate, if applicable) provided for in the Reset Notice and establish an interest rate (or a spread or spread multiplier used to calculate such interest rate, if applicable) that is higher than the interest rate (or the spread or spread multiplier, if applicable) provided for in the Reset Notice, for the Subsequent Interest Period by causing the Trustee to transmit, in the manner provided for in Section 106, notice of such higher interest rate (or such higher spread or spread multiplier, if applicable) to the Holder of such Security. Such notice shall be irrevocable. All Securities with respect to which the interest rate (or the spread or spread multiplier used to calculate such interest rate, if applicable) is reset on an Optional Reset Date, and with respect to which the Holders of such Securities have not tendered such Securities for repayment (or

have validly revoked any such tender) pursuant to the next succeeding paragraph, will bear such higher interest rate (or such higher spread or spread multiplier, if applicable).

The Holder of any such Security will have the option to elect repayment by the Company of the principal of such Security on each Optional Reset Date at a price equal to the principal amount thereof plus interest accrued to such Optional Reset Date. In order to obtain repayment on an Optional Reset Date, the Holder must follow the procedures set forth in Article Thirteen for repayment at the option of Holders except that the period for delivery or notification to the Trustee shall be at least 25 but not more than 35 days prior to such Optional Reset Date and except that, if the Holder has tendered any Security for repayment pursuant to the Reset Notice, the Holder may, by written notice to the Trustee, revoke such tender or repayment until the close of business on the tenth day before such Optional Reset Date.



Subject to the foregoing provisions of this Section and Section 305, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

Section 3.8 OPTIONAL EXTENSION OF STATED MATURITY.

The provisions of this Section 308 may be made applicable to any series of Securities pursuant to Section 301 (with such modifications, additions or substitutions as may be specified pursuant to such Section 301). The Stated Maturity of any Security of such series may be extended at the option of the Company for the period or periods specified on the face of such Security (each an "Extension Period") up to but not beyond the date (the "Final Maturity") set forth on the face of such Security. The Company may exercise such option with respect to any Security by notifying the Trustee of such exercise at least 50 but not more than 60 days prior to the Stated Maturity of such Security in effect prior to the exercise of such option (the "Original Stated Maturity"). If the Company exercises such option, the Trustee shall transmit, in the manner provided for in Section 106, to the Holder of such Security not later than 40 days prior to the Original Stated Maturity a notice (the "Extension Notice") indicating (i) the election of the Company to extend the Stated Maturity, (ii) the new Stated Maturity, (iii) the interest rate applicable to the Extension Period and (iv) the provisions, if any, for redemption during such Extension Period. Upon the Trustee's transmittal of the Extension Notice, the Stated Maturity of such Security shall be extended automatically and, except as modified by the Extension Notice and as described in the next paragraph, such Security will have the same terms as prior to the transmittal of such Extension Notice.

Notwithstanding the foregoing, not later than 20 days before the Original Stated Maturity of such Security, the Company may, at its option, revoke the interest rate provided for in the Extension Notice and establish a higher interest rate for the Extension Period by causing the Trustee to transmit, in the manner provided for in Section 106, notice of such higher interest rate to the Holder of such Security. Such notice shall be irrevocable. All Securities with respect to which the Stated Maturity is extended will bear such higher interest rate.

If the Company extends the Maturity of any Security, the Holder will have the option to elect repayment of such Security by the Company on the Original Stated Maturity at a price equal to the principal amount thereof, plus interest accrued to such date. In order to obtain repayment on the Original Stated Maturity once the Company has extended the Maturity thereof, the Holder must follow the procedures set forth in Article Thirteen for repayment at the option of Holders, except that the period for delivery or notification to the Trustee shall be at least 25 but not more than 35 days prior to the Original Stated Maturity and except that, if the Holder has tendered any Security for repayment pursuant to an Extension Notice, the Holder may by written notice to the Trustee revoke such tender for repayment until the close of business on the tenth day before the Original Stated Maturity.

Section 3.9 PERSONS DEEMED OWNERS.

Prior to due presentment of a Registered Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Registered Security is registered as the owner of such Registered Security for the purpose of receiving payment of principal of (and premium, if any, on) and (subject to Sections 305 and 307) interest on such Security and for all other purposes whatsoever, whether or not such Security be overdue, and

none of the Company, the Trustee or any agent of the Company or the Trustee shall be affected by notice to the contrary.

Title to any Bearer Security and any coupons appertaining thereto shall pass by delivery. The Company, the Trustee and any agent of the Company or the Trustee may treat the bearer of any Bearer Security and the bearer of any coupon as the absolute owner of such Security or coupon for the purpose of receiving payment thereof or on account thereof and for all other purposes whatsoever, whether or not such Security or coupons be overdue, and none of the Company, the Trustee or any agent of the Company or the Trustee shall be affected by notice to the contrary.

None of the Company, the Trustee, any Paying Agent or the Security Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of a Security in global form or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Notwithstanding the foregoing, with respect to any global Security, nothing herein shall prevent the Company, the Trustee, or any agent of the Company or the Trustee, from giving effect to any written certification, proxy or other authorization furnished by any depositary, as a Holder, with respect to such global Security or impair, as between such depositary and owners of beneficial interests in such global Security, the operation of customary practices governing the exercise of the rights of such depositary (or its nominee) as Holder of such global Security.

Section 3.10 CANCELLATION.

All Securities and coupons surrendered for payment, redemption, repayment at the option of the Holder, registration of transfer or exchange or for credit against any current or future sinking fund payment shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee. All Securities and coupons so delivered to the Trustee shall be promptly cancelled by it. The Company may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and may deliver to the Trustee (or to any other Person for delivery to the Trustee) for cancellation any Securities previously authenticated hereunder which the Company has not issued and sold, and all Securities so delivered shall be promptly cancelled by the Trustee. If the Company shall so acquire any of the Securities, however, such acquisition shall not operate as a redemption or satisfaction of the indebtedness represented by such Securities unless and until the same are surrendered to the Trustee for cancellation. No Securities shall be authenticated in lieu of or in exchange for any Securities cancelled as provided in this Section, except as expressly permitted by this Indenture. All cancelled Securities held by the Trustee shall be disposed of by the Trustee in accordance with its customary procedures and certification of their disposal delivered to the Company unless by Company Order the Company shall direct that cancelled Securities be returned to it.

Section 3.11 COMPUTATION OF INTEREST.

Except as otherwise specified as contemplated by Section 301 with respect to any Securities, interest on the Securities of each series shall be computed on the basis of a 360-day year of twelve 30-day months.



Section 3.12 CURRENCY AND MANNER OF PAYMENTS IN RESPECT OF SECURITIES.

(a) Unless otherwise specified with respect to any Securities pursuant to Section 301, with respect to Registered Securities of any series not permitting the election provided for in paragraph (b) below or the Holders of which have not made the election provided for in paragraph (b) below, and with respect to Bearer Securities of any series, except as provided in paragraph (d) below, payment of the principal of (and premium, if any, on) and interest, if any, on any Regis tered or Bearer Security of such series will be made in the Currency in which such Registered Security or Bearer Security, as the case may be, is payable. The provisions of this Section 312 may be modified or superseded with respect to any Securities pursuant to Section 301.

(b) It may be provided pursuant to Section 301 with respect to Registered Securities of any series that Holders shall have the option, subject to paragraphs (d) and (e) below, to receive payments of principal of (and premium, if any, on) or interest, if any, on such Registered Securities in any of the Currencies which may be designated for such election by delivering to the Trustee a written election with signature guarantees and in the applicable form established pursuant to Section 301, not later than the close of business on the Election Date immediately preceding the applicable payment date. If a Holder so elects to receive such payments in any such Currency, such election will remain in effect for such Holder or any transferee of such Holder until changed by such Holder or such transferee by written notice to the Trustee (but any such change must be made not later than the close of business on the Election Date immediately preceding the next payment date to be effective for the payment to be made on such payment date and no such change of election may be made with respect to payments to be made on any Registered Security of such series with respect to which an Event of Default has occurred or with respect to which the Company has deposited funds pursuant to Article Four or with respect to which a notice of redemption has been given by the Company or a notice of option to elect repayment has been sent by such Holder or such transferee). Any Holder of any such Registered Security who shall not have delivered any such election to the Trustee not later than the close of business on the applicable Election Date will be paid the amount due on the applicable payment date in the relevant Currency as provided in Section 312(a). The Trustee shall notify the Exchange Rate Agent as soon as practicable after the Election Date of the aggregate principal amount of Registered Securities for which Holders have made such written election.

(c) Unless otherwise specified pursuant to Section 301, if the election referred to in paragraph (b) above has been provided for pursuant to Section 301, then, unless otherwise specified pursuant to Section 301, not later than the fourth Business Day after the Election Date for each payment date for Registered Securities of any series, the Exchange Rate Agent will deliver to the Company a written notice specifying, in the Currency in which Registered Securi ties of such series are payable, the respective aggregate amounts of principal of (and premium, if any, on) and interest, if any, on the Registered Securities to be paid on such payment date, specifying the amounts in such Currency so payable in respect of the Registered Securities as to which the Holders of Registered Securities of such series shall have elected to be paid in another Currency as provided in paragraph (b) above. If the election referred to in paragraph (b) above has been provided for pursuant to Section 301 and if at least one Holder has made such election, then, unless otherwise specified pursuant to Section 301, on the second Business Day preceding such payment date the Company will deliver to the Trustee for such series of Registered Securi ties an Exchange Rate Officer's Certificate in respect of the Dollar or Foreign Currency payments



to be made on such payment date. Unless otherwise specified pursuant to Section 301, the Dollar or Foreign Currency amount receivable by Holders of Registered Securities who have elected payment in a Currency as provided in paragraph (b) above shall be determined by the Company on the basis of the applicable Market Exchange Rate in effect on the third Business Day (the "Valuation Date") immediately preceding each payment date, and such determination shall be conclusive and binding for all purposes, absent manifest error.

(d) If a Currency Conversion Event occurs with respect to a Foreign Currency in which any of the Securities are denominated or payable other than pursuant to an election provided for pursuant to paragraph (b) above, then with respect to each date for the payment of principal of (and premium, if any, on) and interest, if any, on the applicable Securities denomi nated or payable in such Foreign Currency occurring after the last date on which such Foreign Currency was used (the "Currency Conversion Date"), the Dollar shall be the Currency of payment for use on each such payment date. Unless otherwise specified pursuant to Section 301, the Dollar amount to be paid by the Company to the Trustee and by the Trustee or any Paying Agent to the Holders of such Securities with respect to such payment date shall be, in the case of a Foreign Currency other than a currency unit, the Dollar Equivalent of the Foreign Currency or, in the case of a currency unit, the Dollar Equivalent of the Currency Unit, in each case as determined by the Exchange Rate Agent in the manner provided in paragraph (f) or (g)

below.

(e) Unless otherwise specified pursuant to Section 301, if the Holder of a Registered Security denominated in any Currency shall have elected to be paid in another Currency as provided in paragraph (b) above, and a Currency Conversion Event occurs with respect to such elected Currency, such Holder shall receive payment in the Currency in which payment would have been made in the absence of such election; and if a Currency Conversion Event occurs with respect to the Currency in which payment would have been made in the absence of such election, such Holder shall receive payment in Dollars as provided in paragraph (d) above.

(f) The "Dollar Equivalent of the Foreign Currency" shall be determined by the Exchange Rate Agent and shall be obtained for each subsequent payment date by converting the specified Foreign Currency into Dollars at the Market Exchange Rate on the Currency Conversion Date.

(g) The "Dollar Equivalent of the Currency Unit" shall be determined by the Exchange Rate Agent and subject to the provisions of paragraph (h) below shall be the sum of each amount obtained by converting the Specified Amount of each Component Currency into Dollars at the Market Exchange Rate for such Component Currency on the Valuation Date with respect to each payment.

(h) For purposes of this Section 312 the following terms shall have the following meanings:

A "Component Currency" shall mean any Currency which, on the Currency Conversion Date, was a component currency of the relevant currency unit, including, but not limited to, the ECU.



A "Specified Amount" of a Component Currency shall mean the number of units of such Component Currency or fractions thereof which were represented in the relevant currency unit, including, but not limited to, the ECU, on the Currency Conversion Date. If after the Currency Conversion Date the official unit of any Component Currency is altered by way of combination or subdivision, the Specified Amount of such Component Currency shall be divided or multiplied in the same proportion. If after the Currency Conversion Date two or more Component Currencies are consolidated into a single currency, the respective Specified Amounts of such Component Currencies shall be replaced by an amount in such single Currency equal to the sum of the respective Specified Amounts of such consolidated Component Currencies expressed in such single Currency, and such amount shall thereafter be a Specified Amount and such single Currency shall thereafter be a Component Currency. If after the Currency Conversion Date any Component Currency shall be divided into two or more currencies, the Specified Amount of such Component Currency shall be replaced by amounts of such two or more currencies, having an aggregate Dollar Equivalent value at the Market Exchange Rate on the date of such replacement equal to the Dollar Equivalent value of the Specified Amount of such former Component Currency at the Market Exchange Rate immediately before such division and such amounts shall thereafter be Specified Amounts and such currencies shall thereafter be Component Currencies. If, after the Currency Conversion Date of the relevant currency unit, including, but not limited to, the ECU, a Currency Conversion Event (other than any event referred to above in this definition of "Specified Amount") occurs with respect to any Component Currency of such currency unit and is continuing on the applicable Valuation Date, the Specified Amount of such Component Currency shall, for purposes of calculating the Dollar Equivalent of the Currency Unit, be converted into Dollars at the Market Exchange Rate in effect on the Currency Conversion Date of such Component Currency.

"Election Date" shall mean the date for any series of Registered Securities as specified pursuant to clause (13) of Section 301 by which the written election referred to in paragraph (b) above may be made.

All decisions and determinations of the Exchange Rate Agent regarding the Dollar Equivalent of the Foreign Currency, the Dollar Equivalent of the Currency Unit, the Market Exchange Rate and changes in the Specified Amounts as specified above shall be in its sole discretion and shall, in the absence of manifest error, be conclusive for all purposes and irrevocably binding upon the Company, the Trustee and all Holders of such Securities

denominated or payable in the relevant Currency. The Exchange Rate Agent shall promptly give written notice to the Company and the Trustee of any such decision or determination.

In the event that the Company determines in good faith that a Currency Conversion Event has occurred with respect to a Foreign Currency, the Company will immediately give written notice thereof to the Trustee and to the Exchange Rate Agent (and the Trustee will promptly thereafter give notice in the manner provided for in Section 106 to the affected Holders) specifying the Currency Conversion Date. In the event the Company so determines that a Currency Conversion Event has occurred with respect to the ECU or any other currency unit in which Securities are denominated or payable, the Company will immediately give written notice thereof to the Trustee and to the Exchange Rate Agent (and the Trustee will promptly thereafter give notice in the manner provided for in Section 106 to the affected Holders) specifying the Currency Conversion Date and the Specified Amount of each Component Currency on the Currency Conversion Date. In the event the Company determines in good



faith that any subsequent change in any Component Currency as set forth in the definition of Specified Amount above has occurred, the Company will similarly give written notice to the Trustee and the Exchange Rate Agent.

The Trustee shall be fully justified and protected in relying and acting upon information received by it from the Company and the Exchange Rate Agent and shall not otherwise have any duty or obligation to determine the accuracy or validity of such information independent of the Company or the Exchange Rate Agent.

Section 3.13 APPOINTMENT AND RESIGNATION OF SUCCESSOR EXCHANGE RATE AGENT.

(a) Unless otherwise specified pursuant to Section 301, if and so long as the Securities of any series (i) are denominated in a Currency other than Dollars or (ii) may be payable in a Currency other than Dollars, or so long as it is required under any other provision of this Indenture, then the Company will maintain with respect to each such series of Securities, or as so required, at least one Exchange Rate Agent. The Company will cause the Exchange Rate Agent to make the necessary foreign exchange determinations at the time and in the manner specified pursuant to Section 301 for the purpose of determining the applicable rate of exchange and, if applicable, for the purpose of converting the issued Currency into the applicable payment Currency for the payment of principal (and premium, if any) and interest, if any, pursuant to Section 312.

(b) No resignation of the Exchange Rate Agent and no appointment of a successor Exchange Rate Agent pursuant to this Section shall become effective until the acceptance of appointment by the successor Exchange Rate Agent as evidenced by a written instrument delivered to the Company and the Trustee.

(c) If the Exchange Rate Agent shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of the Exchange Rate Agent for any cause with respect to the Securities of one or more series, the Company, by or pursuant to a Board Resolu tion, shall promptly appoint a successor Exchange Rate Agent or Exchange Rate Agents with respect to the Securities of that or those series (it being understood that any such successor Exchange Rate Agent may be appointed with respect to the Securities of one or more or all of such series and that, unless otherwise specified pursuant to Section 301, at any time there shall only be one Exchange Rate Agent with respect to the Securities of any particular series that are originally issued by the Company on the same date and that are initially denominated and/or payable in the same Currency).

Section 3.14 DESIGNATION AS SENIOR INDEBTEDNESS.

The Company hereby confirms the designation of the Securities as "Senior Indebtedness" for the purposes of any securities of the Company that may be issued pursuant to the Subordinated Indenture.



ARTICLE IV

SATISFACTION AND DISCHARGE

Section 4.1 SATISFACTION AND DISCHARGE OF INDENTURE.

This Indenture shall upon Company Request cease to be of further effect with respect to any series of Securities (except as to any surviving rights of registration of transfer or exchange of Securities of such series herein expressly provided for and the obligation of the Company to pay any Additional Amounts as contemplated by Section 1005) and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture as to such series when

(1) either

(A) all Securities of such series theretofore authenticated and delivered and all coupons, if any, appertaining thereto (other than (i) coupons appertaining to Bearer Securities surrendered for exchange for Registered Securities and maturing after such exchange, whose surrender is not required or has been waived as provided in Section 305, (ii) Securities and coupons of such series which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 306, (iii) coupons appertaining to Securities called for redemption and maturing after the relevant Redemption Date, whose surrender has been waived as provided in Section 1106, and (iv) Securities and coupons of such series for whose payment money has theretofore been deposited in trust with the Trustee or any Paying Agent or segregated and held in trust by the Company and thereafter repaid to the Company, as provided in Section 1003) have been delivered to the Trustee for cancellation; or

(B) all Securities of such series and, in the case of (i) or (ii) below, any coupons appertaining thereto not theretofore delivered to the Trustee for cancellation

(i) have become due and payable, or

(ii) will become due and payable at their Stated Maturity within one year, or

(iii) if redeemable at the option of the Company, are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company, and the Company, in the case of (i), (ii) or (iii) above, has irrevoca bly deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose an amount, in the Currency in which the Securities of such series are payable, sufficient to pay and discharge the entire indebtedness on such Securities not theretofore delivered to the Trustee for cancellation, for principal (and pre mium, if any) and interest to the date of such deposit (in the case of Securities



which have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be;

(2) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfac tion and discharge of this Indenture as to such series have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 606, the obligations of the Trustee to any Authenticating Agent under Section 611 and, if money shall have been deposited with the Trustee pursuant to subclause (B) of clause (1) of this Section, the obligations of the Trustee under Section 402 and the last paragraph of Section 1003 shall survive.

Section 4.2 APPLICATION OF TRUST MONEY.

Subject to the provisions of the last paragraph of Section 1003, all money deposited with the Trustee pursuant to Section 401 shall be held in trust and applied by it, in accordance with the provisions of the Securities, the coupons and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money has been deposited with the Trustee, but such money need not be segregated from other funds except to the extent required by law.

# ARTICLE V

# REMEDIES

## Section 5.1 EVENTS OF DEFAULT.

"Event of Default", wherever used herein with respect to Securities of any series, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(1) default in the payment of any interest on any Security of that series, or any related coupon, when such interest or coupon becomes due and payable, and continuance of such default for a period of 30 days; or

(2) default in the payment of the principal of (or premium, if any, on) any Security of that series at its Maturity; or

(3) default in the deposit of any sinking fund payment, when and as due by the terms of the Securities of that series and Article Twelve; or



(4) default in the performance, or breach, of any covenant or warranty of the Company in this Indenture (other than a default in the performance, or breach of a covenant or warranty which is specifically dealt with elsewhere in this Section), and continuance of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in principal amount of all Outstanding Securities a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(5) the entry of a decree or order by a court having jurisdiction in the premises adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under the Federal Bankruptcy Code or any other applicable federal or state law, or appointing a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Company or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 90 consecutive days; or

(6) the institution by the Company of proceedings to be adjudicated a bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under the Federal Bankruptcy Code or any other applicable federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Company or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due; or

(7) (A) there shall have occurred one or more defaults by the Company or any Subsidiary in the payment of the principal of or premium, if any, on Debt aggregating $50 million or more, when the same becomes due and payable at the stated maturity thereof, and such default or defaults shall have continued after any applicable grace period and shall not have been cured or waived or (B) Debt of the

Company or any Subsidiary aggregating $50 million or more shall have been accelerated or otherwise declared due and payable, or required to be prepaid or repurchased (other than by regularly scheduled required prepayment), prior to the stated maturity thereof; or

(8) any other Event of Default provided with respect to Securities of that series.

Section 5.2 ACCELERATION OF MATURITY; RESCISSION AND ANNULMENT.

If an Event of Default described in clause (1), (2), (3), (4), (7) or (8) of Section 501 with respect to Securities of any series at the time Outstanding occurs and is continuing, then in every such case the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Securities of that series may declare the principal amount (or, if the Securities of that series are Original Issue Discount Securities or Indexed Securities, such portion of the principal amount as may be specified in the terms of



that series) of all of the Securities of that series to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by Holders), and upon any such declaration such principal amount (or specified portion thereof) shall become immediately due and payable. If an Event of Default described in clause (5) or (6) of Section 501 occurs and is continuing, then the principal amount of all the Debt Securities shall IPSO FACTO become and be immediately due and payable without declaration or other act on the part of the Trustee or any Holder.

At any time after a declaration of acceleration with respect to Securities of any series (or of all series, as the case may be) has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of a majority in principal amount of the Outstanding Securities of that series (or of all series, as the case may be), by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if

(1) the Company has paid or deposited with the Trustee a sum sufficient to pay in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 301 for the Securities of such series and except, if applica ble, as provided in Sections 312(b), 312(d) and 312(e)),

(A) all overdue interest on all Outstanding Securities of that series (or of all series, as the case may be) and any related coupons,

(B) all unpaid principal of (and premium, if any, on) any Outstanding Securi ties of that series (or of all series, as the case may be) which has become due otherwise than by such declaration of acceleration, and interest on such unpaid principal at the rate or rates prescribed therefor in such Securities,

(C) to the extent that payment of such interest is lawful, interest on overdue interest at the rate or rates prescribed therefor in such Securities, and

(D) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel; and

(2) all Events of Default with respect to Securities of that series (or of all series, as the case may be), other than the non-payment of amounts of principal of (or premium, if any, on) or interest on Securities of that series (or of all series, as the case may be) which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 513.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

Notwithstanding the preceding paragraph, in the event of a declaration of acceleration in respect of the Securities because of an Event of Default specified in Section 501(7) shall have occurred and be continuing, such declaration of acceleration shall be automatically annulled if the Debt that is the subject of such Event of Default has been discharged or the holders thereof

have rescinded their declaration of acceleration in respect of such Debt, and written notice of such discharge or rescission, as



the case may be, shall have been given to the Trustee by the Company and countersigned by the holders of such Debt or a trustee, fiduciary or agent for such holders, within 30 days after such declaration of acceleration in respect of the Securities, and no other Event of Default has occurred during such 30-day period which has not been cured or waived during such period.

Section 5.3 COLLECTION OF INDEBTEDNESS AND SUITS FOR ENFORCEMENT BY TRUSTEE.

