SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-K/A

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

For the fiscal year ended December 31, 1997

COMMISSION FILE NO. 1-10308

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CENDANT CORPORATION

(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| DELAWARE | 06-0918165 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| 6 SYLVAN WAY PARSIPPANY, NEW JERSEY (Address of principal executive office) | 07054 (Zip Code) |

(973) 428-9700

(Registrant's telephone number, including area code)

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

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE ON WHICH REGISTERED |
|---|---|
| Common Stock, Par Value $.01 | New York Stock Exchange |
| 5 7/8% Senior Notes due 1998 | New York Stock Exchange |
| FELINE PRIDES(SM) | New York Stock Exchange |
| Income PRIDES(SM) | New York Stock Exchange |
| Growth PRIDES(SM) | New York Stock Exchange |

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: NONE

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 September 25, 1998, was $11,480,920,000. 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 each of the Registrant's classes of common stock was 851,531,353 shares of Common Stock outstanding as at September 25, 1998.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement which was mailed to stockholders in connection with the registrant's annual shareholders' meeting which is scheduled to be held on October 30, 1998 (the "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

GENERAL

Cendant Corporation (the "Registrant", which, together with its subsidiaries is herein called collectively the "Company" or "Cendant") is one of the foremost consumer and business services companies in the world. The Company was created through the merger (the "Merger") of CUC International Inc. ("CUC") and HFS Incorporated ("HFS") in December 1997 with the resultant corporation being renamed Cendant Corporation. The Company provides all the services formerly provided by each of CUC and HFS, including travel services, real estate services and membership-based consumer services.

Within three principal operating segments -- real estate services, travel services and alliance marketing -- Cendant's businesses provide a wide range of complementary consumer and business services. The travel segment facilitates vacation timeshare exchanges, manages corporate and government vehicle fleets and franchises car rental and hotel businesses; the real estate segment assists in employee relocation, provides home buyers with mortgages and franchises real estate brokerage businesses; and the alliance marketing segment provides an array of value driven products and services through more than 20 membership clubs and client relationships. The Company also offers tax preparation services, consumer software in various multimedia forms, information technology services, credit information services and financial products.

In the travel industry, the Company, through certain of its subsidiaries, franchises hotels primarily in the mid-priced and economy markets. The Company is the world's largest hotel franchisor, operating the Days Inn (Registered Trademark) , Ramada (Registered Trademark)  (in the United States), Howard Johnson (Registered Trademark) , Super 8 (Registered Trademark) , Travelodge (Registered Trademark)  (in North America), Villager Lodge (Registered Trademark) , Knights Inn (Registered Trademark)  and Wingate Inn (Registered Trademark)  lodging franchise systems. Additionally, the Company owns the Avis (Registered Trademark)  worldwide vehicle rental franchise system which, operated by its franchisees, is the second-largest car rental system in the world (based on total revenues and volume of rental transactions). The Company currently owns approximately 20% of the capital stock of the world's largest Avis franchisee, Avis Rent A Car, Inc. ("ARAC"). The Company also owns Resort Condominiums International, LLC ("RCI"), the world's leading timeshare exchange organization, and PHH Vehicle Management Services Corporation which operates the second largest provider in North America of comprehensive vehicle management services, and is the market leader in the United Kingdom for fuel and fleet management services. Through the acquisition of National Parking Corporation Limited in April 1998, the Company is the largest private (non-municipality owned) single car park operator in the United Kingdom and a leader in vehicle emergency support and rescue services for approximately 3.5 million members in the United Kingdom. The Company also operates the world's leading value-added tax refund service for travelers.

In the residential real estate industry, the Company, through certain of its subsidiaries, franchises real estate brokerage offices under the CENTURY 21 (Registered Trademark) , COLDWELL BANKER (Registered Trademark)  and ERA (Registered Trademark)  real estate brokerage franchise systems and is the world's largest real estate brokerage franchisor. Additionally, the Company, through Cendant Mobility Services Corporation, is the largest provider of corporate relocation services in the United States, offering relocation clients a variety of services in connection with the transfer of a client's employees. Through Cendant Mortgage Corporation ("Cendant Mortgage"), the Company originates, sells and services residential mortgage loans in the United States, marketing such services to consumers through relationships with corporations, affinity groups, financial institutions, real estate brokerage firms and mortgage banks.