The Company covenants that if

(1) default is made in the payment of any installment of interest on any Security and any related coupon when such interest becomes due and payable and such default continues for a period of 30 days, or

(2) default is made in the payment of the principal of (or premium, if any, on) any Security at the Maturity thereof,

then the Company will, upon demand of the Trustee, pay to the Trustee for the benefit of the Holders of such Securities and coupons, the whole amount then due and payable on such Securities and coupons for principal (and premium, if any) and interest, and interest on any overdue principal (and premium, if any) and to the extent that payment of such interest is lawful on any overdue interest, at the rate or rates prescribed therefor in such Securities, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If the Company fails to pay such amounts forthwith upon such demand, the Trustee, in its own name as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same against the Company or any other obligor upon such Securities and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon such Securities, wherever situated.

If an Event of Default with respect to Securities of any series (or of all series, as the case may be) occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities of such series (or of all series, as the case may be) by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

Section 5.4 TRUSTEE MAY FILE PROOFS OF CLAIM.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Securities or the property of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of overdue principal, premium, if any, or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise,



(i) to file and prove a claim for the whole amount of principal (and premium, if any), or such portion of the principal amount of any series of Original Issue Discount Securities or Indexed Securities as may be specified in the terms of such series, and interest owing and unpaid in respect of the Securities and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Holders allowed in such judicial proceeding, and

(ii) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 606.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

Section 5.5 TRUSTEE MAY ENFORCE CLAIMS WITHOUT POSSESSION OF SECURITIES.

All rights of action and claims under this Indenture or the Securities or coupons may be prosecuted and enforced by the Trustee without the possession of any of the Securities or coupons or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Securities and coupons in respect of which such judgment has been recovered.

Section 5.6 APPLICATION OF MONEY COLLECTED.

Any money collected by the Trustee pursuant to this Article shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Securities or coupons, or both, as the case may be, and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee under Section 606;

SECOND: To the payment of the amounts then due and unpaid for principal of (and premium, if any, on) and interest on the Securities and coupons in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any



kind, according to the amounts due and payable on such Securities and coupons for principal (and premium, if any) and interest, respectively; and

THIRD: The balance, if any, to the Person or Persons entitled thereto including, without limitation, the Company.

Section 5.7 LIMITATION ON SUITS.

No Holder of any Security of any series or any related coupons shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(1) such Holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the Securities of that series;

(2) the Holders of not less than 25% in principal amount of the Outstanding Securities of that series in the case of any Event of Default described in clause (1), (2), (3), (4), (7) or (8) of Section 501, or, in the case of any Event of Default described in clause (5) or (6) of Section 501, the Holders of not less than 25% in principal amount of all Outstanding Securities, shall have made written request to the Trustee to institute proceed ings in respect of such Event of Default in its own name as Trustee hereunder;

(3) such Holder or Holders have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be

incurred in compliance with such request;

(4) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of at least a majority or more in principal amount of the Outstanding Securities of that series in the case of any Event of Default described in clause (1), (2), (3), (4), (7) or (8) of Section 501, or, in the case of any Event of Default described in clause (5) or (6) of Section 501, by the Holders of a majority or more in principal amount of all Outstanding Securities;

it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders of Securities of the same series, in the case of any Event of Default described in clause (1), (2), (3), (4), (7) or (8) of Section 501, or of Holders of all Securities in the case of any Event of Default described in clause (5) or (6) of Section 501, or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all Holders of Securities of the same series, in the case of any Event of Default described in clause (1), (2), (3), (4), (7) or (8) of Section 501, or of Holders of all Securities in the case of any Event of Default described in clause (5) or (6) of Section 501.



Section 5.8 UNCONDITIONAL RIGHT OF HOLDERS TO RECEIVE PRINCIPAL, PREMIUM AND INTEREST.

Notwithstanding any other provision in this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment, as provided herein (including, if applicable, Article Fourteen) and in such Security, of the principal of (and premium, if any, on) and (subject to Section 307) interest on, such Security or payment of such coupon on the respective Stated Maturities expressed in such Security or coupon (or, in the case of redemption, on the Redemption Date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

Section 5.9 RESTORATION OF RIGHTS AND REMEDIES.

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the Holders of Securities and coupons shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

Section 5.10 RIGHTS AND REMEDIES CUMULATIVE.

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities or coupons in the last paragraph of Section 306, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders of Securities or coupons is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 5.11 DELAY OR OMISSION NOT WAIVER.

No delay or omission of the Trustee or of any Holder of any Security or coupon to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

Section 5.12 CONTROL BY HOLDERS.

With respect to the Securities of any series, the Holders of not less than a majority in principal amount of the Outstanding Securities of such series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, relating to or arising under clause (1), (2), (3), (4), (7) or (8) of Section 501, and, with respect to all Securities, the Holders of not less than a majority in principal amount of all Outstanding Securities shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, not relating to or arising under clause (1), (2), (3), (4), (7) or (8) of Section 501, PROVIDED that in each case

(1) such direction shall not be in conflict with any rule of law or with this Indenture,

(2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and

(3) the Trustee need not take any action which might involve it in personal liability or be unjustly prejudicial to the Holders of Securities of such series not consent ing.

Section 5.13 WAIVER OF PAST DEFAULTS.

Subject to Section 502, the Holders of not less than a majority in principal amount of the Outstanding Securities of any series may on behalf of the Holders of all the Securities of such series waive any past default described in clause (1), (2), (3), (4), (7) or (8) of Section 501 (or, in the case of a default described in clause (5) or (6) of Section 501, the Holders of not less than a majority in principal amount of all Outstanding Securities may waive any such past default), and its consequences, except a default

(1) in respect of the payment of the principal of (or premium, if any, on) or interest on any Security or any related coupon, or

(2) in respect of a covenant or provision hereof which under Article Nine cannot be modified or amended without the consent of the Holder of each Outstanding Security of such series affected.

Upon any such waiver, any such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or Event of Default or impair any right consequent thereon.



Section 5.14 WAIVER OF STAY OR EXTENSION LAWS.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE VI

THE TRUSTEE

Section 6.1 NOTICE OF DEFAULTS.

Within 90 days after the occurrence of any Default hereunder with respect to the Securities of any series, the Trustee shall transmit in the manner and to the extent provided in TIA Section 313(c), notice of such default hereunder known to the Trustee, unless such Default shall have been cured or waived; PROVIDED, HOWEVER, that, except in the case of a Default in the payment of the principal of (or premium, if any, on) or interest on any Security of such series or in the payment of any sinking fund installment with respect to

Securities of such series, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors and/or Responsible Officers of the Trustee in good faith determine that the withholding of such notice is in the interest of the Holders of Securities of such series and any related coupons; and PROVIDED FURTHER that in the case of any Default of the character specified in Section 501(4) with respect to Securities of such series, no such notice to Holders shall be given until at least 30 days after the occurrence thereof.

Section 6.2 CERTAIN RIGHTS OF TRUSTEE.

Subject to the provisions of TIA Sections 315(a) through 315(d):

(1) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document reasonably believed by it to be genuine and to have been signed or presented by the proper party or parties;

(2) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution;

(3) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate;



(4) the Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(5) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders of Securities of any series or any coupons appertaining thereto pursuant to this Indenture, unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(6) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney;

(7) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder; and

(8) the Trustee shall not be liable for any action taken, suffered or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture.

The Trustee shall not be required to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Section 6.3 TRUSTEE NOT RESPONSIBLE FOR RECITALS OR

ISSUANCE OF SECURITIES.

The recitals contained herein and in the Securities, except for the Trustee's certificates of authentication, and in any coupons shall be taken as the statements of the Company, and neither the Trustee nor any Authenticating Agent assumes any responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities or coupons, except that the Trustee represents that it is duly authorized to execute and deliver this Indenture, authenticate the Securities and perform its obligations hereunder and that the statements made by it in a Statement of Eligibility and Qualification on Form T-1 supplied to the Company are true and accurate, subject to the qualifications set forth therein. Neither the Trustee nor any Authenticating Agent shall be accountable for the use or application by the Company of Securities or the proceeds thereof.



Section 6.4 MAY HOLD SECURITIES.

The Trustee, any Authenticating Agent, any Paying Agent, any Security Registrar or any other agent of the Company or of the Trustee, in its individual or any other capacity, may become the owner or pledgee of Securities and coupons and, subject to TIA Sections 310(b) and 311, may otherwise deal with the Company with the same rights it would have if it were not Trustee, Authenticating Agent, Paying Agent, Security Registrar or such other agent.

Section 6.5 MONEY HELD IN TRUST.

Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed with the Company.

Section 6.6 COMPENSATION AND REIMBURSEMENT.

The Company agrees:

(1) to pay to the Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(2) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reason able compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith; and

(3) to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of the trust or trusts hereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

The obligations of the Company under this Section to compensate the Trustee, to pay or reimburse the Trustee for expenses, disbursements and advances and to indemnify and hold harmless the Trustee shall constitute additional indebtedness hereunder and shall survive the satisfaction and discharge of this Indenture. As security for the performance of such obligations of the Company, the Trustee shall have a claim prior to the Securities upon all property and funds held or collected by the Trustee as such, except funds held in trust for the payment of principal of (and premium, if any, on) or interest on particular Securities or any coupons.

Section 6.7 CORPORATE TRUSTEE REQUIRED; ELIGIBILITY; CONFLICTING INTEREST.

There shall at all times be a Trustee hereunder which shall be eligible to act as Trustee under TIA Section 310(a)(1). Each successor Trustee shall have a combined capital and surplus of at

least $50,000,000. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of federal, state, territorial or District of Columbia supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

Section 6.8 RESIGNATION AND REMOVAL; APPOINTMENT OF SUCCESSOR.

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 609.

(b) The Trustee may resign at any time with respect to the Securities of one or more series by giving written notice thereof to the Company. If the instrument of acceptance by a successor Trustee required by Section 609 shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

(c) The Trustee may be removed at any time with respect to the Securities of any series by Act of the Holders of not less than a majority in principal amount of the Outstanding Securities of such series, delivered to the Trustee and to the Company.

(d) If at any time:

(1) the Trustee shall fail to comply with the provisions of TIA Section 310(b) after written request therefor by the Company or by any Holder who has been a bona fide Holder of a Security for at least six months, or

(2) the Trustee shall cease to be eligible under Section 607(a) and shall fail to resign after written request therefor by the Company or by any Holder who has been a bona fide Holder of a Security for at least six months, or

(3) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (i) the Company, by a Board Resolution, may remove the Trustee with respect to all Securities, or (ii) subject to TIA Section 315(e), any Holder who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee with respect to all Securities and the appointment of a successor Trustee or Trustees.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, with respect to the Securities of one or



more series, the Company, by a Board Resolution, shall promptly appoint a successor Trustee or Trustees with respect to the Securities of that or those series (it being understood that any such successor Trustee may be appointed with respect to the Securities of one or more or all of such series and that at any time there shall be only one Trustee with respect to the Securities of any particular series). If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to the Securities of any series shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securi ties of such series delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee with respect to the Securities of such series and to that extent supersede the successor Trustee appointed by the Company. If no successor Trustee with respect to the Securities of any series shall have been so appointed by the

Company or the Holders and accepted appointment in the manner hereinafter provided, any Holder who has been a bona fide Holder of a Security of such series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

(f) The Company shall give notice of each resignation and each removal of the Trustee with respect to the Securities of any series and each appointment of a successor Trustee with respect to the Securities of any series to the Holders of Securities of such series in the manner provided for in Section 106. Each notice shall include the name of the successor Trustee with respect to the Securities of such series and the address of its Corporate Trust Office.

Section 6.9 ACCEPTANCE OF APPOINTMENT BY SUCCESSOR.

(a) In case of the appointment hereunder of a successor Trustee with respect to all Securities, every such successor Trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder.

(b) In case of the appointment hereunder of a successor Trustee with respect to the Securities of one or more (but not all) series, the Company, the retiring Trustee and each successor Trustee with respect to the Securities of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor Trustee shall accept such appointment and which (1) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates, (2) if the retiring Trustee is not retiring with respect to all Securities, shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the



retiring Trustee, and (3) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust and that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee; and upon the execution and delivery of such supplemental indenture to resignation or removal of the retiring Trustee shall become effective to the extent provided therein and each such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates; but, on request of the Company or any successor Trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder with respect to the Securities of that or those series to which the appointment of such successor Trustee relates. Whenever there is a successor Trustee with respect to one or more (but less than all) series of securities issued pursuant to this Indenture, the terms "Indenture" and "Securities" shall have the meanings specified in the provisos to the respective definitions of those terms in Section 101 which contemplate such situation.

(c) Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all rights, powers

and trusts referred to in paragraph (a) or (b) of this Section, as the case may be.

(d) No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

Section 6.10 MERGER, CONVERSION, CONSOLIDATION OR SUCCESSION TO BUSINESS.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities; and in case at that time any of the Securities shall not have been authenticated, any successor Trustee may authenticate such Securities either in the name of any predecessor hereunder or in the name of the successor Trustee; and in all such cases such certificates shall have the full force which it is anywhere in the Securities or in this Indenture provided that the certificate of the Trustee shall have; PROVIDED, HOWEVER, that the right to adopt the certificate of authentication of any predecessor Trustee or to authenticate Securities in the name of any predecessor Trustee shall apply only to its successor or successors by merger, conversion or consolidation.



Section 6.11 APPOINTMENT OF AUTHENTICATING AGENT.

At any time when any of the Securities remain Outstanding, the Trustee may appoint an Authenticating Agent or Agents with respect to one or more series of Securities which shall be authorized to act on behalf of the Trustee to authenticate Securities of such series and the Trustee shall give written notice of such appointment to all Holders of Securities of the series with respect to which such Authenti cating Agent will serve, in the manner provided for in Section 106. Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenti cated by the Trustee hereunder. Any such appointment shall be evidenced by an instrument in writing signed by a Responsible Officer of the Trustee, and a copy of such instrument shall be promptly furnished to the Company. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall at all times be a corporation organized and doing business under the laws of the United States of America, any state thereof or the District of Columbia, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than $50,000,000 and subject to supervision or examination by federal or state authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect specified in this Section.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such corporation shall be otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and to the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and to the Company. Upon receiving such a

notice of resignation or upon such a termination, or in case at any time such Authenticat ing Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee may appoint a successor Authenticating Agent which shall be acceptable to the Company and shall give written notice of such appointment to all Holders of Securities of the series with respect to which such Authenticating Agent will serve, in the manner provided for in Section 106. Any successor Authenticat ing Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section.



The Trustee agrees to pay to each Authenticating Agent from time to time reasonable compensation for its services under this Section, and the Trustee shall be entitled to be reimbursed for such payments, subject to the provisions of Section 606.

If an appointment with respect to one or more series is made pursuant to this Section, the Securities of such series may have endorsed thereon, in addition to the Trustee's certificate of authentica tion, an alternate certificate of authentication in the following form:

This is one of the Securities of the series designated therein referred to in the within- mentioned Indenture.

THE BANK OF NOVA SCOTIA TRUST
COMPANY OF NEW YORK,
as Trustee

By
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as Authenticating Agent

By
-----------------------------------
Authorized Officer

ARTICLE VII

HOLDERS' LISTS AND REPORTS BY TRUSTEE AND COMPANY

Section 7.1 DISCLOSURE OF NAMES AND ADDRESSES OF HOLDERS.

Every Holder of Securities or coupons, by receiving and holding the same, agrees with the Company and the Trustee that none of the Company or the Trustee or any agent of either of them shall be held accountable by reason of the disclosure of any such information as to the names and addresses of the Holders in accordance with TIA Section 312, regardless of the source from which such information was derived, and that the Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under TIA Section 312(b).

Section 7.2 REPORTS BY TRUSTEE.

Within 60 days after May 15 of each year commencing with the first May 15 after the first issuance of Securities pursuant to this Indenture, the Trustee shall transmit to the Holders of Securities, in the manner and to the extent provided in TIA Section 313(c), a brief report dated as of such May 15 if required by TIA Section 313(a).



Section 7.3 REPORTS BY COMPANY.

The Company shall:

(1) file with the Trustee, within 15 days after the Company is required to file the same with the Commission, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the Commission may from

time to time by rules and regulations prescribe) which the Com pany may be required to file with the Commission pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934; or, if the Company is not required to file informa tion, documents or reports pursuant to either of such Sections, then it shall file with the Trustee and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission, such of the supplementary and periodic information, documents and reports which may be required pursuant to Section 13 of the Securities Exchange Act of 1934 in respect of a security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations;

(2) file with the Trustee and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission, such additional information, documents and reports with respect to compliance by the Company with the conditions and covenants of this Indenture as may be required from time to time by such rules and regulations; and

(3) transmit to all Holders, in the manner and to the extent provided in TIA Section 313(c), within 30 days after the filing thereof with the Trustee, such summaries of any information, documents and reports required to be filed by the Company pursuant to paragraphs (1) and (2) of this Section as may be required by rules and regulations pre scribed from time to time by the Commission.

## ARTICLE VIII

## MERGER, CONSOLIDATION AND SALE OF ASSETS

### Section 8.1 COMPANY MAY CONSOLIDATE, ETC., ONLY ON CERTAIN TERMS.

The Company shall not consolidate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any Person, unless:

(1) the corporation formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Company substantially as an entirety (A) shall be a corpora tion, partnership or trust organized and validly existing under the laws of the United States of America, any state thereof or the District of Columbia and (B) shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, the Company's obligation for the due and punctual payment of the principal of (and premium, if any, on) and interest on all the Securities and the



performance and observance of every covenant of this Indenture on the part of the Company to be performed or observed;

(2) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing; and

(3) the Company or such Person shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

This Section shall only apply to a merger or consolidation in which the Company is not the surviving corporation and to conveyances, leases and transfers by the Company as transferor or lessor.

### Section 8.2 SUCCESSOR PERSON SUBSTITUTED.

Upon any consolidation by the Company with or merger by the Company into any other corporation or any conveyance, transfer or lease of the properties and assets of the Company substantially as an entirety to any Person in accordance with Section 801, the successor Person formed by such consolidation or into which the Company is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein,

and in the event of any such conveyance or transfer, the Company (which term shall for this purpose mean the Person named as the "Company" in the first paragraph of this Indenture or any successor Person which shall theretofore become such in the manner described in Section 801), except in the case of a lease, shall be discharged of all obligations and covenants under this Indenture and the Securities and the coupons and may be dissolved and liquidated.

Section 8.3 SECURITIES TO BE SECURED IN CERTAIN EVENTS.

If, upon any such consolidation of the Company with or merger of the Company into any other corporation, or upon any conveyance, lease or transfer of the property of the Company as an entirety or substantially as an entirety to any other Person, any Principal Property of the Company or of any Subsidiary, would thereupon become subject to any Lien, then unless such Lien could be created under the Indenture without equally and ratably securing the Securities, the Company, prior to or simulta neously with such consolidation, merger, conveyance, lease or transfer, will, as to such Principal Property, secure the Securities Outstanding hereunder (together with, if the Company shall so determine, any other Debt of the Company now existing or hereafter created which is not subordinate to the Securities) equally and ratably with (or prior to) the Debt which upon such consolidation, merger, conveyance, lease or transfer is to become secured as to such Principal Property by such Lien, or will cause such Securities to be so secured; PROVIDED that, for the purpose of providing such equal and ratable security, the principal amount of Original Issue Discount Securities and Indexed Securities shall mean that amount which would at the time of making such effective provision be due and payable pursuant to Section 502 and the terms of such Original Issue Discount Securities and Indexed Securities upon a declaration of acceleration of the Maturity thereof, and the extent of such equal and ratable security shall



be adjusted, to the extent permitted by law, as and when said amount changes over time pursuant to the terms of such Original Issue Discount Securities and Indexed Securities.

ARTICLE IX

SUPPLEMENTAL INDENTURES

Section 9.1 SUPPLEMENTAL INDENTURES WITHOUT CONSENT OF HOLDERS.

Without the consent of any Holders, the Company, when authorized by or pursuant to a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

(1) to evidence the succession of another Person to the Company and the assumption by any such successor of the covenants of the Company contained herein and in the Securities; or

(2) to add to the covenants of the Company for the benefit of the Holders of all or any series of Securities and any related coupons (and if such covenants are to be for the benefit of less than all series of Securities, stating that such covenants are being included solely for the benefit of such series) or to surrender any right or power herein conferred upon the Company; or

(3) to add any additional Events of Default (and if such Events of Default are to be for the benefit of less than all series of Securities, stating that such Events of Default are being included solely for the benefit of such series); or

(4) to add to or change any of the provisions of this Indenture to provide that Bearer Securities may be registrable as to principal, to change or eliminate any restrictions on the payment of principal of or any premium or interest on Bearer Securities, to permit Bearer Securities to be issued in exchange for Registered Securities, to permit Bearer Securities to be issued in exchange for Bearer Securities of other authorized denomina tions or to permit or facilitate the issuance of Securities in uncertificated form; PROVIDED that any such action shall not adversely affect the interests of the Holders of Securities of any series or any related coupons in any material respect; or

(5) to change or eliminate any of the provisions of this Indenture; PROVIDED that any such change or elimination shall become effective only when there is no Security Outstanding of any series

created prior to the execution of such supplemental indenture which is entitled to the benefit of such provision; or

(6) to secure the Securities pursuant to the requirements of Section 803 or otherwise; or

(7) to establish the form or terms of Securities of any series as permitted by Sections 201 and 301; or



(8) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Securities of one or more series and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, pursuant to the requirements of Section 609(b); or

(9) to close this Indenture with respect to the authentication and delivery of additional series of Securities, to cure any ambiguity, to correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Indenture; PROVIDED that such action shall not adversely affect the interests of the Holders of Securi ties of any series and any related coupons in any material respect;

(10) to supplement any of the provisions of this Indenture to such extent as shall be necessary to permit or facilitate the defeasance and discharge of any series of Securities pursuant to Sections 401, 1402 and 1403; PROVIDED that any such action shall not adversely affect the interests of the Holders of Securities of such series and any related coupons or any other series of Securities in any material respect; or

(11) to effect or maintain the qualification of the Indenture under the Trust Indenture Act.

Section 9.2 SUPPLEMENTAL INDENTURES WITH CONSENT OF HOLDERS.

With the consent of the Holders of not less than a majority in principal amount of all Outstanding Securities of any series, by Act of said Holders delivered to the Company and the Trustee, the Company, when authorized by or pursuant to a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture which affect such series of Securities or of modifying in any manner the rights of the Holders of Securities under this Indenture; PROVIDED, HOWEVER, that no such supplemental indenture shall, without the consent of the Holder of each Outstand ing Security affected thereby,

(1) change the Stated Maturity of the principal of, or any installment of interest on, any Security or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption thereof, or change any obligation of the Company to pay Additional Amounts contemplated by Section 1005 (except as contem plated by Section 801(1) and permitted by Section 901(1)), or reduce the amount of the principal of an Original Issue Discount Security that would be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 502 or the amount thereof provable in bankruptcy pursuant to Section 504, or adversely affect any right of repayment at the option of any Holder of any Security, or change any Place of Payment where, or the Currency in which, any Security or any premium or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption or repayment at the option of the Holder, on or after the Redemption Date or Repayment Date, as the case may be), or



adversely affect any right to convert or manage any Security as may be provided pursuant to Section 301 herein, or

(2) reduce the percent in principal amount of the Outstanding Securities of any series, the consent of whose Holders is required for

any such supplemental indenture, for any waiver of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences provided for in this Indenture, or reduce the require ments of Section 1504 for quorum or voting.

A supplemental indenture which changes or eliminates any covenant or other provision of this Indenture which has expressly been included solely for the benefit of one or more particular series of Securities, or which modifies the rights of the Holders of Securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under this Indenture of the Holders of Securities of any other series. Any such supplemental indenture adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture, or modifying in any manner the rights of the Holders of Securities of such series, shall not affect the rights under this Indenture of the Holders of Securities of any other series.

It shall not be necessary for any Act of Holders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

Section 9.3 EXECUTION OF SUPPLEMENTAL INDENTURES.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Section 9.4 EFFECT OF SUPPLEMENTAL INDENTURES.

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

Section 9.5 CONFORMITY WITH TRUST INDENTURE ACT.

Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act as then in effect.

Section 9.6 REFERENCE IN SECURITIES TO SUPPLEMENTAL INDENTURES.

Securities of any series authenticated and delivered after the execution of any supplemen tal indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form



approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities of any series so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities of such series.

Section 9.7 NOTICE OF SUPPLEMENTAL INDENTURES.

Promptly after the execution by the Company and the Trustee of any supplemental indenture pursuant to the provisions of Section 902, the Company shall give notice thereof to the Holders of each Outstanding Security affected, in the manner provided for in Section 106, setting forth in general terms the substance of such supplemental indenture.

ARTICLE X

COVENANTS

Section 10.1 PAYMENT OF PRINCIPAL, PREMIUM, IF ANY, AND INTEREST.

The Company covenants and agrees for the benefit of the Holders of each series of Securities and any related coupons that it will duly and punctually pay the principal of (and premium, if any, on) and interest on the Securities of that series in accordance with the terms of the Securities,

any coupons appertaining thereto and this Indenture. Unless otherwise specified as contemplated by Section 301 with respect to any series of Securities, any interest installments due on Bearer Securities on or before Maturity shall be payable only upon presentation and surrender of the several coupons for such interest installments as are evidenced thereby as they severally mature.

Section 10.2 MAINTENANCE OF OFFICE OR AGENCY.

If the Securities of a series are issuable only as Registered Securities, the Company will maintain in each Place of Payment for any series of Securities an office or agency where Securities of that series may be presented or surrendered for payment, where Securities of that series may be surrendered for registration of transfer or exchange, where Securities of that series that are convertible may be surrendered for conversion, if applicable, and where notices and demands to or upon the Company in respect of the Securities of that series and this Indenture may be served.

If Securities of a series are issuable as Bearer Securities, the Company will maintain (A) in The City of New York, an office or agency where any Registered Securities of that series may be presented or surrendered for payment, where any Registered Securities of that series may be surrendered for registration of transfer, where Securities of that series may be surrendered for exchange, where notices and demands to or upon the Company in respect of the Securities of that series and this Indenture may be served and where Bearer Securities of that series and related coupons may be presented or surrendered for payment in the circumstances described in the following paragraph (and not otherwise); (B) subject to any laws or regulations applicable thereto, in a Place of Payment for that series which is located outside the United States, an office or agency where Securities of that series and related coupons may be presented and surrendered for payment; PROVIDED, HOWEVER, that, if the Securities of that series are listed on any stock exchange located outside the United States and such stock exchange shall so require, the Company will maintain a Paying Agent for the Securities of that series in any required city located



outside the United States so long as the Securities of that series are listed on such exchange, and (C) subject to any laws or regulations applicable thereto, in a Place of Payment for that series located outside the United States an office or agency where any Registered Securities of that series may be surrendered for registration of transfer, where Securities of that series may be surrendered for exchange and where notices and demands to or upon the Company in respect of the Securities of that series and this Indenture may be served.

The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presenta tions, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, except that Bearer Securities of any series and the related coupons may be presented and surrendered for payment at the offices specified in the Security, in London, and the Company hereby appoints the same as its agents to receive such respective presentations, surrenders, notices and demands.

Unless otherwise specified with respect to any Securities pursuant to Section 301, no payment of principal, premium or interest on Bearer Securities shall be made at any office or agency of the Company in the United States or by check mailed to any address in the United States or by transfer to an account maintained with a bank located in the United States; PROVIDED, HOWEVER, that, if the Securities of a series are payable in Dollars, payment of principal of (and premium, if any, on) and interest on any Bearer Security shall be made at the office of the Company's Paying Agent in The City of New York, if (but only if) payment in Dollars of the full amount of such principal, premium or interest, as the case may be, at all offices or agencies outside the United States maintained for the purpose by the Company in accordance with this Indenture is illegal or effectively precluded by exchange controls or other similar restrictions.

The Company may also from time to time designate one or more other offices or agencies where the Securities of one or more series may be presented or surrendered for any or all such purposes and may from time to time rescind any such designation; PROVIDED, HOWEVER, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in accordance with the requirements set forth above for Securities of any series for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency. Unless otherwise specified with

respect to any Securities as contemplated by Section 301 with respect to a series of Securities, the Company hereby designates as a Place of Payment for each series of Securities the office or agency of the Trustee in the Borough of Manhattan, The City of New York, and initially appoints the Trustee, as Paying Agent in such city as its agent to receive all such presentations, surrenders, notices and demands.

Unless otherwise specified with respect to any Securities pursuant to Section 301, if and so long as the Securities of any series (i) are denominated in a Currency other than Dollars or (ii) may be payable in a Currency other than Dollars, or so long as it is required under any other provision of the Indenture, then the Company will maintain with respect to each such series of Securities, or as so required, at least one Exchange Rate Agent.



Section 10.3 MONEY FOR SECURITIES PAYMENTS TO BE HELD IN TRUST.

If the Company shall at any time act as its own Paying Agent with respect to any series of Securities and any related coupons, it will, on or before each due date of the principal of (and premium, if any, on) or interest on any of the Securities of that series, segregate and hold in trust for the benefit of the Persons entitled thereto a sum in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 301 for the Securities of such series and except, if applicable, as provided in Sections 312(b), 312(d) and 312(e)) sufficient to pay the principal (and premium, if any) or interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and will promptly notify the Trustee of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents for any series of Securities and any related coupons, it will, prior to or on each due date of the principal of (and premium, if any, on) or interest on any Securities of that series, deposit with a Paying Agent a sum (in the Currency described in the preceding paragraph) sufficient to pay the principal (and premium, if any) or interest so becoming due, such sum to be held in trust for the benefit of the Persons entitled to such principal, premium or interest, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

The Company will cause each Paying Agent (other than the Trustee) for any series of Securities to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will:

(1) hold all sums held by it for the payment of the principal of (and premium, if any, on) and interest on Securities of such series in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;

(2) give the Trustee notice of any default by the Company (or any other obligor upon the Securities of such series) in the making of any payment of principal of (or premium, if any, on) or interest on the Securities of such series; and

(3) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such sums.

Except as provided in the Securities of any series, any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of (and premium, if any, on) or interest on any Security of any series, or any coupon appertaining thereto, and remaining unclaimed for two years after such principal (and premium, if any) or interest has become due

and payable shall be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security or coupon shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; PROVIDED, HOWEVER, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in an Authorized Newspaper, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

Section 10.4 STATEMENT AS TO COMPLIANCE.

The Company will deliver to the Trustee, within 120 days after the end of each fiscal year, a brief certificate from the principal executive officer, principal financial officer or principal accounting officer as to his or her knowledge of the Company's compliance with all conditions and covenants under this Indenture. For purposes of this Section 1004, such compliance shall be determined without regard to any period of grace or requirement of notice under this Indenture.

Section 10.5 ADDITIONAL AMOUNTS.

If any Securities of a series provide for the payment of additional amounts to any Holder who is not a United States person in respect of any tax, assessment or governmental charge ("Additional Amounts"), the Company will pay to the Holder of any Security of such series or any coupon appertain ing thereto such Additional Amounts as may be specified as contemplated by Section 301. Whenever in this Indenture there is mentioned, in any context, the payment of the principal (or premium, if any, on) or interest on, or in respect of, any Security of a series or payment of any related coupon or the net proceeds received on the sale or exchange of any Security of a series, such mention shall be deemed to include mention of the payment of Additional Amounts provided for by the terms of such series established pursuant to Section 301 to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to such terms and express mention of the payment of Additional Amounts (if applicable) in any provisions hereof shall not be construed as excluding Additional Amounts in those provisions hereof where such express mention is not made.

Except as otherwise specified as contemplated by Section 301, if the Securities of a series provide for the payment of Additional Amounts, at least 10 days prior to the first Interest Payment Date with respect to that series of Securities (or if the Securities of that series will not bear interest prior to Maturity, the first day on which a payment of principal (and premium, if any) is made), and at least 10 days prior to each date of payment of principal (and premium, if any) or interest if there has been any change with respect to the matters set forth in the below-mentioned Officers' Certificate, the Company will furnish the Trustee and the Company's principal Paying Agent or Paying Agents, if other than the Trustee, with an Officers' Certificate instructing the Trustee and such Paying Agent or Paying Agents whether such payment of principal of (and premium, if any, on) or interest on the Securities of that series shall be made to Holders of Securities of that series or any related coupons who are not United States persons without withholding for or on account of any tax, assessment or other governmental charge described in the Securities of the series. If any such withholding shall be required, then such Officers' Certificate shall specify by country the amount, if any, required to be withheld on such payments to such Holders of Securities of that series or related coupons and the Company will pay to the Trustee or such



Paying Agent the Additional Amounts required by the terms of such Securities. In the event that the Trustee or any Paying Agent, as the case may be, shall not so receive the above-mentioned certificate, then the Trustee or such Paying Agent shall be entitled to (i) assume that no such withholding or deduction is required with respect to any payment of principal (and premium, if any) or interest with respect to any Securities of a series or related coupons until it shall have received a certificate advising otherwise and (ii) to make all payments of principal (and premium, if any) and interest with respect to the Securities of a series or related coupons without withholding or deductions until otherwise advised. The Company covenants to indemnify the Trustee and any Paying Agent for, and to hold them harmless against, any loss, liability or expense reasonably incurred without negligence or bad faith on their part arising out of or in connection with actions taken or omitted by any of them in

reliance on any Officers' Certificate furnished pursuant to this Section.

Section 10.6 PAYMENT OF TAXES AND OTHER CLAIMS.

The Company will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all material taxes, assessments and governmental charges levied or imposed upon the Company or any Subsidiary or upon the income, profits or property of the Company or any Subsidiary, and (2) all material lawful claims for labor, materials and supplies which, if unpaid, might by law become a Lien upon any Principal Property of the Company or any Subsidiary; PROVIDED, HOWEVER, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

Section 10.7 CORPORATE EXISTENCE.

Subject to Article Eight, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and the rights (charter and statutory) and franchises of the Company and any Subsidiary; PROVIDED, HOWEVER, that the Company shall not be required to preserve any such right or franchise if the Company shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and its Subsidiaries as a whole and PROVIDED FURTHER that the foregoing does not prohibit any mergers or consolidations between Subsidiaries or between the Company and one or more Subsidiaries so long as any such merger or consolidation complies with Article Eight.

Section 10.8 WAIVER OF CERTAIN COVENANTS.

The Company may, with respect to any series of Securities, omit in any particular instance to comply with any term, provision or condition which affects such series set forth in Section 803 or Sections 1006 to 1007, inclusive, if before the time for such compliance the Holders of at least a majority in principal amount of all Outstanding Securities of any series, by Act of such Holders, waive such compliance in such instance with such term, provision or condition, but no such waiver shall extend to or affect such term, provision or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such term, provision or condition shall remain in full force and effect.



ARTICLE XI

REDEMPTION OF SECURITIES

Section 11.1 APPLICABILITY OF ARTICLE.

Securities of any series which are redeemable before their Stated Maturity shall be redeemable in accordance with the terms of such Securities and (except as otherwise specified as contemplated by Section 301 for Securities of any series) in accordance with this Article.

Section 11.2 ELECTION TO REDEEM; NOTICE TO TRUSTEE.

The election of the Company to redeem any Securities shall be evidenced by or pursuant to a Board Resolution. In case of any redemption at the election of the Company, the Company shall, at least 60 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date and of the principal amount of Securities of such series to be redeemed and shall deliver to the Trustee such documentation and records as shall enable the Trustee to select the Securities to be redeemed pursuant to Section 1103. In the case of any redemption of Securities prior to the expiration of any restriction on such redemption provided in the terms of such Securities or elsewhere in this Indenture, the Company shall furnish the Trustee with an Officers' Certificate evidencing compliance with such restriction.

Section 11.3 SELECTION BY TRUSTEE OF SECURITIES TO BE REDEEMED.

If less than all the Securities of any series are to be redeemed, the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Securities of such series not previously called for redemption, by such method as the Trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions of the principal of Securities of such

series; PROVIDED, HOWEVER, that no such partial redemption shall reduce the portion of the principal amount of a Security not redeemed to less than the minimum authorized denomination for Securities of such series established pursuant to Section 301.

The Trustee shall promptly notify the Company in writing of the Securities selected for redemption and, in the case of any Securities selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Security redeemed or to be redeemed only in part, to the portion of the principal amount of such Security which has been or is to be redeemed.

Section 11.4 NOTICE OF REDEMPTION.

Except as otherwise specified as contemplated by Section 301, notice of redemption shall be given in the manner provided for in Section 106 not less than 30 nor more than 60 days prior to the Redemption Date, to each Holder of Securities to be redeemed.



All notices of redemption shall state:

(1) the Redemption Date,

(2) the Redemption Price,

(3) if less than all the Outstanding Securities of any series are to be redeemed, the identification (and, in the case of partial redemption, the principal amounts) of the particular Securities to be redeemed,

(4) that on the Redemption Date the Redemption Price (together with accrued interest, if any, to the Redemption Date payable as provided in Section 1106) will become due and payable upon each such Security, or the portion thereof, to be redeemed and, if applicable, that interest thereon will cease to accrue on and after said date,

(5) the place or places where such Securities, together in the case of Bearer Securities with all coupons appertaining thereto, if any, maturing after the Redemption Date, are to be surrendered for payment of the Redemption Price,

(6) that the redemption is for a sinking fund, if such is the case,

(7) that, unless otherwise specified in such notice, Bearer Securities of any series, if any, surrendered for redemption must be accompanied by all coupons maturing subsequent to the Redemption Date or the amount of any such missing coupon or coupons will be deducted from the Redemption Price unless security or indemnity satisfactory to the Company, the Trustee and any Paying Agent is furnished, and

(8) if Bearer Securities of any series are to be redeemed and any Registered Securities of such series are not to be redeemed, and if such Bearer Securities may be exchanged for Registered Securities not subject to redemption on such Redemption Date pursuant to Section 305 or otherwise, the last date, as determined by the Company, on which such exchanges may be made.

Notice of redemption of Securities to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company.

Section 11.5 DEPOSIT OF REDEMPTION PRICE.

Prior to any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) an amount of money in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 301 for the Securities of such series and except, if applicable, as provided in Sections 312(b), 312(d)

and 312(e)) sufficient to pay the Redemption Price of, and accrued interest on, all the Securities which are to be redeemed on that date.



Section 11.6 SECURITIES PAYABLE ON REDEMPTION DATE.

Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 301 for the Securities of such series and except, if applicable, as provided in Sections 312(b), 312(d) and 312(e)) (together with accrued interest, if any, to the Redemption Date), and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest) such Securities shall, if the same were interest-bearing, cease to bear interest and the coupons for such interest appertaining to any Bearer Securities so to be redeemed, except to the extent provided below, shall be void. Upon surrender of any such Security for redemption in accordance with said notice, together with all coupons, if any, appertaining thereto maturing after the Redemption Date, such Security shall be paid by the Company at the Redemption Price, together with accrued interest, if any, to the Redemption Date; PROVIDED, HOWEVER, that installments of interest on Bearer Securities whose Stated Maturity is on or prior to the Redemption Date shall be payable only at an office or agency located outside the United States (except as otherwise provided in Section 1002) and, unless otherwise specified as contemplated by Section 301, only upon presentation and surrender of coupons for such interest, and PROVIDED FURTHER that installments of interest on Registered Securities whose Stated Maturity is on or prior to the Redemption Date shall be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 307.

If any Bearer Security surrendered for redemption shall not be accompanied by all appurtenant coupons maturing after the Redemption Date, such Security may be paid after deducting from the Redemption Price an amount equal to the face amount of all such missing coupons, or the surrender of such missing coupon or coupons may be waived by the Company and the Trustee if there be furnished to them such security or indemnity as they may require to save each of them and any Paying Agent harmless. If thereafter the Holder of such Security shall surrender to the Trustee or any Paying Agent any such missing coupon in respect of which a deduction shall have been made from the Redemption Price, such Holder shall be entitled to receive the amount so deducted; PROVIDED, HOWEVER, that interest represented by coupons shall be payable only at an office or agency located outside the United States (except as otherwise provided in Section 1002) and, unless otherwise specified as contemplated by Section 301, only upon presentation and surrender of those coupons.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal (and premium, if any) shall, until paid, bear interest from the Redemption Date at the rate of interest or Yield to Maturity (in the case of Original Issue Discount Securities) set forth in the Security.

Section 11.7 SECURITIES REDEEMED IN PART.

Any Security which is to be redeemed only in part (pursuant to the provisions of this Article or of Article Twelve) shall be surrendered at a Place of Payment therefor (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or such Holder's attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder



of such Security without service charge, a new Security or Securities of the same series, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

ARTICLE XII

SINKING FUNDS

Section 12.1 APPLICABILITY OF ARTICLE.

Retirements of Securities of any series pursuant to any sinking fund shall be made in accordance with the terms of such Securities and (except as otherwise specified as contemplated by Section 301 for Securities of any series) in accordance with this Article.

The minimum amount of any sinking fund payment provided for by the terms of Securities of any series is herein referred to as a "mandatory sinking fund payment", and any payment in excess of such minimum amount provided for by the terms of Securities of any series is herein referred to as an "optional sinking fund payment". If provided for by the terms of Securities of any series, the cash amount of any mandatory sinking fund payment may be subject to reduction as provided in Section 1202. Each sinking fund payment shall be applied to the redemption of Securities of any series as provided for by the terms of Securities of such series.

Section 12.2 SATISFACTION OF SINKING FUND PAYMENTS WITH SECURITIES.

Subject to Section 1203, in lieu of making all or any part of any mandatory sinking fund payment with respect to any Securities of a series in cash, the Company may at its option (1) deliver to the Trustee Outstanding Securities of a series (other than any previously called for redemption) theretofore purchased or otherwise acquired by the Company together in the case of any Bearer Securities of such series with all unmatured coupons appertaining thereto, and/or (2) receive credit for the principal amount of Securities of such series which have been previously delivered to the Trustee by the Company or for Securities of such series which have been redeemed either at the election of the Company pursuant to the terms of such Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Securities, in each case in satisfaction of all or any part of any mandatory sinking fund payment with respect to the Securities of the same series required to be made pursuant to the terms of such Securities as provided for by the terms of such series; PROVIDED, HOWEVER, that such Securities have not been previously so credited. Such Securities shall be received and credited for such purpose by the Trustee at the Redemption Price specified in such Securities for redemption through operation of the sinking fund and the amount of such mandatory sinking fund payment shall be reduced accordingly.

Section 12.3 REDEMPTION OF SECURITIES FOR SINKING FUND.

Not less than 60 days prior to each sinking fund payment date for any series of Securities, the Company will deliver to the Trustee an Officers' Certificate specifying the amount of the next ensuing sinking fund payment for that series pursuant to the terms of that series, the portion thereof, if any, which is to be satisfied by payment of cash in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 301 for the Securities of such series and except, if



applicable, as provided in Sections 312(b), 312(d) and 312(e)) and the portion thereof, if any, which is to be satisfied by delivering or crediting Securities of that series pursuant to Section 1202 (which Securities will, if not previously delivered, accompany such certificate) and whether the Company intends to exercise its right to make a permitted optional sinking fund payment with respect to such series. Such certificate shall be irrevocable and upon its delivery the Company shall be obligated to make the cash payment or payments therein referred to, if any, on or before the next succeeding sinking fund payment date. In the case of the failure of the Company to deliver such certificate, the sinking fund payment due on the next succeeding sinking fund payment date for that series shall be paid entirely in cash and shall be sufficient to redeem the principal amount of such Securities subject to a mandatory sinking fund payment without the option to deliver or credit Securities as provided in Section 1202 and without the right to make any optional sinking fund payment, if any, with respect to such series.

Not more than 60 days before each such sinking fund payment date the Trustee shall select the Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 1103 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 1104. Such notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Sections 1106 and 1107.

Prior to any sinking fund payment date, the Company shall pay to the Trustee or a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) in cash a sum equal to any interest that will accrue to the date fixed for redemption of Securities or portions thereof to be redeemed on such sinking fund payment date

pursuant to this Section 1203.

Notwithstanding the foregoing, with respect to a sinking fund for any series of Securities, if at any time the amount of cash to be paid into such sinking fund on the next succeeding sinking fund payment date, together with any unused balance of any preceding sinking fund payment or payments for such series, does not exceed in the aggregate $100,000, the Trustee, unless requested by the Company, shall not give the next succeeding notice of the redemption of Securities of such series through the operation of the sinking fund. Any such unused balance of moneys deposited in such sinking fund shall be added to the sinking fund payment for such series to be made in cash on the next succeeding sinking fund payment date or, at the request of the Company, shall be applied at any time or from time to time to the purchase of Securities of such series, by public or private purchase, in the open market or otherwise, at a purchase price for such Securities (excluding accrued interest and brokerage commissions, for which the Trustee or any Paying Agent will be reimbursed by the Company) not in excess of the principal amount thereof.

ARTICLE XIII

REPAYMENT AT OPTION OF HOLDERS

Section 13.1 APPLICABILITY OF ARTICLE.

Repayment of Securities of any series before their Stated Maturity at the option of Holders thereof shall be made in accordance with the terms of such Securities and (except as otherwise specified as contemplated by Section 301 for Securities of any series) in accordance with this Article.



Section 13.2 REPAYMENT OF SECURITIES.

Securities of any series subject to repayment in whole or in part at the option of the Holders thereof will, unless otherwise provided in the terms of such Securities, be repaid at a price equal to the principal amount thereof, together with interest, if any, thereon accrued to the Repayment Date specified in or pursuant to the terms of such Securities. The Company covenants that on or before the Repayment Date it will deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) an amount of money in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 301 for the Securities of such series and except, if applicable, as provided in Sections 312(b), 312(d) and 312(e)) sufficient to pay the principal (or, if so provided by the terms of the Securities of any series, a percentage of the principal) of, and (except if the Repayment Date shall be an Interest Payment Date) accrued interest on, all the Securities or portions thereof, as the case may be, to be repaid on such date.

Section 13.3 EXERCISE OF OPTION.

Securities of any series subject to repayment at the option of the Holders thereof will contain an "Option to Elect Repayment" form on the reverse of such Securities. To be repaid at the option of the Holder, any Security so providing for such repayment, with the "Option to Elect Repay ment" form on the reverse of such Security duly completed by the Holder (or by the Holder's attorney duly authorized in writing), must be received by the Company at the Place of Payment therefor specified in the terms of such Security (or at such other place or places of which the Company shall from time to time notify the Holders of such Securities) not earlier than 45 days nor later than 30 days prior to the Repayment Date. If less than the entire principal amount of such Security is to be repaid in accordance with the terms of such Security, the principal amount of such Security to be repaid, in increments of the minimum denomination for Securities of such series, and the denomination or denominations of the Security or Securities to be issued to the Holder for the portion of the principal amount of such Security surrendered that is not to be repaid, must be specified. The principal amount of any Security providing for repayment at the option of the Holder thereof may not be repaid in part if, following such repayment, the unpaid principal amount of such Security would be less than the minimum authorized denomination of Securities of the series of which such Security to be repaid is a part. Except as otherwise may be provided by the terms of any Security providing for repayment at the option of the Holder thereof, exercise of the repayment option by the Holder shall be irrevocable unless waived by the Company.

Section 13.4 WHEN SECURITIES PRESENTED FOR REPAYMENT BECOME DUE AND PAYABLE.

If Securities of any series providing for repayment at the

option of the Holders thereof shall have been surrendered as provided in this Article and as provided by or pursuant to the terms of such Securities, such Securities or the portions thereof, as the case may be, to be repaid shall become due and payable and shall be paid by the Company on the Repayment Date therein specified, and on and after such Repayment Date (unless the Company shall default in the payment of such Securities on such Repayment Date) such Securities shall, if the same were interest-bearing, cease to bear interest and the coupons for such interest appertaining to any Bearer Securities so to be repaid, except to the extent provided below, shall be void. Upon surrender of any such Security for repayment in accordance with such provisions, together with all coupons, if any, appertaining thereto maturing after the Repayment Date, the principal amount of such Security so to be repaid shall be paid by the Company, together with



accrued interest, if any, to the Repayment Date; PROVIDED, HOWEVER, that coupons whose Stated Maturity is on or prior to the Repayment Date shall be payable only at an office or agency located outside the United States (except as otherwise provided in Section 1002) and, unless otherwise specified pursuant to Section 301, only upon presentation and surrender of such coupons, and PROVIDED FURTHER that, in the case of Registered Securities, installments of interest, if any, whose Stated Maturity is on or prior to the Repayment Date shall be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 307.

If any Bearer Security surrendered for repayment shall not be accompanied by all appurtenant coupons maturing after the Repayment Date, such Security may be paid after deducting from the amount payable therefor as provided in Section 1302 an amount equal to the face amount of all such missing coupons, or the surrender of such missing coupon or coupons may be waived by the Company and the Trustee if there be furnished to them such security or indemnity as they may require to save each of them and any Paying Agent harmless. If thereafter the Holder of such Security shall surrender to the Trustee or any Paying Agent any such missing coupon in respect of which a deduction shall have been made as provided in the preceding sentence, such Holder shall be entitled to receive the amount so deducted; PROVIDED, HOWEVER, that interest represented by coupons shall be payable only at an office or agency located outside the United States (except as otherwise provided in Section 1002) and, unless otherwise specified as contemplated by Section 301, only upon presentation and surrender of those coupons.

If the principal amount of any Security surrendered for repayment shall not be so repaid upon surrender thereof, such principal amount (together with interest, if any, thereon accrued to such Repayment Date) shall, until paid, bear interest from the Repayment Date at the rate of interest or Yield to Maturity (in the case of Original Issue Discount Securities) set forth in such Security.

Section 13.5 SECURITIES REPAID IN PART.

Upon surrender of any Registered Security which is to be repaid in part only, the Company shall execute and the Trustee shall authenticate and deliver to the Holder of such Security, without service charge and at the expense of the Company, a new Registered Security or Securities of the same series, of any authorized denomination specified by the Holder, in an aggregate principal amount equal to and in exchange for the portion of the principal of such Security so surrendered which is not to be repaid.

ARTICLE XIV

DEFEASANCE AND COVENANT DEFEASANCE

Section 14.1 COMPANY'S OPTION TO EFFECT DEFEASANCE OR COVENANT DEFEASANCE.

Except as otherwise specified as contemplated by Section 301 for Securities of any series, the provisions of this Article Fourteen shall apply to each series of Securities, and the Company may, at its option, effect defeasance of the Securities of or within a series under Section 1402, or covenant defeasance of or within a series under Section 1403 in accordance with the terms of such Securities and in accordance with this Article.



Section 14.2 DEFEASANCE AND DISCHARGE.

Upon the Company's exercise of the above option applicable to this Section with respect to any Securities of or within a series, the Company shall be deemed to have been discharged from its obligations with respect to such Outstanding Securities and any related coupons on the date the conditions set forth in Section 1404 are satisfied (hereinafter, "defeasance"). For this purpose, such defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by such Outstanding Securities and any related coupons, which shall thereafter be deemed to be "Outstanding" only for the purposes of Section 1405 and the other Sections of this Indenture referred to in (A) and (B) below, and to have satisfied all its other obligations under such Securities and any related coupons and this Indenture insofar as such Securities and any related coupons are concerned (and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging the same), except for the following which shall survive until otherwise terminated or discharged hereunder: (A) the rights of Holders of such Outstanding Securities and any related coupons (i) to receive, solely from the trust fund described in Section 1404 and as more fully set forth in such Section, payments in respect of the principal of (and premium, if any, on) and interest on such Securities and any related coupons when such payments are due, and (ii) to receive shares of common stock or other Securities from the Company upon the conversion of any convertible securities issued hereunder, (B) the Company's obligations with respect to such Securities under Sections 304, 305, 306, 1002 and 1003 and with respect to the payment of Additional Amounts, if any, on such Securities as contemplated by Section 1005, (C) the rights, powers, trusts, duties and immunities of the Trustee hereunder and (D) this Article Fourteen. Subject to compliance with this Article Fourteen, the Company may exercise its option under this Section 1402 notwithstanding the prior exercise of its option under Section 1403 with respect to such Securities and any related coupons.

Section 14.3 COVENANT DEFEASANCE.

Upon the Company's exercise of the above option applicable to this Section with respect to any Securities of or within a series, the Company shall be released from its obligations under Section 803 and Sections 1006 through 1008, and, if specified pursuant to Section 301, its obligations under any other covenant, with respect to such Outstanding Securities and any related coupons on and after the date the conditions set forth in Section 1404 are satisfied (hereinafter, "covenant defeasance"), and such Securities and any related coupons shall thereafter be deemed not to be "Outstanding" for the purposes of any direction, waiver, consent or declaration or Act of Holders (and the consequences of any thereof) in connection with such covenants, but shall continue to be deemed "Outstanding" for all other purposes hereunder. For this purpose, such covenant defeasance means that, with respect to such Outstanding Securities and any related coupons, the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such covenant, whether directly or indirectly, by reason of any reference elsewhere herein to any such covenant or by reason of reference in any such covenant to any other provision herein or in any other document and such omission to comply shall not constitute a Default or an Event of Default under Section 501(4) or Section 501(8) or otherwise, as the case may be, but, except as specified above, the remainder of this Indenture and such Securities and any related coupons shall be unaffected thereby.



Section 14.4 CONDITIONS TO DEFEASANCE OR COVENANT DEFEASANCE.

The following shall be the conditions to application of either Section 1402 or Section 1403 to any Outstanding Securities of or within a series and any related coupons:

(1) The Company shall irrevocably have deposited or caused to be deposited with the Trustee (or another trustee satisfying the requirements of Section 607 who shall agree to comply with the provisions of this Article Fourteen applicable to it) in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of such Securities and any related coupons, (A) money in an amount (in such Currency in which such Securities and any related coupons are then specified as payable at Stated Maturity), or (B) Government Obligations applicable to such Securities (determined on the basis of the Currency in which such Securities are then specified as payable at Stated Maturity) which through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment of principal (including any premium) and interest, if any, under such Securities and

any related coupons, money in an amount, or (C) a combination thereof, sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge, and which shall be applied by the Trustee (or other qualifying trustee) to pay and discharge, (i) the principal of (and premium, if any, on) and interest on such Outstanding Securities and any related coupons on the Stated Maturity (or Redemption Date, if applicable) of such principal (and premium, if any) or installment or interest and (ii) any mandatory sinking fund payments or analogous payments applicable to such Outstanding Securities and any related coupons on the day on which such payments are due and payable in accordance with the terms of this Indenture and of such Securities and any related coupons; PROVIDED that the Trustee shall have been irrevocably instructed to apply such money or the proceeds of such Government Obligations to said payments with respect to such Securities and any related coupons. Before such a deposit, the Company may give to the Trustee, in accordance with Section 1102 hereof, a notice of its election to redeem all or any portion of such Outstanding Securities at a future date in accordance with the terms of the Securities of such series and Article Eleven hereof, which notice shall be irrevocable. Such irrevocable redemption notice, if given, shall be given effect in applying the foregoing.

(2) No Default or Event of Default with respect to such Securities or any related coupons shall have occurred and be continuing on the date of such deposit or, insofar as paragraphs (5) and (6) of Section 501 are concerned, at any time during the period ending on the 91st day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until the expiration of such period).

(3) Such defeasance or covenant defeasance shall not result in a breach or violation of, or constitute a default under, this Indenture or any other material agreement or instrument to which the Company is a party or by which it is bound.



(4) In the case of an election under Section 1402, the Company shall have delivered to the Trustee an Opinion of Counsel stating that (x) the Company has received from, or there has been published by, the Internal Revenue Service a ruling, or (y) since the date of execution of this Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the Holders of such Outstanding Securities and any related coupons will not recognize income, gain or loss for federal income tax purposes as a result of such defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred.

(5) In the case of an election under Section 1403, the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that the Holders of such Outstanding Securities and any related coupons will not recognize income, gain or loss for federal income tax purposes as a result of such covenant defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred.

(6) Notwithstanding any other provisions of this Section, such defeasance or covenant defeasance shall be effected in compliance with any additional or substitute terms, conditions or limitations in connection therewith pursuant to Section 301.

(7) The Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for relating to either the defeasance under Section 1402 or the covenant defeasance under Section 1403 (as the case may be) have been complied with.

Section 14.5 DEPOSITED MONEY AND GOVERNMENT OBLIGATIONS TO BE HELD IN TRUST; OTHER MISCELLANEOUS PROVISIONS.

Subject to the provisions of the last paragraph of Section 1003, all money and Government Obligations (or other property as may be provided pursuant to Section 301) (including the proceeds thereof) deposited with the Trustee (or other qualifying trustee--collectively for purposes of this Section 1405, the "Trustee") pursuant to Section 1404 in respect of such Outstanding

Securities and any related coupons shall be held in trust and applied by the Trustee, in accordance with the provisions of such Securities and any related coupons and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Holders of such Securities and any related coupons of all sums due and to become due thereon in respect of principal (and premium, if any) and interest, but such money need not be segregated from other funds except to the extent required by law.

Unless otherwise specified with respect to any Security pursuant to Section 301, if, after a deposit referred to in Section 1404(1) has been made, (a) the Holder of a Security in respect of which such deposit was made is entitled to, and does, elect pursuant to Section 312(b) or the terms of such Security to receive payment in a Currency other than that in which the deposit pursuant to Section 1404(1) has been made in respect of such Security, or (b) a Conversion Event occurs as contemplated in Section 312(d) or 312(e) or by the terms of any Security in respect of which the deposit pursuant to



Section 1404(1) has been made, the indebtedness represented by such Security and any related coupons shall be deemed to have been, and will be, fully discharged and satisfied through the payment of the principal of (premium, if any, on), and interest, if any, on such Security as they become due out of the proceeds yielded by converting (from time to time as specified below in the case of any such election) the amount or other property deposited in respect of such Security into the Currency in which such Security becomes payable as a result of such election or Conversion Event based on the applicable Market Exchange Rate for such Currency in effect on the third Business Day prior to each payment date, except, with respect to a Conversion Event, for such Currency in effect (as nearly as feasible) at the time of the Conversion Event.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the Government Obligations deposited pursuant to Section 1404 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of such Outstanding Securities and any related coupons.

Anything in this Article Fourteen to the contrary notwithstanding, the Trustee shall deliver or pay to the Company from time to time upon Company Request any money or Government Obligations (or other property and any proceeds therefrom) held by it as provided in Section 1404 which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, are in excess of the amount thereof which would then be required to be deposited to effect an equivalent defeasance or covenant defeasance, as applicable, in accordance with this Article.

Section 14.6 REINSTATEMENT.

If the Trustee or any Paying Agent is unable to apply any money in accordance with Section 1405 by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Company's obligations under this Indenture and such Securities and any related coupons shall be revived and reinstated as though no deposit had occurred pursuant to Section 1402 or 1403, as the case may be, until such time as the Trustee or Paying Agent is permitted to apply all such money in accordance with Section 1405; PROVIDED, HOWEVER, that if the Company makes any payment of principal of (or premium, if any, on) or interest on any such Security or any related coupon following the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Securities and any related coupons to receive such payment from the money held by the Trustee or Paying Agent.

ARTICLE XV

MEETINGS OF HOLDERS OF SECURITIES

Section 15.1 PURPOSES FOR WHICH MEETINGS MAY BE CALLED.

If Securities of a series are issuable as Bearer Securities, a meeting of Holders of Securities of such series may be called at any time and from time to time pursuant to this Article to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be made, given or taken by Holders of Securities of such series.

Section 15.2 CALL, NOTICE AND PLACE OF MEETINGS.

(a) The Trustee may at any time call a meeting of Holders of Securities of any series for any purpose specified in Section 1501, to be held at such time and at such place in The City of New York or in London as the Trustee shall determine. Notice of every meeting of Holders of Securities of any series, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given, in the manner provided for in Section 106, not less than 21 nor more than 180 days prior to the date fixed for the meeting.

(b) In case at any time the Company, pursuant to a Board Resolution, or the Holders of at least 10% in principal amount of the Outstanding Securities of any series shall have requested the Trustee to call a meeting of the Holders of Securities of such series for any purpose specified in Section 1501, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee shall not have made the first publication of the notice of such meeting within 21 days after receipt of such request or shall not thereafter proceed to cause the meeting to be held as provided herein, then the Company or the Holders of Securities of such series in the amount above specified, as the case may be, may determine the time and the place in The City of New York or in London for such meeting and may call such meeting for such purposes by giving notice thereof as provided in paragraph (a) of this Section.

Section 15.3 PERSONS ENTITLED TO VOTE AT MEETINGS.

To be entitled to vote at any meeting of Holders of Securities of any series, a Person shall be (1) a Holder of one or more Outstanding Securities of such series, or (2) a Person appointed by an instrument in writing as proxy for a Holder or Holders of one or more Outstanding Securities of such series by such Holder or Holders. The only Persons who shall be entitled to be present or to speak at any meeting of Holders of Securities of any series shall be the Person entitled to vote at such meeting and their counsel, any representatives of the Trustee and its counsel and any representatives of the Company and its counsel.

Section 15.4 QUORUM; ACTION.

The Persons entitled to vote a majority in principal amount of the Outstanding Securities of a series shall constitute a quorum for a meeting of Holders of Securities of such series; PROVIDED, HOWEVER, that, if any action is to be taken at such meeting with respect to a consent or waiver which this Indenture expressly provides may be given by the Holders of not less than a specified percentage in principal amount of the Outstanding Securities of a series, the Persons entitled to vote such specified percentage in principal amount of the Outstanding Securities of such series shall constitute a quorum. In the absence of a quorum within 30 minutes of the time appointed for any such meeting, the meeting shall, if convened at the request of Holders of Securities of such series, be dissolved. In any other case the meeting may be adjourned for a period of not less than 10 days as determined by the chairman of the meeting prior to the adjournment of such meeting. In the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period of not less than 10 days as determined by the chairman of the meeting prior to the adjournment of such adjourned meeting. Notice of the reconvening of any adjourned meeting shall be given as provided in Section 1502(a), except that such notice need be given only once not less than five days prior to the date on which the meeting is scheduled to be reconvened. Notice of the reconvening of any adjourned meeting shall state expressly



the percentage, as provided above, of the principal amount of the Outstanding Securities of such series which shall constitute a quorum.

Subject to the foregoing, at the reconvening of any meeting adjourned for lack of a quorum the Persons entitled to vote 25% in principal amount of the Outstanding Securities at the time shall constitute a quorum for the taking of any action set forth in the notice of the original meeting.

Except as limited by the proviso to Section 902, any resolution presented to a meeting or adjourned meeting duly reconvened at which a quorum is present as aforesaid may be adopted by the affirmative vote of the Holders of not less than a majority in principal amount of the Outstanding

Securities of that series; PROVIDED, HOWEVER, that, except as limited by the proviso to Section 902, any resolution with respect to any request, demand, authorization, direction, notice, consent, waiver or other action which this Indenture expressly provides may be made, given or taken by the Holders of a specified percentage, which is less than a majority, in principal amount of the Outstanding Securities of a series may be adopted at a meeting or an adjourned meeting duly reconvened and at which a quorum is present as aforesaid by the affirmative vote of the Holders of not less than such specified percentage in principal amount of the Outstanding Securities of that series.

Any resolution passed or decision taken at any meeting of Holders of Securities of any series duly held in accordance with this Section shall be binding on all the Holders of Securities of such series and the related coupons, whether or not present or represented at the meeting.

Notwithstanding the foregoing provisions of this Section 1504, if any action is to be taken at a meeting of Holders of Securities of any series with respect to any request, demand, authorization, direction, notice, consent, waiver or other action that this Indenture expressly provides may be made, given or taken by the Holders of a specified percentage in principal amount of all Outstanding Securities affected thereby, or of the Holders of such series and one or more additional series:

(i) there shall be no minimum quorum requirement for such meeting; and

(ii) the principal amount of the Outstanding Securities of such series that vote in favor of such request, demand, authorization, direction, notice, consent, waiver or other action shall be taken into account in determining whether such request, demand, authori zation, direction, notice, consent, waiver or other action has been made, given or taken under this Indenture.

Section 15.5 DETERMINATION OF VOTING RIGHTS; CONDUCT AND ADJOURNMENT OF MEETINGS.

(a) Notwithstanding any provisions of this Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of Holders of Securities of a series in regard to proof of the holding of Securities of such series and of the appointment of proxies and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as its shall deem appropriate. Except as otherwise permitted or required by any such regulations, the holding of Securities shall be proved in the manner specified in Section 104 and the appointment of any proxy shall be proved in the manner specified in Section 104 or by having the signature of the person executing the proxy witnessed or



guaranteed by any trust company, bank or banker authorized by Section 104 to certify to the holding of Bearer Securities. Such regulations may provide that written instruments appointing proxies, regular on their face, may be presumed valid and genuine without the proof specified in Section 104 or other proof.

(b) The Trustee shall, by an instrument in writing appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Company or by Holders of Securities as provided in Section 1502(b), in which case the Company or the Holders of Securities of the series calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by vote of the Persons entitled to vote a majority in principal amount of the Outstanding Securities of such series represented at the meeting.

(c) At any meeting each Holder of a Security of such series or proxy shall be entitled to one vote for each $1,000 principal amount of Outstanding Securities of such series held or represented by him (determined as specified in the definition of "Outstanding" in Section 101); PROVIDED, HOWEVER, that no vote shall be cast or counted at any meeting in respect of any Security challenged as not Outstanding and ruled by the chairman of the meeting to be not Outstanding. The chairman of the meeting shall have no right to vote, except as a Holder of a Security of such series or proxy.

(d) Any meeting of Holders of Securities of any series duly

called pursuant to Section 1502 at which a quorum is present may be adjourned from time to time by Persons entitled to vote a majority in principal amount of the Outstanding Securities of such series represented at the meeting; and the meeting may be held as so adjourned without further notice.

Section 15.6 COUNTING VOTES AND RECORDING ACTION OF MEETINGS.

The vote upon any resolution submitted to any meeting of Holders of Securities of any series shall be by written ballots on which shall be subscribed the signatures of the Holders of Securities of such series or of their representatives by proxy and the principal amounts and serial numbers of the Outstanding Securities of such series held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in duplicate of all votes cast at the meeting. A record, at least in duplicate, of the proceedings of each meeting of Holders of Securities of any series shall be prepared by the Secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was given as provided in Section 1502 and, if applicable, Section 1504. Each copy shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one such copy shall be delivered to the Company, and another to the Trustee to be preserved by the Trustee, the latter to have attached thereto the ballots voted at the meeting. Any record so signed and verified shall be conclusive evidence of the matters therein stated.

This Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Indenture.



IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

CENDANT CORPORATION

By: /s/ James E. Buckman
-----------------------------------
Name: James E. Buckman
Title: Senior Executive Vice President & General Counsel

[Seal]

Attest:

THE BANK OF NOVA SCOTIA TRUST COMPANY OF NEW YORK
Trustee

By: /s/ Warren A. Goshine
-----------------------------------
Name: Warren A. Goshine
Title: Secretary/Trust Officer

[Seal]

Attest:



EXHIBIT A-1

FORM OF CERTIFICATE TO BE GIVEN BY
PERSON ENTITLED TO RECEIVE BEARER SECURITY
OR TO OBTAIN INTEREST PAYABLE PRIOR
TO THE EXCHANGE DATE

CERTIFICATE

[INSERT TITLE OR SUFFICIENT DESCRIPTION
OF SECURITIES TO BE DELIVERED]

This is to certify that as of the date hereof, and except as set forth below, the above-captioned Securities held by you for our account (i) are owned by person(s) that are not citizens or residents of the United States, domestic partnerships, domestic corporations or any estate or trust the income of which is subject to United States federal income taxation regardless of its source ("United States persons(s)"), (ii) are owned by United States person(s) that are (a) foreign branches of United States financial institutions (financial institutions, as defined in United States Treasury Regulations Section 2.165-12(c)(1)(v) are herein referred to as "financial institutions") purchasing for their own account or for resale, or (b) United States person(s) who acquired the Securities through foreign branches of United States financial institutions and who hold the Securities through such United States financial institutions on the date hereof (and in either case (a) or (b), each such United States financial institution hereby agrees, on its own behalf or through its agent, that you may advise [Name of Issuer] or its agent that such financial institution will comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the United States Internal Revenue Code of 1986, as amended, and the regulations thereunder), or (iii) are owned by United States or foreign financial institution(s) for purposes of resale during the restricted period (as defined in United States Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)), and, in addition, if the owner is a United States or foreign financial institution described in clause (iii) above (whether or not also described in clause (i) or (ii)), this is to further certify that such financial institution has not acquired the Securities for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions.

As used herein, "United States" means the United States of America (including the states and the District of Columbia); and its "possessions" include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.

We undertake to advise you promptly by tested telex on or prior to the date on which you intend to submit your certification relating to the above-captioned Securities held by you for our account in accordance with your Operating Procedures if any applicable statement herein is not correct on such date, and in the absence of any such notification it may be assumed that this certification applies as of such date.

This certificate excepts and does not relate to [U.S.$] of such interest in the above- captioned Securities in respect of which we are not able to certify and as to which we understand an exchange for an interest in a Permanent Global Security or an exchange for and delivery of definitive Securities (or, if relevant, collection of any interest) cannot be made until we do so certify.



We understand that this certificate may be required in connection with certain tax legislation in the United States. If administrative or legal proceedings are commenced or threatened in connection with which this certificate is or would be relevant, we irrevocably authorize you to produce this certificate or a copy thereof to any interested party in such proceedings.

Dated:

[To be dated no earlier than the 15th day prior to (i) the Exchange Date or (ii) the relevant Interest Payment Date occurring prior to the Exchange Date, as applicable]

[Name of Person Making
Certification]

----------------------------------
(AUTHORIZED SIGNATORY)
Name:
Title:

EXHIBIT A-2

FORM OF CERTIFICATE TO BE GIVEN BY EUROCLEAR AND CEDEL S.A. IN CONNECTION WITH THE EXCHANGE OF A PORTION OF A TEMPORARY GLOBAL SECURITY OR TO OBTAIN INTEREST PAYABLE PRIOR TO THE EXCHANGE DATE

CERTIFICATE

[INSERT TITLE OR SUFFICIENT DESCRIPTION OF SECURITIES TO BE DELIVERED]

This is to certify that based solely on written certifications that we have received in writing, by tested telex or by electronic transmission from each of the persons appearing in our records as persons entitled to a portion of the principal amount set forth below (our "Member Organizations") substantially in the form attached hereto, as of the date hereof, [U.S.$] principal amount of the above-captioned Securities (i) is owned by person(s) that are not citizens or residents of the United States, domestic partnerships, domestic corporations or any estate or trust the income of which is subject to United States Federal income taxation regardless of its source ("United States person(s)"), (ii) is owned by United States person(s) that are (a) foreign branches of United States financial institutions (financial institutions, as defined in U.S. Treasury Regulations Section 1.165-12(c)(1)(v) are herein referred to as "financial institutions") purchasing for their own account or for resale, or (b) United States person(s) who acquired the Securities through foreign branches of United States financial institutions and who hold the Securities through such United States financial institutions on the date hereof (and in either case (a) or (b), each such financial institution has agreed, on its own behalf or through its agent, that we may advise [Name of Issuer] or its agent that such financial institution will comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder), or (iii) is owned by United States or foreign financial institution(s) for purposes of resale during the restricted period (as defined in United States Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)) and, to the further effect, that financial institutions described in clause (iii) above (whether or not also described in clause (i) or (ii)) have certified that they have not acquired the Securities for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions.

As used herein, "United States" means the United States of America (including the states and the District of Columbia); and its "possessions" include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.

We further certify that (i) we are not making available herewith for exchange (or, if relevant, collection of any interest) any portion of the temporary global Security representing the above- captioned Securities excepted in the above-referenced certificates of Member Organizations and (ii) as of the date hereof we have not received any notification from any of our Member Organizations to the effect that the statements made by such Member Organizations with respect to any portion of the part submitted herewith for exchange (or, if relevant, collection of any interest) are no longer true and cannot be relied upon as of the date hereof.



We understand that this certification is required in connection with certain tax legislation in the United States. If administrative or legal proceedings are commenced or threatened in connection with which this certificate is or would be relevant, we irrevocably authorize you to produce this certificate or a copy thereof to any interested party in such proceedings.

Dated:

[To be dated no earlier than the Exchange Date or the relevant Interest Payment Date occurring prior to the Exchange Date, as applicable]

[MORGAN GUARANTY TRUST COMPANY OF NEW YORK,
BRUSSELS OFFICE, as Operator of the Euroclear System]
[CEDEL S.A.]

By
--------------------------------------------------

Exhibit 10.2(c)

# AMENDMENT TO EMPLOYMENT AGREEMENT

Amendment to Employment Agreement (this "Amendment") dated as of January 3, 2001, by and between Cendant Corporation (the "Company") and Stephen P. Holmes (the "Executive").

WHEREAS, the Company and the Executive are parties to that certain Employment Agreement, dated as of September 12, 1997, as amended, governing the terms of the Executive's employment with the Company (the "Employment Agreement");

WHEREAS, the Compensation Committee of the Board of Directors of the Company has granted the Executive an option to purchase 1,000,000 shares of common stock of the Company, dated as of the date hereof (the "January 2001 Option"); and

WHEREAS, the Company and the Executive desire that certain provisions set forth in the Employment Agreement pertaining to the grant of Company options to the Executive shall not apply to the January 2001 Option.

NOW THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. The last sentence of Section VIII.C. of the Employment Agreement is hereby amended and restated to read, in its entirety, as follows:

   "In the event of any such resignation, any unvested stock options (BUT SPECIFICALLY EXCLUDING THE JANUARY 2001 OPTION) held by the Executive that would have vested during the thirty-six (36) months following the date of such resignations shall become fully vested on the date of such resignation and shall remain exercisable for the remainder of their term without regard to such resignation, and any restrictions on any shares of restricted stock held by the Executive that would have lapsed during the thirty-six (36) months following the date of such resignation shall lapse on the date of such resignation, in each case notwithstanding anything to the contrary in any applicable stock option or restricted stock agreements."

2. Except as otherwise provided in this Amendment, the Employment Agreement shall remain in full force and effect.

3. This Amendment has been executed and delivered in the State of New Jersey and its validity, interpretation, performance and enforcement shall be governed by the laws of such state.

4. This Amendment may be executed in counterparts, of each which will be deemed an original, but both of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

CENDANT CORPORATION

By: ------------------------
Henry R. Silverman
Chairman, President and
Chief Executive Officer

- ------------------------
Stephen P. Holmes

Exhibit 10.3(c)

# AMENDMENT TO EMPLOYMENT AGREEMENT

Amendment to Employment Agreement (this "Amendment") dated as of January 3, 2001, by and between Cendant Corporation (the "Company") and James E. Buckman (the "Executive").

WHEREAS, the Company and the Executive are parties to that certain Employment Agreement, dated as of September 12, 1997, as amended, governing the terms of the Executive's employment with the Company (the "Employment Agreement");

WHEREAS, the Compensation Committee of the Board of Directors of the Company has granted the Executive an option to purchase 1,000,000 shares of common stock of the Company, dated as of the date hereof (the "January 2001 Option"); and

WHEREAS, the Company and the Executive desire that certain provisions set forth in the Employment Agreement pertaining to the grant of Company options to the Executive shall not apply to the January 2001 Option.

NOW THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. The last sentence of Section VIII.C. of the Employment Agreement is hereby amended and restated to read, in its entirety, as follows:

   "In the event of any such resignation, any unvested stock options (BUT SPECIFICALLY EXCLUDING THE JANUARY 2001 OPTION) held by the Executive that would have vested during the thirty-six (36) months following the date of such resignations shall become fully vested on the date of such resignation and shall remain exercisable for the remainder of their term without regard to such resignation, and any restrictions on any shares of restricted stock held by the Executive that would have lapsed during the thirty-six (36) months following the date of such resignation shall lapse on the date of such resignation, in each case notwithstanding anything to the contrary in any applicable stock option or restricted stock agreements."

2. Except as otherwise provided in this Amendment, the Employment Agreement shall remain in full force and effect.

3. This Amendment has been executed and delivered in the State of New Jersey and its validity, interpretation, performance and enforcement shall be governed by the laws of such state.

4. This Amendment may be executed in counterparts, of each which will be deemed an original, but both of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

CENDANT CORPORATION

By: ------------------------
Henry R. Silverman
Chairman, President and
Chief Executive Officer

- ------------------------
James E. Buckman

Exhibit 10.4

# EMPLOYMENT AGREEMENT

This Employment Agreement dated as of June 2, 2001 by and between Cendant Corporation, a Delaware corporation ("Cendant") and Richard A. Smith (the "Executive").

WHEREAS, the prior employment agreement by and between Cendant and the Executive has expired in accordance with its terms and is of no further force or effect;

WHEREAS, Cendant desires to continue to employ the Executive as Chairman and Chief Executive Officer, Cendant Real Estate Division, and the Executive desires to continue to serve Cendant in such capacity.

NOW THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

## SECTION I
## EMPLOYMENT

Cendant agrees to employ the Executive and the Executive agrees to be employed by Cendant for the Period of Employment as provided in Section III below and upon the terms and conditions provided in this Agreement.

## SECTION II
## POSITION AND RESPONSIBILITIES

During the Period of Employment, the Executive will serve as Chairman and Chief Executive Officer, Cendant Real Estate Division, and subject to the direction of the Chief Executive Officer of Cendant (the "CEO"), will perform such duties and exercise such supervision with regard to the business of Cendant as are associated with such position, as well as such additional duties as may be prescribed from time to time by the Board of Directors of Cendant (the "Board") and/or the CEO. Cendant acknowledges that such position is equivalent to the position of Vice Chairman of Cendant Corporation for purposes of compensation, employee benefits, officer perquisites and officer indemnification. The Executive will, during the Period of Employment, devote substantially all of his time and attention during normal business hours to the performance of services for Cendant. The Executive will maintain a primary office and conduct his business in Parsip-



pany, New Jersey (the "Business Office"), except for normal and reasonable business travel in connection with his duties hereunder.

## SECTION III
## PERIOD OF EMPLOYMENT

The period of the Executive's employment under this Agreement (the "Period of Employment") will begin on the June 2, 2001 and end on June 30, 2004, subject to extension or termination as provided in this Agreement.

## SECTION IV
## COMPENSATION AND BENEFITS

A. COMPENSATION.

For all services rendered by the Executive pursuant to this Agreement during the Period of Employment, including services as an executive, officer, director or committee member of Cendant or any subsidiary or affiliate of Cendant, the Executive will be compensated as follows:

i. BASE SALARY.

Cendant will pay the Executive a fixed base salary ("Base Salary") of not less than $750,000, per annum, and thereafter will be eligible to receive annual increases as the Board deems appropriate, in accordance with Cendant's customary procedures regarding the salaries of senior officers, but with due consideration given to the published Consumer Price Index applicable to the New York/New Jersey greater metropolitan area. Base Salary will be payable according to the customary payroll practices of Cendant, but in no event less frequently than once each month.

ii. ANNUAL INCENTIVE AWARDS

The Executive will be eligible for discretionary annual incentive compensation awards; PROVIDED, that the Executive will be eligible to receive an annual bonus for each fiscal year of Cendant during the Period of Employment based upon a target bonus equal to 100% of Base Salary, subject to Cendant's attainment of applicable performance targets established and certified by the Compensation Committee of the Board (the "Committee"). The parties acknowledge that it is currently contemplated that such performance targets will be stated in terms of "earnings before interest and taxes" of Cendant, however such targets may relate to such other financial and business criteria of Cendant or any of its subsidiaries or business units



as determined by the Committee in its sole discretion (each such annual bonus, an "Incentive Compensation Award").

iii. LONG-TERM INCENTIVE AWARDS

The Executive will be eligible for annual stock option awards, subject to the sole discretion of the Committee.

iv. ADDITIONAL BENEFITS

The Executive will be entitled to participate in all other compensation and employee benefit plans or programs and receive all benefits and perquisites for which salaried employees of Cendant generally are eligible under any plan or program now in effect, or later established by Cendant, on the same basis as similarly situated senior executives of Cendant with comparable duties and responsibilities. The Executive will participate to the extent permissible under the terms and provisions of such plans or programs, and in accordance with the terms of such plans and program.

v. FURTHER CONSIDERATION

As further consideration for the Executive's execution of this Agreement, and as an additional incentive to align his interests with those of Cendant's shareholders, Cendant shall promptly recommend to the Committee that each of the Executive's outstanding options to purchase Cendant common stock with an exercise price equal to $22.10 (270,000 shares granted on January 13, 2000) become fully and immediately vested and exercisable, to the extent not already vested.

Cendant acknowledges and agrees that in connection with its prior commitments to the Executive, the Executive has become entitled to the following benefits, subject to the following conditions. Upon the Executive's termination of employment from Cendant and its subsidiaries and affiliates, the Executive and each person who is his covered dependent at such time under each applicable health, medical, life and disability plan sponsored by Cendant, shall remain eligible to continue to participate in such plans, subject to the Executive and such dependents continuing to pay the applicable employee portion of any premiums, co-payments, deductibles and similar costs, until the end of the plan year in which the Executive reaches, or would have reached, age sixty-two (62), or until such dependents would have become ineligible for such benefits under the terms of such plans, whichever is earlier. Such benefits shall be provided in the event of the Executive's termination of employment for any reason.



SECTION V
BUSINESS EXPENSES

Cendant will reimburse the Executive for all reasonable travel and other expenses incurred by the Executive in connection with the performance of his duties and obligations under this Agreement. The Executive will comply with such limitations and reporting requirements with respect to expenses as may be established by Cendant from time to time and will promptly provide all appropriate and requested documentation in connection with such expenses.

SECTION VI
DISABILITY

A. If the Executive becomes Disabled, as defined below, during the Period of Employment, the Period of Employment may be terminated at the option of the Executive upon notice of resignation to Cendant, or at the option of

Cendant upon notice of termination to the Executive. Cendant's obligation to make payments to the Executive under this Agreement will cease as of such date of termination, except for Base Salary and any Incentive Compensation Awards earned but unpaid as of the date of such termination. In such event (i) each of the Executive's then outstanding options to purchase shares of Cendant common stock which was granted on or after September 3, 1998 will become immediately and fully vested and exercisable and, notwithstanding any term or provision relating to such option to the contrary, shall remain exercisable until the first to occur of the fifth (5th) anniversary of the Executive's termination of employment by reason of his becoming Disabled, and the original expiration date of such option and (ii) the Executive and each of his dependents then covered under applicable health, medical, life and disability insurance benefit plans of Cendant at the time of the Executive's termination of employment shall remain eligible to continue to participate in such plans (subject to the Executive or such dependents continuing to pay the applicable employee portion of any premiums, co-payments, deductibles and similar costs) until the end of the plan year in which the Executive reaches, or would have reached, age seventy-five (75), or until such dependents would otherwise have become ineligible for such benefits under the terms of such plans, whichever is earlier. For purposes of this Agreement, "Disabled" means the Executive's inability to perform his duties hereunder as a result of serious physical or mental illness or injury for a period of no less than 180 days, together with a determination by an independent medical authority that (i) the Executive is currently unable to perform such duties and (ii) in all reasonable likelihood such disability will continue for a period in excess of an additional 90 days. Such medical authority shall be mutually and reasonably agreed upon by Cendant and the Executive and such opinion shall be binding on Cendant and the Executive.



SECTION VII
DEATH

In the event of the death of the Executive during the Period of Employment, the Period of Employment will end and Cendant's obligation to make payments under this Agreement will cease as of the date of death, except for Base Salary and any Incentive Compensation Awards earned but unpaid as of the date of death, which will be paid to the Executive's surviving spouse, estate or personal representative, as applicable. In addition, in such event (i) each of the Executive's then outstanding options to purchase shares of Cendant common stock which was granted on or after September 3, 1998 will become immediately and fully vested and exercisable and, notwithstanding any term or provision relating to such options to the contrary, shall remain exercisable (by the Executive's beneficiary or estate, as provided in any applicable option plan or agreement) until the first to occur of the fifth (5th) anniversary of the Executive's death, and the original expiration date of such option and (ii) each of the Executive's dependents then covered under applicable health, medical, life and disability insurance benefit plans of Cendant at the time of the Executive's death shall remain eligible to continue to participate in such plans (subject to such dependents continuing to pay the applicable employee portion of any premiums, co-payments, deductibles and similar costs) until the end of the plan year in which the Executive would have reached age seventy-five (75), or until such dependents would otherwise have become ineligible for such benefits under the terms of such plans, whichever is earlier.

SECTION VIII
EFFECT OF TERMINATION OF EMPLOYMENT

A. WITHOUT CAUSE TERMINATION AND CONSTRUCTIVE DISCHARGE. If the Executive's employment terminates during the Period of Employment due to either (i) a Without Cause Termination or (ii) a Constructive Discharge (each such capitalized term as defined below), (a) Cendant will pay the Executive (or his surviving spouse, estate or personal representative, as applicable) a lump sum amount equal to 300% of the sum of the Executive's then current Base Salary plus then current target Incentive Compensation Award, (b) each of the Executive's then outstanding options to purchase shares of Cendant common stock which were granted on or after June 1, 2001 will become immediately and fully vested and exercisable and, notwithstanding any term or provision relating to such options to the contrary, shall remain exercisable until the first to occur of the fifth (5th) anniversary of the Executive's termination of employment and the original expiration date of such option and (c) the Executive and each of his dependents then covered under applicable health, medical, life and disability insurance benefit plans of Cendant at the time of



the Executive's termination of employment shall remain eligible to continue to

participate in such plans (subject to the Executive or such dependents continuing to pay the applicable employee portion of any premiums, co-payments, deductibles and similar costs) until the end of the plan year in which the Executive reaches, or would have reached, age seventy-five (75), or until such dependents would otherwise have become ineligible for such benefits under the terms of such plans, whichever is earlier; PROVIDED, HOWEVER, that once the Executive or his dependents become eligible for Medicare or any other government-sponsored medical insurance plan, the Executive or his dependents shall utilize such government plan, and Cendant's insurance obligations hereunder shall become secondary to such government plan, and; FURTHER, PROVIDED, that Cendant's obligation to provide such benefits shall terminate in the event the Executive shall accept employment with any entity which is in competition with Cendant's Real Estate Division.

Further, with respect to any split-dollar insurance policies relating to the life of the Executive, such policies shall be treated in accordance with their existing terms, or, if more favorable to the Executive, shall be treated in a manner no less favorable than the terms applicable to any other senior officer of Cendant (other than the Chief Executive Officer) relating to a severance event.

Further, if the Executive's employment terminates by reason of (i) Without Cause Termination or Constructive Discharge during the Period of Employment or (ii) a Resignation at any time during or after the expiration of the Period of Employment, each of the Executive's then outstanding options to purchase shares of Cendant common stock which were granted on or after September 3, 1998 and prior to December 31, 2000 will become immediately and fully vested and exercisable, and notwithstanding any term or provision relating to such options to the contrary, shall remain exercisable until the first to occur of the fifth (5th) anniversary of the Executive's termination of employment and the original expiration date of such option.

B. TERMINATION FOR CAUSE; RESIGNATION. If the Executive's employment terminates due to a Termination for Cause or a Resignation, Base Salary and any Incentive Compensation Awards earned but unpaid as of the date of such termination will be paid to the Executive in a lump sum. Each outstanding stock options held by the Executive as of the date of termination will be treated in accordance with its terms (except as provided in the preceding paragraph). In addition, in the event the Executive's employment terminates due to a Resignation within six months following the expiration of the Period of Employment, as extended from time to time, Cendant shall pay the Executive a lump sum severance payment equal to the then current Base Salary. Except as provided in this paragraph, Cendant will have no further obligations to the Executive hereunder.



C. For purposes of this Agreement, the following terms have the following meanings:

i. "Termination for Cause" means (i) the Executive's willful failure to substantially perform his duties as an employee of Cendant or any subsidiary (other than any such failure resulting from incapacity due to physical or mental illness), (ii) any act of fraud, misappropriation, dishonesty, embezzlement or similar conduct against Cendant or any subsidiary, (iii) the Executive's conviction of a felony or any crime involving moral turpitude (which conviction, due to the passage of time or otherwise, is not subject to further appeal) or (iv) the Executive's gross negligence in the performance of his duties.

ii. "Constructive Discharge" means (i) any material failure of Cendant to fulfill its obligations under this Agreement (including without limitation any reduction of the Base Salary, as the same may be increased during the Period of Employment, or other element of compensation), (ii) the Business Office is relocated to any location which is more than 30 miles from the city limits of Parsippany, New Jersey or (iii) the Executive no longer reports directly to the CEO. The Executive will provide Cendant a written notice which describes the circumstances being relied on for the termination with respect to this Agreement within thirty (30) days after the event giving rise to the notice. Cendant will have thirty (30) days after receipt of such notice to remedy the situation prior to the termination for Constructive Discharge.

iii. "Without Cause Termination" or "Terminated Without Cause" means termination of the Executive's employment by Cendant other than due to death, disability, or Termination for Cause.

iv. "Resignation" means a termination of the Executive's employment by the Executive, other than in connection with a Constructive Discharge.

D. CONDITIONS TO PAYMENT AND ACCELERATION. All payments due to

the Executive under this Section VIII shall be made as soon as practicable; PROVIDED, HOWEVER, that such payments, as well as the modification of the terms of any Cendant options provided under this Section VIII, shall be subject to, and contingent upon, the execution by the Executive (or his beneficiary or estate) of a release of claims against Cendant and its affiliates in such reasonable form determined by Cendant in its sole discretion. The payments due to the Executive under this Section VIII shall be in lieu of any other severance benefits otherwise payable to the Executive under any severance plan of Cendant or its affiliates. To the extent any term



or condition of any option to purchase Cendant common stock conflicts with any term or condition of this Agreement applicable to such option, the term or condition set forth in this Agreement shall govern.

## SECTION IX
## OTHER DUTIES OF THE EXECUTIVE DURING AND AFTER THE PERIOD OF EMPLOYMENT

A. The Executive will, with reasonable notice during or after the Period of Employment, furnish information as may be in his possession and fully cooperate with Cendant and its affiliates as may be requested in connection with any claims or legal action in which Cendant or any of its affiliates is or may become a party. After the Period of Employment, the Executive will cooperate as reasonably requested with Cendant and its affiliates in connection with any claims or legal actions in which Cendant or any of its affiliates is or may become a party. Cendant agrees to reimburse the Executive for any reasonable out-of-pocket expenses incurred by Executive by reason of such cooperation, including any loss of salary, and Cendant will make reasonable efforts to minimize interruption of the Executive's life in connection with his cooperation in such matters as provided for in this paragraph.

B. The Executive recognizes and acknowledges that all information pertaining to this Agreement or to the affairs; business; results of operations; accounting methods, practices and procedures; members; acquisition candidates; financial condition; clients; customers or other relationships of Cendant or any of its affiliates ("Information") is confidential and is a unique and valuable asset of Cendant or any of its affiliates. Access to and knowledge of certain of the Information is essential to the performance of the Executive's duties under this Agreement. The Executive will not during the Period of Employment or thereafter, except to the extent reasonably necessary in performance of his duties under this Agreement, give to any person, firm, association, corporation, or governmental agency any Information, except as may be required by law. The Executive will not make use of the Information for his own purposes or for the benefit of any person or organization other than Cendant or any of its affiliates. The Executive will also use his best efforts to prevent the disclosure of this Information by others. All records, memoranda, etc. relating to the business of Cendant or its affiliates, whether made by the Executive or otherwise coming into his possession, are confidential and will remain the property of Cendant or its affiliates.

C. i. During the Period of Employment and for a two (2) year period thereafter (the "Restricted Period"), irrespective of the cause, manner or time of any termination, the Executive will not use his status with Cendant or any of its affiliates to obtain loans, goods or services from another organization on terms



that would not be available to him in the absence of his relationship to Cendant or any of its affiliates.

ii. During the Restricted Period, the Executive will not make any statements or perform any acts intended to or which may have the effect of advancing the interest of any existing or prospective competitors of Cendant or any of its affiliates or in any way injuring the interests of Cendant or any of its affiliates. During the Restricted Period, the Executive, without prior express written approval by the Board, will not engage in, or directly or indirectly (whether for compensation or otherwise) own or hold proprietary interest in, manage, operate, or control, or join or participate in the ownership, management, operation or control of, or furnish any capital to or be connected in any manner with, any party which competes in any way or manner with the business of Cendant or any of its affiliates, as such business or businesses may be conducted from time to time, either as a general or limited partner, proprietor, common or preferred shareholder, officer, director, agent, employee, consultant, trustee, affiliate, or otherwise. The Executive acknowledges that

Cendant's and its affiliates' businesses are conducted nationally and internationally and agrees that the provisions in the foregoing sentence will operate throughout the United States and the world.

iii. During the Restricted Period, the Executive, without express prior written approval from the Board, will not solicit any members or the then-current clients of Cendant or any of its affiliates for any existing business of Cendant or any of its affiliates or discuss with any employee of Cendant or any of its affiliates information or operation of any business intended to compete with Cendant or any of its affiliates.

iv. During the Restricted Period, the Executive will not interfere with the employees or affairs of Cendant or any of its affiliates or solicit or induce any person who is an employee of Cendant or any of its affiliates to terminate any relationship such person may have with Cendant or any of its affiliates, nor will the Executive during such period directly or indirectly engage, employ or compensate, or cause or permit any person with which the Executive may be affiliated, to engage, employ or compensate, any employee of Cendant or any of its affiliates. The Executive hereby represents and warrants that the Executive has not entered into any agreement, understanding or arrangement with any employee of Cendant or any of its affiliates pertaining to any business in which the Executive has participated or plans to participate, or to the employment, engagement or compensation of any such employee.

v. For the purposes of this Agreement, proprietary interest means legal or equitable ownership, whether through stock holding or otherwise, of an equity interest in a business, firm or entity or ownership of more than 5% of any class of eq-



uity interest in a publicly-held company and the term "affiliate" will include without limitation all subsidiaries and licensees of Cendant.

D. The Executive hereby acknowledges that damages at law may be an insufficient remedy to Cendant if the Executive violates the terms of this Agreement and that Cendant will be entitled, upon making the requisite showing, to preliminary and/or permanent injunctive relief in any court of competent jurisdiction to restrain the breach of or otherwise to specifically enforce any of the covenants contained in this Section IX without the necessity of showing any actual damage or that monetary damages would not provide an adequate remedy. Such right to an injunction will be in addition to, and not in limitation of, any other rights or remedies Cendant may have. Without limiting the generality of the foregoing, neither party will oppose any motion the other party may make for any expedited discovery or hearing in connection with any alleged breach of this Section IX.

E. The period of time during which the provisions of this Section IX will be in effect will be extended by the length of time during which the Executive is in breach of the terms hereof as determined by any court of competent jurisdiction on Cendant's application for injunctive relief.

F. The Executive agrees that the restrictions contained in this Section IX are an essential element of the compensation the Executive is granted hereunder and but for the Executive's agreement to comply with such restrictions, Cendant would not have entered into this Agreement.

SECTION X
INDEMNIFICATION

Cendant will indemnify the Executive to the fullest extent permitted by the laws of the state of Cendant's incorporation in effect at that time, or the certificate of incorporation and by-laws of Cendant, whichever affords the greater protection to the Executive.

SECTION XI
CERTAIN TAXES

Anything in this Agreement or in any other plan, program or agreement to the contrary notwithstanding and except as set forth below, in the event that (i) the Executive becomes entitled to any benefits or payments under Paragraph A of Section VIII hereof and (ii) it shall be determined that any payment or distribution by Cendant to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined

without regard to any additional payments required under this Section XI) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended, or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. Notwithstanding the foregoing provisions of this Section XI, if it shall be determined that the Executive is entitled to a Gross-Up Payment, but that the Payments do not exceed 110% of the greatest amount (the "Reduced Amount") that could be paid to the Executive such that the receipt of Payments would not give rise to any Excise Tax, then no Gross-Up Payment shall be made to the Executive and the Payments, in the aggregate, shall be reduced to the Reduced Amount. All determinations required to be made under this Section XI, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Deloitte & Touche LLP or such other certified public accounting firm as may be designated by Cendant.

SECTION XII
MITIGATION

The Executive will not be required to mitigate the amount of any payment provided for hereunder by seeking other employment or otherwise, nor will the amount of any such payment be reduced by any compensation earned by the Executive as the result of employment by another employer after the date the Executive's employment hereunder terminates.

SECTION XIII
WITHHOLDING TAXES

The Executive acknowledges and agrees that Cendant may directly or indirectly withhold from any payments under this Agreement all federal, state, city or other taxes that will be required pursuant to any law or governmental regulation.



SECTION XIV
EFFECT OF PRIOR AGREEMENTS

This Agreement will supersede any prior employment agreement between Cendant and the Executive hereof (including, without limitation, that certain letter agreement between Cendant and the Executive dated as of the September 3, 1998), and any such prior employment agreement will be deemed terminated without any remaining obligations of either party thereunder.

SECTION XV
CONSOLIDATION, MERGER OR SALE OF ASSETS

Nothing in this Agreement will preclude Cendant from consolidating or merging into or with, or transferring all or substantially all of its assets to, another corporation which assumes this Agreement and all obligations and undertakings of Cendant hereunder. Upon such a consolidation, merger or sale of assets the term "Cendant" will mean the other corporation and this Agreement will continue in full force and effect.

SECTION XVI
MODIFICATION

This Agreement may not be modified or amended except in writing signed by the parties. No term or condition of this Agreement will be deemed to have been waived except in writing by the party charged with waiver. A waiver will operate only as to the specific term or condition waived and will not constitute a waiver for the future or act on anything other than that which is specifically waived.

SECTION XVII
GOVERNING LAW

This Agreement has been executed and delivered in the State of New Jersey and its validity, interpretation, performance and enforcement will be governed by the internal laws of that state.

SECTION XVIII
ARBITRATION

A. Any controversy, dispute or claim arising out of or relating to this Agreement or the breach hereof which cannot be settled by mutual agreement (other than with respect to the matters covered by Section IX for which Cendant



may, but will not be required to, seek injunctive relief) will be finally settled by binding arbitration in accordance with the Federal Arbitration Act (or if not applicable, the applicable state arbitration law) as follows: Any party who is aggrieved will deliver a notice to the other party setting forth the specific points in dispute. Any points remaining in dispute twenty (20) days after the giving of such notice may be submitted to arbitration in New York, New York, to the American Arbitration Association, before a single arbitrator appointed in accordance with the arbitration rules of the American Arbitration Association, modified only as herein expressly provided. After the aforesaid twenty (20) days, either party, upon ten (10) days notice to the other, may so submit the points in dispute to arbitration. The arbitrator may enter a default decision against any party who fails to participate in the arbitration proceedings.

B. The decision of the arbitrator on the points in dispute will be final, unappealable and binding, and judgment on the award may be entered in any court having jurisdiction thereof.

C. Except as otherwise provided in this Agreement, the arbitrator will be authorized to apportion its fees and expenses and the reasonable attorneys' fees and expenses of any such party as the arbitrator deems appropriate. In the absence of any such apportionment, the fees and expenses of the arbitrator will be borne equally by each party, and each party will bear the fees and expenses of its own attorney.

D. The parties agree that this Section XVIII has been included to rapidly and inexpensively resolve any disputes between them with respect to this Agreement, and that this Section XVIII will be grounds for dismissal of any court action commenced by either party with respect to this Agreement, other than post-arbitration actions seeking to enforce an arbitration award. In the event that any court determines that this arbitration procedure is not binding, or otherwise allows any litigation regarding a dispute, claim, or controversy covered by this Agreement to proceed, the parties hereto hereby waive any and all right to a trial by jury in or with respect to such litigation.

E. The parties will keep confidential, and will not disclose to any person, except as may be required by law, the existence of any controversy hereunder, the referral of any such controversy to arbitration or the status or resolution thereof.



SECTION XIX
SURVIVAL

Sections IX, X, XI, XII, XIII and XVIII will continue in full force in accordance with their respective terms notwithstanding any termination of the Period of Employment.

SECTION XX
SEPARABILITY

All provisions of this Agreement are intended to be severable. In the event any provision or restriction contained herein is held to be invalid or unenforceable in any respect, in whole or in part, such finding will in no way affect the validity or enforceability of any other provision of this Agreement. The parties hereto further agree that any such invalid or unenforceable provision will be deemed modified so that it will be enforced to the greatest extent permissible under law, and to the extent that any court of competent jurisdiction determines any restriction herein to be unreasonable in any respect, such court may limit this Agreement to render it reasonable in the light of the circumstances in which it was entered into and specifically enforce this Agreement as limited.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

CENDANT CORPORATION

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By: Thomas D. Christopoul
Title: Senior Executive Vice President and Chief Administrative Officer

RICHARD A. SMITH

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Exhibit 10.5

# SECOND AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This Second Amended and Restated Employment Agreement, originally dated as of October 1, 1998 and amended and restated as of March 8, 2000 (the "First Restatement"), is hereby further amended and restated as of January 2, 2002 (the "Second Restatement"), by and between Cendant Corporation, a Delaware corporation ("Cendant") and John W. Chidsey (the "Executive").

WHEREAS, Cendant desires to continue to employ the Executive as Chief Executive Officer of each of Cendant's Vehicle Services Division and Financial Services Division, and the Executive desires to serve Cendant in such capacity.

NOW THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

## SECTION I
## EMPLOYMENT

Cendant agrees to employ the Executive and the Executive agrees to be employed by Cendant for the Period of Employment as provided in Section III below and upon the terms and conditions provided in this Agreement.

## SECTION II
## POSITION AND RESPONSIBILITIES

During the Period of Employment, the Executive will serve as Chief Executive Officer of each of Cendant's Vehicle Services Division and Financial Services Division, and subject to the direction of the Chief Executive Officer of Cendant (the "CEO"), will perform such duties and exercise such supervision with regard to the business of Cendant as are associated with such position, as well as such additional duties as may be reasonably prescribed from time to time by the Board of Directors of Cendant (the "Board") and/or the CEO. Cendant acknowledges that such position is equivalent to the position of Vice Chairman of Cendant Corporation for purposes of employee benefits, officer perquisites, officer indemnification and compensation. The Executive will, during the Period of Employment, devote substantially all of his time and attention during normal business hours to the per-

formance of services for Cendant. The Executive will maintain a primary office and conduct his business in Parsippany, New Jersey (the "Business Office"), except for normal and reasonable business travel in connection with his duties hereunder.

## SECTION III
## PERIOD OF EMPLOYMENT

The period of the Executive's employment under this Agreement (the "Period of Employment") will end on December 31, 2004, subject to extension or termination as provided in this Agreement.

## SECTION IV
## COMPENSATION AND BENEFITS

A. COMPENSATION.

For all services rendered by the Executive pursuant to this Agreement during the Period of Employment, including services as an executive, officer, director or committee member of Cendant or any subsidiary or affiliate of Cendant, the Executive will be compensated as follows:

i. BASE SALARY.

During the Period of Employment, Cendant will pay the Executive a fixed base salary ("Base Salary") of not less than $750,000, per annum, and from time to time will be eligible to receive annual increases as the Board deems appropriate in accordance with Cendant's customary procedures regarding the salaries of senior officers, but with due consideration given to the published Consumer Price Index applicable to the New York/New Jersey greater metropolitan area. Base Salary will be payable according to the customary payroll practices of Cendant, but in no event less frequently than once each month.

ii. ANNUAL INCENTIVE AWARDS

The Executive will be eligible for discretionary annual incentive compensation awards; PROVIDED, that the Executive will be eligible to receive an annual bonus for each fiscal year of Cendant during the Period of Employment based upon a target bonus equal to 100% of Base Salary, subject to Cendant's attainment of

applicable performance targets established and certified by the Compensation Committee of the Board (the "Committee"). The parties acknowledge that it is currently contemplated that such performance targets will be stated in terms of "earnings before interest and taxes" of Cendant, however such targets may relate to such other financial and business criteria of Cendant or any of its subsidiaries or business units as determined by the Committee in its sole discretion (each such annual bonus, an "Incentive Compensation Award").

iii. LONG-TERM INCENTIVE AWARDS

The Executive will be eligible for annual stock option awards, subject to the sole discretion of the Committee.

iv. ADDITIONAL BENEFITS

The Executive will be entitled to participate in all other compensation and employee benefit plans or programs and receive all benefits and perquisites for which salaried employees of Cendant generally are eligible under any plan or program now in effect, or later established by Cendant, on the same basis as similarly situated senior executives of Cendant with comparable duties and responsibilities. The Executive will participate to the extent permissible under the terms and provisions of such plans or programs, and in accordance with the terms of such plans and program. Cendant acknowledges that it has implemented a supplemental life insurance program (the "Insurance Program") intended to provide senior executive officers with life insurance with a death benefit of up to $5,000,000, and that the Executive may continue to participate therein so long as Cendant continues to maintain such Insurance Program, and further subject to the terms of such Insurance Program and any agreements entered into by the Executive and Cendant in respect of the Insurance Program.

SECTION V
BUSINESS EXPENSES

Cendant will reimburse the Executive for all reasonable travel and other expenses incurred by the Executive in connection with the performance of his duties and obligations under this Agreement. The Executive will comply with such limitations and reporting requirements with respect to expenses as may be established by Cendant from time to time and will promptly provide all appropriate and requested documentation in connection with such expenses.

SECTION VI
DISABILITY

A. If the Executive becomes Disabled, as defined below, during the Period of Employment, the Period of Employment may be terminated at the option of the Executive upon notice of resignation to Cendant, or at the option of Cendant upon notice of termination to the Executive. Cendant's obligation to make payments to the Executive under this Agreement will cease as of such date of termination, except for earned but unpaid Base Salary, any earned but unpaid Incentive Compensation Awards and the Extended Benefits (as defined below). In such event, each of the Executive's then outstanding options to purchase shares of Cendant common stock which was granted on or after March 8, 2000 will become immediately and fully vested and exercisable and, notwithstanding any term or provision relating to such option to the contrary, shall remain exercisable until the original expiration date of such option. For purposes of this Agreement, "Disabled" means the Executive's inability to perform his duties hereunder as a result of serious physical or mental illness or injury for a period of no less than 180 days, together with a determination by an independent medical authority that (i) the Executive is currently unable to perform such duties and (ii) in all reasonable likelihood such disability will continue for a period in excess of an additional 90 days. Such medical authority shall be mutually and reasonably agreed upon by Cendant and the Executive and such opinion shall be binding on Cendant and the Executive.

SECTION VII
DEATH

In the event of the death of the Executive during the Period of Employment, the Period of Employment will end and Cendant's obligation to make payments under this Agreement will cease as of the date of death, except for earned but unpaid Base Salary, any earned but unpaid Incentive Compensation Awards, which will be paid to the Executive's surviving spouse, estate or

personal representative, as applicable, and the Extended Benefits. In addition, in such event, each of the Executive's then outstanding options to purchase shares of Cendant common stock which was granted on or after March 8, 2000 will become immediately and fully vested and exercisable and, notwithstanding any term or provision relating to such options to the contrary, shall remain exercisable (by the Executive's beneficiary or estate, as provided in any applicable option plan or agreement) until the original expiration date of such option.

SECTION VIII
EFFECT OF TERMINATION OF EMPLOYMENT

A. WITHOUT CAUSE TERMINATION AND CONSTRUCTIVE DISCHARGE. If the Executive's employment terminates due to either a Without Cause Termination or a Constructive Discharge during the Period of Employment (i) Cendant will pay the Executive upon such termination a lump sum amount equal to the product of (A) the sum of the Executive's then current Base Salary and the Executive's target Incentive Compensation Award for the year in which such termination occurs, multiplied by (B) 300%, (ii) Cendant will pay the Executive upon such termination any and all Base Salary and Incentive Compensation Awards earned but unpaid through the date of such termination, (iii) each of the Executive's then outstanding options to purchase shares of Cendant common stock which was granted on or after March 8, 2000 will become immediately and fully vested and exercisable (if not already vested and exercisable) as of the date of such termination and, notwithstanding any term or provision relating to such options to the contrary, shall remain exercisable until the original expiration date of such option, (iv) the Executive will receive the Extended Benefits, (v) Cendant will continue to make premium payments in respect of the Executive's insurance policies under the Insurance Program for a period which is no less favorable than any post-termination period of coverage that any other senior executive officer of Cendant (other than the Chief Executive Officer) is entitled to receive in connection with a without cause termination; PROVIDED, that the foregoing is not intended to modify or amend the terms of the agreements between Cendant and the Executive in respect of the Insurance Program and (vi) if the Executive is then participating in a management car program sponsored by Cendant, then Cendant will take such action necessary to transfer ownership of one car which the Executive is then using pursuant to such program.

B. TERMINATION FOR CAUSE; RESIGNATION. If the Executive's employment terminates due to a Termination for Cause or a Resignation (other than a Resignation under paragraph C of this Section VIII), Base Salary and any Incentive Compensation Awards earned but unpaid as of the date of such termination will be paid to the Executive in a lump sum. Each outstanding stock options held by the Executive as of the date of termination will be treated in accordance with its terms. Except as provided in this paragraph, Cendant will have no further obligations to the Executive hereunder.

C. RESIGNATION AFTER EXPIRATION OF PERIOD OF EMPLOYMENT. If each of (i) the Executive's employment terminates due to a Resignation at any time following the expiration of the Period of Employment, as extended from time to time and (ii) Cendant does not offer to extend the Period of Employment on terms and conditions either (A) substantially equivalent to the then existing terms and conditions applicable to his employment or (B) no less favorable in the aggregate than the terms and conditions applicable to the employment of any other senior officer of Cendant (other than the Chief Executive Officer), then (1) Cendant will pay the Executive an amount equal to the Executive's then current Base Salary and (2) each of the Executive's then outstanding options to purchase shares of Cendant common stock which were granted on or after March 8, 2000, whether or not then vested, will become immediately vested (to the extent not already vested) as of the date of such termination and will, notwithstanding any term or provision relating to such options to the contrary, remain exercisable until the original expiration date of such option. In addition, upon any Resignation following the expiration of the Period of Employment, notwithstanding any offer from Cendant to extend the Period of Employment, the Executive will receive the Extended Benefits.

D. For purposes of this Agreement, the following terms have the following meanings:

i. "Termination for Cause" means (i) the Executive's willful failure to substantially perform his duties as an employee of Cendant or any subsidiary (other than any such failure resulting from incapacity due to physical or mental illness), (ii) any act of fraud or embezzlement against Cendant or any subsidiary, or any act of misappropriation, dishonesty or similar conduct resulting in material economic damage to Cendant or any subsidiary, (iii) the Executive's conviction of a felony or any crime involving moral turpitude (which conviction, due to the passage of time or otherwise, is not subject to further appeal) or (iv) the Executive's gross negligence in the performance of his duties.

ii. "Constructive Discharge" means (i) any material failure of Cendant to fulfill its obligations under this Agreement (including without limitation any reduction of the Base Salary, as the same may be increased during the Period of Employment, or other element of compensation, or any material and sustained reduction in the Executive's duties) or (ii) the Business Office is relocated to any location which is both (A) more than 30 miles from the city limits of Parsippany, New Jersey and (B) outside of the borough of Manhattan, New York City; PROVIDED, HOWEVER, that a Constructive Discharge will not occur by virtue of Cendant determining that the Ex-

ecutive shall no longer be Chief Executive Officer of either the Vehicle Services Division or the Financial Services Division, so long as the Executive remains Chief Executive Officer of one of those divisions and such division is substantially similar or larger in scope, size and revenue as is currently the case. The Executive will provide Cendant a written notice which describes the circumstances being relied on for the termination with respect to this Agreement within thirty (30) days after the event giving rise to the notice. Cendant will have thirty (30) days after receipt of such notice to remedy the situation prior to the termination for Constructive Discharge.

iii. "Without Cause Termination" or "Terminated Without Cause" means termination of the Executive's employment by Cendant other than due to death, disability, or Termination for Cause.

iv. "Resignation" means a termination of the Executive's employment by the Executive, other than in connection with a Constructive Discharge.

v. "Extended Benefits" means health and dental insurance benefits under the applicable employee benefit plan sponsored by Cendant (or any other comparable plan or arrangement) for the Executive and his covered dependents for a period beginning on the Executive's termination of employment and ending on the first to occur of the Executive's 65th birthday and the date the Executive becomes eligible for coverage under Medicare or such other governmental insurance program, subject to the terms of the applicable employee benefit plan and applicable law, and further subject to the payment by the Executive of applicable employee premium contributions, co-payments, deductibles and similar costs.

D. CONDITIONS TO PAYMENT AND ACCELERATION. All payments and benefits due to the Executive under this Section VIII shall be made as soon as practicable; PROVIDED, HOWEVER, that such payments and benefits shall be subject to, and contingent upon, the execution by the Executive (or his beneficiary or estate) of a release of claims against Cendant and its affiliates in such form determined by Cendant in its sole discretion. The payments due to the Executive under this Section VIII shall be in lieu of any other severance benefits otherwise payable to the Executive under any severance plan of Cendant or its affiliates. To the extent any term or condition of any option to purchase Cendant common stock conflicts with any term or condition of this Agreement applicable to such option, the term or condition set forth in this Agreement shall govern.

## SECTION IX
## OTHER DUTIES OF THE EXECUTIVE
## DURING AND AFTER THE PERIOD OF EMPLOYMENT

A. The Executive will, with reasonable notice during or after the Period of Employment, furnish information as may be in his possession and fully cooperate with Cendant and its affiliates as may be requested in connection with any claims or legal action in which Cendant or any of its affiliates is or may become a party. After the Period of Employment, the Executive will cooperate as reasonably requested with Cendant and its affiliates in connection with any claims or legal actions in which Cendant or any of its affiliates is or may become a party. Cendant agrees to reimburse the Executive for any reasonable out-of-pocket expenses incurred by Executive by reason of such cooperation, including any loss of salary, and Cendant will make reasonable efforts to minimize interruption of the Executive's life in connection with his cooperation in such matters as provided for in this paragraph.

B. The Executive recognizes and acknowledges that all information pertaining to this Agreement or to the affairs; business; results of operations; accounting methods, practices and procedures; members; acquisition candidates; financial condition; clients; customers or other relationships of Cendant or any of its affiliates ("Information") is confidential and is a unique and valuable asset of Cendant or any of its affiliates. Access to and knowledge of certain of the Information is essential to the performance of the Executive's duties under this Agreement. The Executive will not during the Period of Employment or thereafter, except to the extent reasonably necessary in performance of his duties under this Agreement, give to any person, firm,

association, corporation, or governmental agency any Information, except as may be required by law. The Executive will not make use of the Information for his own purposes or for the benefit of any person or organization other than Cendant or any of its affiliates. The Executive will also use his best efforts to prevent the disclosure of this Information by others. All records, memoranda, etc. relating to the business of Cendant or its affiliates, whether made by the Executive or otherwise coming into his possession, are confidential and will remain the property of Cendant or its affiliates.

C. i. During the Period of Employment and either (i) for a period of two years thereafter if the Executive receives severance benefits under Section VIII.A. above or (ii) for a one year period thereafter under any other circumstances (the "Restricted Period"), irrespective of the cause, manner or time of any termination, the Executive will not use his status with Cendant or any of its affiliates

to obtain loans, goods or services from another organization on terms that would not be available to him in the absence of his relationship to Cendant or any of its affiliates.

ii. During the Restricted Period, the Executive will not make any statements or perform any acts intended to advance the interest of any existing competitors (or any entity which the Executive knows to be a prospective competitor) of Cendant's Vehicle Services Division or Financial Services Division (collectively, the "Protected Business") or in any way injuring the interests of the Protected Business. During the Restricted Period, the Executive, without prior express written approval by the Board, will not engage in, or directly or indirectly (whether for compensation or otherwise) own or hold proprietary interest in, manage, operate, or control, or join or participate in the ownership, management, operation or control of, or furnish any capital to or be connected in any manner with, any party which competes in any way or manner with the Protected Business, as such business may be conducted from time to time, either as a general or limited partner, proprietor, common or preferred shareholder, officer, director, agent, employee, consultant, trustee, affiliate, or otherwise. The Executive acknowledges that the Protected Business is conducted nationally and internationally and agrees that the provisions in the foregoing sentence will operate throughout the United States and the world.

iii. During the Restricted Period, the Executive, without express prior written approval from the Board, will not solicit any members or the then-current clients of Cendant or any of its affiliates for any existing business of Cendant or any of its affiliates or discuss with any employee of Cendant or any of its affiliates information or operation of any business intended to compete with Cendant or any of its affiliates.

iv. During the Restricted Period, the Executive will not interfere with the employees or affairs of Cendant or any of its affiliates or solicit or induce any person who is an employee of Cendant or any of its affiliates to terminate any relationship such person may have with Cendant or any of its affiliates, nor will the Executive during such period directly or indirectly engage, employ or compensate, or cause or permit any person (if such person is within the Executive's control) with which the Executive may be affiliated, to engage, employ or compensate, any employee of Cendant or any of its affiliates. The Executive hereby represents and warrants that the Executive has not entered into any agreement, understanding or arrangement with any employee of Cendant or any of its affiliates pertaining to any business in

which the Executive has participated or plans to participate, or to the employment, engagement or compensation of any such employee.

v. For the purposes of this Agreement, proprietary interest means legal or equitable ownership, whether through stock holding or otherwise, of an equity interest in a business, firm or entity or ownership of more than 5% of any class of equity interest in a publicly-held company and the term "affiliate" will include without limitation all subsidiaries and licensees of Cendant.

D. The Executive hereby acknowledges that damages at law may be an insufficient remedy to Cendant if the Executive violates the terms of this Agreement and that Cendant will be entitled, upon making the requisite showing, to preliminary and/or permanent injunctive relief in any court of competent jurisdiction to restrain the breach of or otherwise to specifically enforce any of the covenants contained in this Section IX without the necessity of showing any actual damage or that monetary damages would not provide an adequate remedy. Such right to an injunction will be in addition to, and not in limitation of, any other rights or remedies Cendant may have. Without limiting the generality of the foregoing, neither party will oppose any motion the other party may make for any expedited discovery or hearing in connection with any alleged breach of this Section IX.

E. The period of time during which the provisions of this Section IX will be in effect will be extended by the length of time during which the Executive is in breach of the terms hereof as determined by any court of competent jurisdiction on Cendant's application for injunctive relief.

F. The Executive agrees that the restrictions contained in this Section IX are (i) an essential element of the compensation the Executive is granted hereunder and but for the Executive's agreement to comply with such restrictions, Cendant would not have entered into this Agreement and (ii) in addition to and not in lieu of any other restrictions agreed to by the Executive whether in connection with any Cendant compensation programs or otherwise.

SECTION X
INDEMNIFICATION

Cendant will indemnify the Executive to the fullest extent permitted by the laws of the state of Cendant's incorporation in effect at that time, or the certificate of

incorporation and by-laws of Cendant, whichever affords the greater protection to the Executive.

SECTION XI
CERTAIN TAXES

In the event that the Executive becomes entitled to any benefits or payments pursuant to this Agreement or otherwise in connection with a change in the control of Cendant or the Executive's termination of employment with Cendant (such benefits or payments excluding the Gross-Up Payment collectively, the "Total Payments") that are subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes, including any interest or penalties imposed with respect to such taxes, and including any federal, state and local income taxes and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Total Payments. All determinations required to be made under this Section XI, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by the accounting firm which was, immediately prior to the applicable change in the control of Cendant, Cendant's independent auditor.

SECTION XII
MITIGATION

The Executive will not be required to mitigate the amount of any payment provided for hereunder by seeking other employment or otherwise, nor will the amount of any such payment be reduced by any compensation earned by the Executive as the result of employment by another employer after the date the Executive's employment hereunder terminates.

SECTION XIII
WITHHOLDING TAXES

The Executive acknowledges and agrees that Cendant may directly or indirectly withhold from any payments under this Agreement all federal, state, city or other taxes that will be required pursuant to any law or governmental regulation.

SECTION XIV
EFFECT OF PRIOR AGREEMENTS

This Agreement will supersede any prior employment agreement between Cendant and the Executive hereof, including, without limitation, that certain letter agreement between Cendant and the Executive dated as of April 30, 1998 (but excluding the Memorandum to the Executive from Henry R. Silverman dated as of January 15, 1998 regarding certain compensation arrangements applicable in 1998) and any such prior employment agreement will be deemed terminated without any remaining obligations of either party thereunder.

SECTION XV
CONSOLIDATION, MERGER OR SALE OF ASSETS

Nothing in this Agreement will preclude Cendant from consolidating or merging into or with, or transferring all or substantially all of its assets to, another corporation which assumes this Agreement and all obligations and undertakings of Cendant hereunder. Upon such a consolidation, merger or sale of assets the term "Cendant" will mean the other corporation and

this Agreement will continue in full force and effect.

SECTION XVI
MODIFICATION

This Agreement may not be modified or amended except in writing signed by the parties. No term or condition of this Agreement will be deemed to have been waived except in writing by the party charged with waiver. A waiver will operate only as to the specific term or condition waived and will not constitute a waiver for the future or act on anything other than that which is specifically waived.

SECTION XVII
GOVERNING LAW

This Agreement has been executed and delivered in the State of New Jersey and its validity, interpretation, performance and enforcement will be governed by the internal laws of that state.

SECTION XVIII
ARBITRATION

A. Any controversy, dispute or claim arising out of or relating to this Agreement or the breach hereof which cannot be settled by mutual agreement (other than with respect to the matters covered by Section IX for which Cendant may, but will not be required to, seek injunctive relief) will be finally settled by binding arbitration in accordance with the Federal Arbitration Act (or if not applicable, the applicable state arbitration law) as follows: Any party who is aggrieved will deliver a notice to the other party setting forth the specific points in dispute. Any points remaining in dispute twenty (20) days after the giving of such notice may be submitted to arbitration in New York, New York, to the American Arbitration Association, before a single arbitrator appointed in accordance with the arbitration rules of the American Arbitration Association, modified only as herein expressly provided. After the aforesaid twenty (20) days, either party, upon ten (10) days notice to the other, may so submit the points in dispute to arbitration. The arbitrator may enter a default decision against any party who fails to participate in the arbitration proceedings.

B. The decision of the arbitrator on the points in dispute will be final, unappealable and binding, and judgment on the award may be entered in any court having jurisdiction thereof.

C. Except as otherwise provided in this Agreement, the arbitrator will be authorized to apportion its fees and expenses and the reasonable attorneys' fees and expenses of any such party as the arbitrator deems appropriate. In the absence of any such apportionment, the fees and expenses of the arbitrator will be borne equally by each party, and each party will bear the fees and expenses of its own attorney.

D. The parties agree that this Section XVIII has been included to rapidly and inexpensively resolve any disputes between them with respect to this Agreement, and that this Section XVIII will be grounds for dismissal of any court action commenced by either party with respect to this Agreement, other than post-arbitration actions seeking to enforce an arbitration award. In the event that any court determines that this arbitration procedure is not binding, or otherwise allows any litigation regarding a dispute, claim, or controversy covered by this Agreement

to proceed, the parties hereto hereby waive any and all right to a trial by jury in or with respect to such litigation.

E. The parties will keep confidential, and will not disclose to any person, except as may be required by law, the existence of any controversy hereunder, the referral of any such controversy to arbitration or the status or resolution thereof.

SECTION XIX
SURVIVAL

Sections IX, X, XI, XII, XIII and XVIII will continue in full force in accordance with their respective terms notwithstanding any termination of the Period of Employment.

SECTION XX
SEPARABILITY

All provisions of this Agreement are intended to be severable. In the event any provision or restriction contained herein is held to be invalid

or unenforceable in any respect, in whole or in part, such finding will in no way affect the validity or enforceability of any other provision of this Agreement. The parties hereto further agree that any such invalid or unenforceable provision will be deemed modified so that it will be enforced to the greatest extent permissible under law, and to the extent that any court of competent jurisdiction determines any restriction herein to be unreasonable in any respect, such court may limit this Agreement to render it reasonable in the light of the circumstances in which it was entered into and specifically enforce this Agreement as limited.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

CENDANT CORPORATION

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By: Henry R. Silverman
Title: Chairman, President & Chief Executive Officer

JOHN W. CHIDSEY

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Attachment to Second Amended and Restated Employment Agreement of John W. Chidsey Dated January 2, 2002 (the "New Agreement")

Recital Of Special Stock Option Provisions

The Executive has been granted a number of options to purchase Cendant Corporation common stock during the term of his employment (the "Options"). The Options shall be subject to the terms set forth in option plan under which they were granted, and the terms of the option grant agreements evidencing such grants, subject to the further terms and conditions set forth in the New Agreement. The following is intended to summarize the Executive's additional rights with respect to the Options by virtue of actions taken by the Compensation Committee of the Board of Directors of Cendant Corporation (the "Committee"). However, the parties acknowledge and agree that nothing contained in this Attachment shall be deemed to have modified or amended any Option.

By Committee action taken March 27, 2000, certain Options granted on April 21, 1999 and January 13, 2000 with exercise prices equal to $17.875 and $22.10, to the extent set forth on an annex attached to that action, were amended to become fully vested and remain exercisable through their original expiration dates upon the expiration of the Period of Employment as defined in the Executive's prior employment agreement (Amended and Restated Employment Agreement dated March 8, 2000) (the "Prior Agreement"). Cendant acknowledges that such Period of Employment has expired, other than by reason of Termination for Cause, and accordingly the amended options are fully vested and will remain outstanding for their original expiration dates, without regard to any subsequent changes to the Executive's employment status.

By Committee action taken April 18, 2000, the Options granted on January 22, 1996, were amended to remain exercisable through their original expiration dates upon the expiration of the Period of Employment as defined in the Prior Agreement. Cendant acknowledges that such Period of Employment has expired, other than by reason of Termination for Cause, and accordingly the amended options will remain outstanding for their original expiration dates, without regard to any subsequent changes to the Executive's employment status.

By Committee action taken November 28, 2000, certain Options with exercise prices equal to $9.8125 and $12.2656, to the extent set forth on an annex to such action,

were amended to become fully vested and remain exercisable through their original expiration dates upon the expiration of the Period of Employment as defined in the Prior Agreement. Cendant acknowledges that such Period of Employment has expired, other than by reason of Termination for Cause, and accordingly the amended options are fully vested and will remain outstanding for their original expiration dates, without regard to any subsequent changes to the Executive's employment status.

Pursuant to Section IV.B. of the Prior Agreement, the Committee acted to amend certain options which were indicated on an annex to that employment agreement to become fully vested and remain exercisable through their original expiration

dates upon the expiration of the Period of Employment as defined in the Prior Agreement. Cendant acknowledges that such Period of Employment has expired, other than by reason of Termination for Cause, and accordingly the amended options are fully vested and will remain outstanding for their original expiration dates, without regard to any subsequent changes to the Executive's employment status.

Exhibit 10.19(c)

CONFORMED COPY

SECOND AMENDMENT (this "AMENDMENT"), dated as of October 5, 2001, to the THREE YEAR COMPETITIVE ADVANCE AND REVOLVING CREDIT AGREEMENT dated August 29, 2000 (as amended, supplemented or otherwise modified from time to time, the "CREDIT AGREEMENT"), by and among CENDANT CORPORATION, a Delaware corporation (the "BORROWER"), the financial institutions parties thereto (the "LENDERS"), and THE CHASE MANHATTAN BANK, a New York banking corporation, as administrative agent for the Lenders (in such capacity, the "ADMINISTRATIVE AGENT").

W I T N E S S E T H:

WHEREAS, the Borrower has requested that certain provisions of the Credit Agreement be amended as set forth herein; and

WHEREAS, the Lenders are willing to agree to such amendments on the terms set forth herein;

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein, the undersigned hereby agree as follows:

I. DEFINED TERMS. Terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

II. AMENDMENTS TO SECTION 1.

(a) Section 1 of the Credit Agreement is hereby amended by adding thereto the following definitions in their appropriate alphabetical order:

"AVIS SECURITIZATION ENTITY" means a Subsidiary of Avis (or another Person in which Avis or any of its Subsidiaries makes an investment or to which Avis or any of its Subsidiaries transfers Permitted Vehicle Collateral or an interest in Permitted Vehicle Collateral) which engages in no activities other than in connection with the ownership, leasing, operation and financing of Eligible Vehicles and other Permitted Vehicle Collateral and which is designated by the board of directors of Avis as a Securitization Entity and as to which:

(1) no portion of the Indebtedness or any other obligations (contingent or otherwise) of which:

(a) is guaranteed by the Borrower or any of its Subsidiaries (excluding guarantees of obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitization Undertakings);

(b) is recourse to or obligates the Borrower or any of its Subsidiaries in any way other than pursuant to Standard Securitization Undertakings; or



(c) subjects any property or asset of the Borrower or any of its Subsidiaries (other than a Securitization Entity), directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitization Undertakings;

(2) neither the Borrower nor any of its Subsidiaries has any material contract, agreement, arrangement or understanding (except in connection with a Purchase Money Note or Qualified Securitization Transaction) other than on terms no less favorable to the Borrower or such Subsidiary of the Borrower than those that might be obtained at the time from Persons that are not Affiliates of the Borrower, other than fees payable in the ordinary course of business in connection with servicing Permitted Vehicle Collateral; and

(3) neither the Borrower nor any of its Subsidiaries

has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results.

"PERMITTED TIMESHARE COLLATERAL" means, as of any date of determination:

(1) the collateral securing Timeshare Loan Indebtedness and consisting of Timeshare Loans or a beneficial interest therein and the proceeds thereof;

(2) Timeshare Loans or a beneficial interest therein, transferred to a Securitization Entity in connection with a Qualified Securitization Transaction and the proceeds thereof;

(3) any related assets which are customarily transferred, or in respect of which security interests are customarily granted, in connection with asset securitizations involving Timeshare Loans; and

(4) any proceeds of any of the foregoing.

"TIMESHARE DEBT DOCUMENTS" shall mean the instruments and agreements pursuant to which any indebtedness of any Timeshare Subsidiary has been issued, is outstanding or is permitted to exist.

"TIMESHARE LOAN INDEBTEDNESS" shall mean any Indebtedness secured by or payable from Permitted Timeshare Collateral.

"TIMESHARE LOAN" shall mean any loan made to finance the acquisition of a timeshare, including a timeshare that has not yet been completed, any installment contract for the purchase of a timeshare, or any other arrangement in the nature of a financing of the purchase of a timeshare, and all security therefor and proceeds thereof.

"TIMESHARE PROPERTY" shall mean any property used or intended to be used for development, in whole or in part, of a timeshare regime, including but not limited to real property, improvements thereon, any condominium, any portion of such a development, any unit or units subjected to a timeshare regime, any fixed week intervals, any undivided



interests, any notional "points" afforded to owners of timeshares, any common areas, and any other form of ownership of, or entitlement to occupy real estate that forms a part of, or is subject to, a timeshare regime under applicable state law.

"TIMESHARE SECURITIZATION ENTITY" means in the case of a Subsidiary of a Timeshare Subsidiary (or another Person in which a Timeshare Subsidiary makes an investment or to which any Timeshare Subsidiary transfers Permitted Timeshare Collateral or an interest in Permitted Timeshare Collateral) which engages in no activities other than in connection with the ownership, leasing, operation and financing of Timeshare Properties and other Permitted Timeshare Collateral and which is designated by the board of directors of a Timeshare Subsidiary as a Securitization Entity and as to which:

(1) no portion of the Indebtedness or any other obligations (contingent or otherwise) of which:

(a) is guaranteed by the Borrower or any of its Subsidiaries (excluding guarantees of obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitization Undertakings);

(b) is recourse to or obligates the Borrower in any way other than pursuant to Standard Securitization Undertakings; or

(c) subjects any property or asset of the Borrower or any of its Subsidiaries (other than a Securitization Entity), directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitization Undertakings;

(2) neither the Borrower nor any of its Subsidiaries has any material contract, agreement, arrangement or understanding (except in connection with a Purchase Money Note or Qualified Securitization Transaction) other than on terms no less favorable to the Borrower or such Subsidiary of the Borrower than those that might be obtained at the time from Persons that are not Affiliates of the Borrower, other than fees payable in the ordinary course of business in connection with servicing Permitted Timeshare Collateral; and

(3) neither the Borrower nor any of its Subsidiaries has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results.

"TIMESHARE SUBSIDIARY" shall mean Fairfield, its Subsidiaries, or any other direct or indirect Subsidiary of the Borrower that is in the business of developing, owning, selling, managing or financing Timeshare Properties.

"UPPER DECS" shall mean the securities, consisting of 6.75% senior notes of the Borrower due 2006 and forward purchase contracts to purchase the Borrower's common stock in August 2004, issued on July 27, 2001 pursuant to the Prospectus Supplement, dated as of July 20, 2001.



(b) Section 1 of the Credit Agreement is hereby amended by deleting the definitions of the following defined terms in their respective entireties and substituting in lieu thereof the following definitions:

"COMMITMENT PERCENTAGE" shall mean, as to any Lender at any time, the percentage which such Lender's Commitment then constitutes of the Total Commitment or, at any time after the Commitments shall have expired or terminated, the percentage which the aggregate principal amount of such Lender's Loans and L/C Exposure then outstanding constitutes of the aggregate principal amount of the Loans and L/C Exposure then outstanding.

"CONSOLIDATED EBITDA" shall mean, without duplication, for any period for which such amount is being determined, the sum of the amounts for such period of (i) Consolidated Net Income, (ii) provision for taxes based on income, (iii) depreciation expense (excluding any such expense attributable to depreciation of Eligible Vehicles which are included in a Qualified Securitization Transaction), (iv) Consolidated Interest Expense, (v) amortization expense, (vi) other non-cash items reducing Consolidated Net Income, plus (vii) any cash contributions by the Borrower and its Subsidiaries during such period into the Settlement Trust minus (viii) any cash expenditures during such period to the extent such cash expenditures (x) did not reduce Consolidated Net Income for such period and (y) were applied against reserves that constituted non-cash items which reduced Consolidated Net Income during prior periods, all as determined on a consolidated basis for the Borrower and its Consolidated Subsidiaries in accordance with GAAP. Notwithstanding the foregoing, in calculating Consolidated EBITDA pro forma effect shall be given to each acquisition of a Subsidiary or any entity acquired in a merger in any relevant period for which the covenants set forth in Sections 6.7 and 6.8 are being calculated as if such acquisition had been made on the first day of such period.

"CONSOLIDATED INTEREST EXPENSE" shall mean for any period for which such amount is being determined, total interest expense paid or payable in cash (including that properly attributable to Capital Leases in accordance with GAAP but excluding in any event all capitalized interest and amortization of debt discount and debt issuance costs) of the Borrower and its Consolidated Subsidiaries on a consolidated basis including, without limitation, all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing and net cash costs (or minus net profits) under Interest Rate Protection Agreements MINUS, without duplication, any interest income of the Borrower and its Consolidated Subsidiaries on a consolidated basis during such period. Notwithstanding the foregoing, interest expense on any Avis Securitization Indebtedness or any Timeshare Loan Indebtedness, shall be deemed not to be included in Consolidated Interest Expense.

"CONSOLIDATED NET WORTH" shall mean, as of any date of determination, all items which in conformity with GAAP would be included under shareholders' equity on a consolidated balance sheet of

the Borrower and its Subsidiaries at such date plus mandatorily redeemable preferred securities issued by Subsidiaries of the Borrower (other than PHH and its Subsidiaries) plus 80% of the aggregate amount outstanding under the Upper DECS which is, at the date as of which Consolidated Net Worth is to be determined, includable as a liability on a consolidated balance sheet of the Borrower and



its Subsidiaries. Consolidated Net Worth shall include the Borrower's equity interest in PHH.

"CONSOLIDATED TOTAL INDEBTEDNESS" shall mean (i) the total amount of Indebtedness of the Borrower and its Consolidated Subsidiaries determined on a consolidated basis using GAAP principles of consolidation, which is, at the dates as of which Consolidated Total Indebtedness is to be determined, includable as liabilities on a consolidated balance sheet of the Borrower and its Subsidiaries, plus (ii) without duplication of any items included in Indebtedness pursuant to the foregoing clause (i), Indebtedness of others which the Borrower or any of its Consolidated Subsidiaries has directly or indirectly assumed or guaranteed (but only to the extent so assumed or guaranteed) or otherwise provided credit support therefor, including without limitation, Guaranties; PROVIDED that, for purposes of this definition, (a) any Avis Securitization Indebtedness shall not be deemed Indebtedness, (b) any Timeshare Loan Indebtedness shall not be deemed Indebtedness and (c) only 20% of the aggregate amount outstanding under the Upper DECS which is, at the dates as of which Consolidated Total Indebtedness is to be determined, includable as a liability on a consolidated balance sheet of the Borrower and its Subsidiaries, shall be deemed Indebtedness. In addition, for purposes of this definition, the amount of Indebtedness at any time shall be reduced (but not to less than zero) by the amount of Excess Cash.

"FAIRFIELD" shall mean Fairfield Resorts Inc., a Delaware corporation (formerly Fairfield Communities, Inc.).

"HOTEL SUBSIDIARY" shall mean any Subsidiary of the Borrower which (a) is engaged as its principal activity, in the hotel franchising business or related activities or (b) owns or licenses from a Person other than the Borrower or another Subsidiary, any proprietary right related to the hotel franchising business.

"PURCHASE MONEY NOTE" means a promissory note of a Securitization Entity evidencing a line of credit, which may be irrevocable, from Avis or any of its Subsidiaries or a Timeshare Subsidiary to a Securitization Entity or representing the deferred purchase price for the purchase of assets by such Securitization Entity from Avis or any of its Subsidiaries or Timeshare Subsidiary, as the case may be, in each case in connection with a Qualified Securitization Transaction, which note is repayable from cash available to the Securitization Entity, other than amounts required to be established as reserves pursuant to agreements, amounts paid to investors in respect of interest, principal and other amounts owing to such investors and amounts paid in connection with the purchase of Eligible Vehicles, Eligible Leases, Fleet Receivables or a beneficial interest therein, in the case of an Avis Securitization Entity, or a Timeshare Loan, in the case of a Timeshare Securitization Entity.

"QUALIFIED SECURITIZATION TRANSACTION" means (x) any transaction or series of transactions that may be entered into by Avis or any of its Subsidiaries pursuant to which Avis or any of its Subsidiaries may sell, convey or otherwise transfer to (1) a Securitization Entity (in the case of a transfer by Avis or any of its Subsidiaries) or (2) any other Person (in the case of a transfer by a Securitization Entity), or may grant a security interest in, any Permitted Vehicle Collateral (whether now existing or arising in the future) of Avis or any of its Subsidiaries, and any assets related thereto including,



without limitation, the proceeds of such Permitted Vehicle Collateral or (y) any transaction or series of transactions that may be entered into by any Timeshare Subsidiary pursuant to which any Timeshare Subsidiary may sell, convey or otherwise transfer to (1) a Securitization Entity (in the case of a transfer by any Timeshare

Subsidiary) or (2) any other Person (in the case of a transfer by a Securitization Entity), or may grant a security interest in, any Permitted Timeshare Collateral (whether now existing or arising in the future) of any Timeshare Subsidiary, and any assets related thereto including, without limitation, the proceeds of such Permitted Timeshare Collateral.

"SECURITIZATION ENTITY" means an Avis Securitization Entity or a Timeshare Securitization Entity.

"STANDARD SECURITIZATION UNDERTAKINGS" means representations, warranties, guaranties, covenants and indemnities entered into by Avis or any of its Subsidiaries or any Timeshare Subsidiary which are reasonably customary in securitizations.

III. AMENDMENTS TO SECTION 6.

(a) Section 6.1 of the Credit Agreement is hereby amended by deleting Section 6.1(j) thereof in its entirety and substituting in lieu thereof the following:

(j) any Indebtedness (other than Timeshare Loan Indebtedness) of any Timeshare Subsidiary, to the extent issued, outstanding or permitted to exist pursuant to the terms of any Fairfield Debt Documents as of the date of the Fairfield Merger, or to the extent issued, outstanding or permitted to exist pursuant to the terms of any other Timeshare Debt Documents as of the date of the acquisition of the related Timeshare Subsidiary; and, in each case, any renewal, extension or modification of such Indebtedness so long as (i) such renewal, extension or modification is effected on substantially the same terms or on terms which, in the aggregate, are not more adverse to the Lenders and (ii) the principal amount of such Indebtedness issued, outstanding or permitted to exist pursuant to the terms of the Fairfield Debt Documents or Timeshare Debt Documents, as applicable, is not increased directly or indirectly;

(b) Section 6.1 of the Credit Agreement is hereby amended by making clauses (k) and (l) thereof into clauses (l) and (m) thereof, respectively, and adding thereto the following new clause (k):

(k) any Timeshare Loan Indebtedness;

(c) Section 6.1 of the Credit Agreement is hereby amended by deleting Section 6.1(m) thereof in its entirety and substituting in lieu thereof the following:

(m) in addition to the Indebtedness permitted by paragraphs (a) - (l) above, Indebtedness of PHH and its Subsidiaries so long as, after giving effect to the incurrence of such Indebtedness and the use of the proceeds thereof, the ratio of Indebtedness (other than Avis Securitization Indebtedness and Timeshare Loan Indebtedness) of PHH and its Subsidiaries to consolidated shareholders' equity of PHH is less than 8 to 1.



(d) Section 6.3 of the Credit Agreement is hereby amended by deleting such Section in its entirety and substituting in lieu thereof the following:

SECTION 6.3 HOTEL SUBSIDIARIES.

No Hotel Subsidiary shall incur or suffer to exist any obligation to advance money to purchase securities from, or otherwise make any investment in, any Person engaged in the gaming business, PROVIDED that any Hotel Subsidiary may make any such investment in any such Person so long as such Person does not become a Material Subsidiary as a result thereof.

(e) Section 6.5 of the Credit Agreement is hereby amended by adding thereto the following clause (m):

(m) any Liens securing Indebtedness and related obligations of the Borrower or any of its Material Subsidiaries to the extent such Indebtedness and related obligations are permitted under Section 6.1(k) hereof;

(f) Section 6.6 of the Credit Agreement is hereby amended by deleting such Section in its entirety and substituting in lieu thereof the following:

SECTION 6.6 SALE AND LEASEBACK.

Enter into any arrangement with any Person or Persons, whereby in contemporaneous transactions the Borrower or any of its Subsidiaries sells essentially all of its right, title and interest in a material asset and the Borrower or any of its Subsidiaries acquires or leases back the right to use such property except that the Borrower and its Subsidiaries may enter into sale-leaseback transactions relating to assets not in excess of $200,000,000 in the aggregate on a cumulative basis, and except (a) any arrangements of Fairfield or any of its Subsidiaries existing as of the date of the Fairfield Merger and any renewals, extensions or modifications thereof, or replacements or substitutions therefor, so long as such renewals, extensions or modifications are effected on substantially the same terms or on terms which, in the aggregate, are not more adverse to the Lenders in any material respect, (b) in connection with the issuance of Avis Securitization Indebtedness and (c) in connection with the issuance of Timeshare Loan Indebtedness.

(g) Section 8.6 of the Credit Agreement is hereby amended by deleting such Section in its entirety and substituting in lieu thereof the following:

SECTION 8.6 REIMBURSEMENT AND INDEMNIFICATION.

Each of the Lenders severally and not jointly agrees (i) to reimburse the Administrative Agent, in the amount of its proportionate share of the Total Commitment in effect on the date on which such reimbursement is sought (or, if reimbursement is sought after the date upon which the Total Commitment shall



have been terminated in its entirety, in the amount of its proportionate share of the Total Commitment immediately prior to such date), for any expenses and fees incurred for the benefit of the Lenders under the Fundamental Documents, including, without limitation, counsel fees and compensation of agents and employees paid for services rendered on behalf of the Lenders, and any other expense incurred in connection with the administration or enforcement thereof not reimbursed by the Borrower or one of its Subsidiaries; (ii) to indemnify and hold harmless the Administrative Agent and any of its directors, officers, employees, or agents, on demand, in the amount of its proportionate share of the Total Commitment in effect on the date on which such indemnification is sought (or, if indemnification is sought after the date upon which the Total Commitment shall have been terminated in its entirety, in the amount of its proportionate share of the Total Commitment immediately prior to such date), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against it or any of them in any way relating to or arising out of the Fundamental Documents or any action taken or omitted by it or any of them under the Fundamental Documents to the extent not reimbursed by the Borrower or one of its Subsidiaries (except such as shall result from the gross negligence or willful misconduct of the Person seeking indemnification); and (iii) to indemnify and hold harmless the Issuing Lenders and any of their respective directors, officers, employees, or agents or demand in the amount of its proportionate share from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs expenses or disbursements of any kind or nature whatever which may be imposed or incurred by or asserted against it relating to or arising out of the issuance of any Letters of Credit not reimbursed by the Borrower or one of its Subsidiaries (except such as shall result from the gross negligence or willful misconduct of the Person seeking indemnification).

(h) Section 9.1 of the Credit Agreement is hereby amended by deleting the first sentence of such Section in its entirety and substituting in lieu thereof the following:

Notices and other communications provided for herein shall be in writing and shall be delivered or mailed (or in the case of telegraphic communication, if by telegram, delivered to the telegraph company and, if by telex, telecopy, graphic scanning or other telegraphic communications equipment of the sending party hereto, delivered by such equipment) addressed, if to the Administrative Agent or Chase, to it at 270 Park Avenue, New York, New York 10017-2070 Attn: Sandra Miklave, with a copy to Randolph Cates, or if to the Borrower, to it at 9 West 57th Street, New York, NY 10019 Attention: Kevin Sheehan, Chief Financial Officer and Eric J. Bock, Senior Vice President and Corporate Secretary, with a copy to Skadden, Arps, Slate, Meagher & Flom LLP, Four Times Square, New York, NY 10036, Attn: James Douglas, or if to a Lender, to it at its address notified to the Administrative Agent (or set forth in its Assignment and Acceptance or other agreement pursuant to which it became a Lender hereunder), or such other address as such party may from time to time designate by giving written notice to the other parties hereunder.



(i) Section 9.8 of the Credit Agreement is hereby amended by deleting such Section in its entirety and substituting in lieu thereof the following:

SECTION 9.8 EXTENSION OF MATURITY.

Except as otherwise specifically provided in Article 1 or 8 hereof, should any payment of principal of or interest on the Notes or any other amount due hereunder become due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day and, in the case of principal, interest shall be payable thereon at the rate herein specified during such extension.

IV. EFFECTIVE DATE. This Amendment shall become effective on the date (the "EFFECTIVE DATE") on which the Borrower, the Administrative Agent and the Required Lenders under the Credit Agreement shall have duly executed and delivered to the Administrative Agent this Amendment, and the Administrative Agent shall have received evidence of the effectiveness of the Amended and Restated Credit Agreement, dated as of October 5, 2001, among the Borrower, the lenders parties thereto and The Chase Manhattan Bank, as administrative agent.

V. REPRESENTATIONS AND WARRANTIES. The Borrower hereby represents and warrants that (a) each of the representations and warranties in Section 3 of the Credit Agreement shall be, after giving effect to this Amendment, true and correct in all material respects as if made on and as of the Effective Date (unless such representations and warranties are stated to relate to a specific earlier date, in which case such representations and warranties shall be true and correct in all material respects as of such earlier date) and (b) after giving effect to this Amendment, no Default or Event of Default shall have occurred and be continuing.

VI. NO OTHER AMENDMENTS; CONFIRMATION. Except as expressly amended hereby, the provisions of the Credit Agreement and each of the Fundamental Documents are and shall remain in full force and effect.

VII. GOVERNING LAW. This Amendment and the rights and obligations of the parties hereto shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York.

VIII. COUNTERPARTS. This Amendment may be executed by one or more of the parties hereto on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. This Amendment may be delivered by facsimile transmission of the relevant signature pages hereof.



IN WITNESS WHEREOF, the undersigned have caused this Amendment to be executed and delivered by their duly authorized officers as of the date

first above written.

CENDANT CORPORATION

By: /s/ Kevin M. Sheehan
---------------------
Name: Kevin M. Sheehan
Title: Chief Financial Officer

THE CHASE MANHATTAN BANK, as
Administrative Agent and as a Lender

By: /s/ Randolph E. Cates
---------------------
Name: Randolph E. Cates
Title: Vice President

AMSOUTH BANK

By:
------------------------------------
Name:
Title:

BNP PARIBAS

By:
------------------------------------
Name:
Title:

By:
------------------------------------
Name:
Title:

BANK OF AMERICA, N.A.

By: /s/ Igor Suica
------------------------------------
Name: Igor Suica
Title: Vice President

THE BANK OF NEW YORK

By: /s/ Eliza Adams
------------------------------------
Name: Eliza Adams
Title: Vice President

THE BANK OF NOVA SCOTIA

By: /s/ Brian Allen
------------------------------------
Name: Brian Allen
Title: Managing Director

BANK ONE, NA (MAIN BRANCH CHICAGO)

By:
------------------------------------
Name:
Title:

CITIBANK, N.A.

By: /s/ William G. Martens
-----------------------------------
Name: William G. Martens
Title: Managing Director

CREDIT LYONNAIS NEW YORK BRANCH

By: /s/ Rod Hurst
-----------------------------------
Name: Rod Hurst
Title: Vice President

CREDIT SUISSE FIRST BOSTON

By: /s/ Bill O'Daly
-----------------------------------
Name: Bill O'Daly
Title: Vice President

By: /s/ Kristin Lepri
-----------------------------------
Name: Kristin Lepri
Title: Assistant Vice President

FIRST UNION NATIONAL BANK

By: /s/ Dawn P. Weiss
-----------------------------------
Name: Dawn P. Weiss
Title: Vice President

THE FUJI BANK, LIMITED

By: /s/ Yuji Tanaka
-----------------------------------
Name: Yuji Tanaka
Title: Vice President & Manager

THE INDUSTRIAL BANK OF JAPAN, LIMITED

By: /s/ Akihiko Mabuchi
-----------------------------------
Name: Akihiko Mabuchi
Title: Senior Vice President

MELLON BANK, N.A.

By: /s/ J. Wade Bell
-----------------------------------
Name: J. Wade Bell
Title: Vice President

THE NORTHERN TRUST COMPANY

By:
-----------------------------------
Name:
Title:

NATIONAL WESTMINSTER BANK PLC

By:

------------------------------------
Name:
Title:

THE SANWA BANK, LIMITED

By:
------------------------------------
Name:
Title:

SUMITOMO MITSUI BANKING CORPORATION

By: /s/ P.R.C. Knight
------------------------------------
Name: P.R.C. Knight
Title: Senior Vice President

WESTDEUTSCHE LANDESBANK GIROZENTRALE,
NEW YORK BRANCH

By:
------------------------------------
Name:
Title:

By:
------------------------------------
Name:
Title:

EXHIBIT 12

# CENDANT CORPORATION AND SUBSIDIARIES
## COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(DOLLARS IN MILLIONS)

| | YEAR ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | 2001 | 2000 | 1999 | 1998 | 1997 |
| EARNINGS AVAILABLE TO COVER FIXED CHARGES: | | | | | |
| Income (loss) before income taxes, minority interest and equity in Homestore.com | $ 759 | $1,106 | $ (574) | $ 315 | $ 257 |
| Plus: Fixed charges | 991 | 574 | 625 | 677 | 409 |
| Less: Equity income (loss) in unconsolidated affiliates | (5) | 17 | 18 | 14 | 51 |
| Minority interest | 37 | 131 | 96 | 80 | -- |
| Earnings available to cover fixed charges | $1,718 | $1,532 | $ (63) | $ 898 | $ 615 |
| FIXED CHARGES:(a) | | | | | |
| Interest, including amortization of deferred financing costs | $ 816 | $ 381 | $ 463 | $ 509 | $ 379 |
| Other charges, financing costs | -- | -- | -- | 28 | -- |
| Minority interest | 37 | 131 | 96 | 80 | -- |
| Interest portion of rental payment | 138 | 62 | 66 | 60 | 30 |

------ Total fixed charges $ 991 $ 574 $ 625 $ 677 $ 409 ====== ====== ====== ====== ======

RATIO OF EARNINGS TO FIXED CHARGES 1.73x(b) 2.67x(b) (c) 1.33x(b) 1.50x(b) ====== ====== ====== ====== ======

- ------------------------------

(a) Consists of interest expense on all indebtedness (including amortization of deferred financing costs) and the portion of operating lease rental expense that is representative of the interest factor. Interest expense on all indebtedness is detailed as follows:

| | YEAR ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | 2001 | 2000 | 1999 | 1998 | 1997 |
| Incurred by the Company's PHH subsidiary | $ 258 | $ 156 | $ 133 | $ 166 | $ 110 |
| Related to the Company's stockholder litigation settlement liability | 131 | 63 | -- | -- | -- |
| Related to the debt under management and mortgage programs incurred by the Company's car rental subsidiary | 189 | -- | -- | -- | -- |
| All other | 238 | 162 | 330 | 343 | 269 |

The interest expense of $131 million related to the Company's stockholder litigation settlement liability does not reflect $25 million of interest income related to the Company's stockholder litigation settlement trust. Such interest income economically offsets a portion of the $131 million of

interest expense on the Company's Consolidated Statement of Operations.

(b) Income (loss) before income taxes, minority interest and equity in Homestore.com includes other charges and a net loss on the disposition of businesses of $695 million, $119 million, $810 million (exclusive of financing costs of $30 million) and $704 million for 2001, 2000, 1998 and 1997, respectively. Excluding such charges, the ratio of earnings to fixed charges is 2.43x, 2.88x, 2.52x and 3.22x for 2001, 2000, 1998 and 1997, respectively.

(c) Earnings were inadequate to cover fixed charges for 1999 (deficiency of $688 million) as a result of other charges of $3,032 million, partially offset by $1,109 million related to the net gain on dispositions of businesses. Excluding such charges and net gain, the ratio of earnings to fixed charges is 2.98x.

CENDANT CORPORATION

EXHIBIT 21

SUBSIDIARY
JURISDICTION
OF
INCORPORATION
- ----------
-------------
-------------
--- TM
Acquisition
Corp. DE
Cendant
Mortgage
Corporation
NJ Coldwell
Banker Real
Estate
Corporation
CA Benefit
Consultants,
Inc. DE
Fairfield
Resorts, Inc.
DE Fairfield
Acceptance
Corporation--
Nevada DE
Residential
Equity LLC DE
Pointeuro II
Limited UK
PHH
Corporation
MD PHH
Solutions and
Technologies,
LLC DE
Cendant
Mobility
Services
Corporation
DE Galileo
International,
Inc. DE
Greyhound
Funding LLC
DE Resort
Condominiums
International,
LLC DE
SafeCard
Services
Incorporated
DE Cendant
Car Rental,
Inc. DE
Atrium
Insurance
Corporation
NY Apple
Ridge
Services
Corporation
DE Netmarket,
Inc. DE RCI
Technology
Corp. CO
Ramada
Franchise
Systems, Inc.
DE Super 8
Motels, Inc.
SD Hewfant,
Inc. VA
Wright
Express
Financial

Services
Corporation
UT Speedy
Title &
Appraisal
Review
Services
Corporation
MD
FISI*Madison
Financial
Corporation
TN PHH
Canadian
Holdings,
Inc. DE
Wright
Express
Solutions and
Technologies,
LLC DE PHH
Financial
Services,
Inc. MD
Travelodge
Hotels, Inc.
DE RCI Resort
Management,
Inc. IN
Advance Ross
Electronics
Corporation
IL Fairtide
Insurance
Ltd. Bermuda
RCI Canada,
Inc. IN
Wright
Express LLC
DE Hamera
Corp. CA
Howard
Johnson
International,
Inc. DE
Wingate Inns
International,
Inc. DE
Jackson
Hewitt Inc.
VA HFS Car
Rental
Holdings,
Inc. DE
Resort
Condominiums
International
De Mexico S.
De R.L. De
C.V. Mexico
Cendant
Membership
Services,
Inc. DE
Intercambios
Endless
Vacation IEV,
Inc. IN
Haddonfield
Holding
Corporation
DE RMR
Financial CA
RCI
Argentina,
Inc. IN RCI
Travel, LLC
successor to
RCI Travel,
Inc. DE, MI
Avis Fleet

Leasing &
Management
Corp. TX
Cendant Car
Holdings,
Inc. DE Cheap
Tickets, Inc.
DE

SUBSIDIARY
JURISDICTION
OF
INCORPORATION
- ----------
-------------
-------------
--- Cendant
Vacation
Holdco, Inc.
DE
FISI*Madison
L.L.C. TN
Wizard Co.,
Inc. DE Non-
Residential
Assets LLC DE
Days Inns
Worldwide,
Inc. DE
Cendant
Membership
Services
Holdings,
Inc. DE
Cendant
Travel, Inc.
TN Apple
Ridge Funding
LLC DE WIZCOM
INTERNATIONAL,
LTD. DE Avis
Group
Holdings,
Inc. DE Avis
Rent A Car
Systems, Inc.
DE Century 21
Real Estate
Corporation
DE Cendant
Finance
Holding
Corporation
DE Cendant
Internet
Group, Inc.
DE Cendant
Operations,
Inc. DE PHH
Vehicle
Management
Services LLC
DE Cims
Limited UK
Cims SPA
Italy Cims
B.V.
Netherlands
Cims GmbH
Germany
Bassae
Holding, B.V.
Netherlands
Cims
Specialist
Marketing
(Pty) Limited
South Africa

Cendant
Relocation
(UK) Ltd. UK
Cendant
Relocation
(UK) II Ltd.
UK Cendant
Relocation
Services Ltd
UK Cendant
Property
Services No.
2 Ltd. UK
Cendant
Europe
Limited UK
Pointeuro V
Limited UK
Pointscott
Scotland
Pointlux
S.a.r.l.
Luxembourg
RCI Europe UK
RCI Benelux
S.A. Belgium
RCI Pacific
Pty. Ltd.
Australia RCI
Italia SRL
Italy RCI
France
S.A.R.L.
France RCI
Finland OY
Finland RCI
Call Centre
(Ireland)
Limited
Ireland PHH
Vehicle
Management
Services Inc.
Canada
Canadian
Lease
Management
Limited
Canada PHH
Leasing of
Canada
Limited
Canada
Holiday
Cottages
Group Limited
UK

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Cendant Corporation's Registration Statement Nos. 333-11035, 333-17323, 333-17411, 333-20391, 333-23063, 333-26927, 333-35707, 333-35709, 333-45155, 333-45227, 333-49405, 333-78447, 333-86469, 333-51586, 333-59246, 333-65578, 333-65456, 333-65858, and 333-83334 on Form S-3 and Registration Statement Nos. 33-74066, 33-91658, 333-00475, 333-03237, 33-58896, 33-91656, 333-03241, 33-26875, 33-75682, 33-93322, 33-93372, 33-75684, 33-80834, 33-74068, 33-41823, 33-48175, 333-09633, 333-09655, 333-09637, 333-22003, 333-30649, 333-42503, 333-34517-2, 333-42549, 333-45183, 333-47537, 333-69505, 333-75303, 333-78475, 333-51544, 333-38638, 333-64738, 333-71250, and 333-58670 on Form S-8 of our report dated February 7, 2002 (April 1, 2002 as to Note 28) (which expresses an unqualified opinion and includes an explanatory paragraph relating to the modification of accounting for interest income and impairment of beneficial interests in securitization transactions, the accounting for derivative instruments and hedging activities and the revision of certain revenue recognition policies as discussed in Note 1) appearing in this Annual Report on Form 10-K of Cendant Corporation for the year ended December 31, 2001.

/s/ Deloitte & Touche LLP

New York, New York
April 1, 2002

EXHIBIT 99

PRO FORMA FINANCIAL INFORMATION (UNAUDITED)

The following Unaudited Pro Forma Condensed Combined Statement of Operations gives effect to Cendant's acquisitions of Avis Group Holdings, Inc. ("Avis") on March 1, 2001 and Galileo International, Inc. ("Galileo") on October 1, 2001. Transactions have been accounted for under the purchase method of accounting.

The Unaudited Pro Forma Condensed Combined Statement of Operations assumes the acquisitions of Avis and Galileo both occurred on January 1, 2001. The unaudited pro forma financial information is based on the historical consolidated financial statements of the Company, Avis and Galileo under the assumptions and adjustments set forth in the accompanying explanatory notes.

Since Avis was consolidated with the Company as of March 1, 2001, Avis' results of operations between January 1, 2001 and February 28, 2001 were combined with the Company's results of operations for the year ended December 31, 2001, which were then added to Galileo's results of operations for the nine months ended September 30, 2001, subject to certain pro forma adjustments, to provide the combined pro forma results of operations. All intercompany transactions were eliminated on a pro forma basis. Historically, Avis paid the Company for services the Company provided related to call centers and information technology and for the use of the Company's trademarks, and Avis paid Galileo for services Galileo provided related to reservations for vehicle rentals. Pursuant to Statement of Financial Accounting Standards ("SFAS") No. 142, "GOODWILL AND OTHER INTANGIBLE ASSETS," the Company is not amortizing goodwill and certain other intangible assets arising from the acquisition of Galileo.

The Company continues to review acquired operations, which may result in a plan to realign or reorganize certain of those operations. The costs of implementing such a plan, if it were to occur, have not been reflected in the accompanying pro forma financial information. The impact of a potential realignment or reorganization could increase or decrease the amount of goodwill and intangible assets and any related amortization in the accompanying pro forma financial information. Additionally, the Unaudited Pro Forma Condensed Combined Statement of Operations excludes any benefits that might result from the acquisitions due to synergies that may be derived or from the elimination of duplicate efforts.

The Company's management believes that the assumptions used provide a reasonable basis on which to present the unaudited pro forma financial information. The Company has completed other acquisitions and dispositions which are not significant and, accordingly, have not been included in the accompanying unaudited pro forma financial information. The unaudited pro forma financial information may not be indicative of the financial position or results of operations that would have occurred if the acquisitions of Avis and Galileo had been in effect on the dates indicated or which might be obtained in the future.

The unaudited pro forma financial information should be read in conjunction with the historical consolidated financial statements and accompanying notes thereto for the Company, Avis and Galileo. Certain reclassifications have been made to the historical amounts of Galileo to conform with the Company's classification.



UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2001
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

HISTORICAL
HISTORICAL
AVIS GALILEO
JAN 1- AVIS
JAN 1-
GALILEO
HISTORICAL
FEB 28,
PURCHASE
ADJUSTED OCT
1, PURCHASE
COMBINED
CENDANT 2001
ADJUSTMENTS
CENDANT 2001
ADJUSTMENTS
PRO FORMA ---
------- -----
----- -------
---- --------
---------- --

--------- ---
-------
REVENUES
Service fees
and
membership-
related, net
$ 5,456 $ 27
$ (34)(a) $
5,449 $ 1,244
$ (9)(f) $
6,684
Vehicle-
related 3,426
594 -- 4,020
-- -- 4,020
Other 68 20 -
- (b) 88 65 -
- 153 -------
-- ---------
----------- -
------- -----
---- --------
--- ---------
- Net
revenues
8,950 641
(34) 9,557
1,309 (9)
10,857
EXPENSES
Operating
2,937 174
(34)(a) 3,077
305 (9)(f)
3,373
Selling,
general and
administrative
2,010 114 --
2,124 592
(41)(g) 2,675
Vehicle
depreciation,
lease charges
and interest,
net 1,799 350
-- 2,149 -- -
- 2,149 Non-
vehicle
depreciation
and
amortization
501 23 6 (c)
530 179 (119)
(g) 590 Other
charges, net
671 -- -- 671
-- -- 671
Non-vehicle
interest, net
249 12 1 (d)
262 26 (28)
(h) 260
Other, net --
-- -- -- 5 --
5 --------- -
-------- ----
------- -----
--- ---------
----------- -
---------
Total
expenses
8,167 673
(27) 8,813
1,107 (197)
9,723 -------
-- ---------
----------- -
------- -----

---- --------
--- ---------
- Net loss on
dispositions
of businesses
and
impairment of
investments
(24) -- --
(24) -- --
(24) --------
- --------- -
---------- --
------ ------
--- ---------
-- ----------
INCOME (LOSS)
BEFORE INCOME
TAXES,
MINORITY
INTEREST AND
EQUITY IN
HOMESTORE.COM
759 (32) (7)
720 202 188
1,110
Provision
(benefit) for
income taxes
235 (10) (3)
(e) 222 89 57
(i) 368
Minority
interest, net
of tax 24 --
-- 24 -- --
24 Losses
related to
equity in
Homestore.com,
net of tax 77
-- -- 77 -- -
- 77 --------
- --------- -
---------- --
------ ------
--- ---------
-- ----------
INCOME (LOSS)
BEFORE
CUMULATIVE
EFFECT OF
ACCOUNTING
CHANGES $ 423
$ (22) $ (4)
$ 397 $ 113 $
131 $ 641
=========
=========
===========
========
=========
===========
========== CD
COMMON STOCK
INCOME PER
SHARE INCOME
BEFORE
CUMULATIVE
EFFECT OF
ACCOUNTING
CHANGES Basic
$ 0.47 $ 0.44
$ 0.63
Diluted 0.45
0.42 0.61
WEIGHTED
AVERAGE
SHARES
OUTSTANDING
Basic 869 869

117 (j) 986
Diluted 917
917 117 (j)
1,034

See accompanying Notes to Unaudited Pro Forma Condensed Combined Statement of Operations.