The Company's alliance marketing segment is divided into three divisions: individual membership; insurance/wholesale; and lifestyle. The individual membership division, with more than 33 million memberships, provides customers with access to a variety of products and services in such areas as retail shopping, travel, auto, dining and home improvement. The insurance/wholesale division, with nearly 31 million customers, markets and administers insurance products, primarily accidental death insurance, and also provides products and services such as checking account enhancement packages, financial products and discount programs to customers of various financial institutions. The lifestyle division, with over 11 million customers, provides customers with unique products and services that are designed to enhance a customer's purchasing power. The Company's alliance marketing activities are conducted principally through Cendant Membership Services, Inc. and certain of the Company's other wholly-owned subsidiaries, including FISI*Madison Financial Corporation ("FISI"), Benefit Consultants, Inc. ("BCI"), and Entertainment Publications, Inc. ("EPub").

Through the acquisition of Jackson Hewitt, Inc. ("Jackson Hewitt") on January 7, 1998, the Company operates the second largest tax preparation service system in the United States with locations in 43 states. The Company franchises a system of approximately 2,000 offices that specialize in computerized preparation of federal and state individual income tax returns.

The Company also offers consumer software in various multimedia forms, predominately on CD-ROM for personal computers. The Company's Cendant Software unit is one of the largest personal computer consumer software groups in the world, and a leader in entertainment, educational and personal productivity software. It includes Sierra On-Line, Inc., Blizzard Entertainment and Knowledge Adventure, Inc., and offers such titles as Diablo, Starcraft, You Don't Know Jack, King's Quest, JumpStart, Math Blaster, Reading Blaster and many others. See "DISCONTINUED OPERATIONS."

As a franchisor of hotels, residential real estate brokerage offices, car rental operations and tax preparation services, the Company licenses the owners and operators of independent businesses to use the Company's brand names. The Company does not own or operate hotels, real estate brokerage offices, car rental operations or tax preparation offices (except for certain company-owned Jackson Hewitt offices which the Company intends to sell). Instead, the Company provides its franchisee customers with services designed to increase their revenue and profitability.

## RECENT DEVELOPMENTS

American Bankers Acquisition. On March 23, 1998, the Company announced that it had entered into a definitive agreement (the "ABI Merger Agreement") to acquire American Bankers Insurance Group Inc. ("American Bankers") for $67 per share in cash and stock, for an aggregate consideration of approximately $3.1 billion. The Company has agreed to purchase 23.5 million shares of American Bankers at $67 per share through its pending cash tender offer, to be followed by a merger in which the Company has agreed to deliver Cendant shares with a value of $67 for each remaining share of American Bankers common stock outstanding. The Company has already received anti-trust clearance to acquire American Bankers. The tender offer is subject to the receipt of tenders representing at least 51 percent of the common shares of American Bankers as well as customary closing conditions, including regulatory approvals. From time to time representatives of the Company and representatives of American Bankers have discussed possible modifications to the terms of the ABI Merger Agreement, including a change in the mix of consideration to increase the cash component and decrease the stock component and changing the transaction to a taxable transaction. No agreement regarding any such modifications has been reached and there can be no assurance that such discussions will result in any agreement being reached. If no agreement regarding the terms of any modification to the terms of the ABI Merger Agreement is reached, the current ABI Merger Agreement will remain in effect in accordance with its terms. The transaction is expected to be completed in the fourth quarter of 1998 or the first quarter of 1999. American Bankers concentrates on marketing affordable, specialty insurance products and services through financial institutions, retailers and other entities offering consumer financing as a regular part of their business. American Bankers, through its subsidiaries, operates in the United States, Canada, Latin America, the Caribbean and the United Kingdom.

In connection with the Company's proposal to acquire American Bankers, the Company entered into a commitment letter, dated June 30, 1998, with The Chase Manhattan Bank and Chase Securities Inc. to provide a $650 million 364-day revolving credit facility (the "New Facility") which will mature 364 days after the execution of the definitive documentation relating thereto. The New Facility will bear interest, at the option of the Company, at rates based on competitive bids of lenders participating in such facilities at a prime rate or at LIBOR plus an applicable variable margin based on the Company's senior unsecured long-term debt rating.

Providian Acquisition. On December 10, 1997, the Company announced that it had entered into a definitive agreement to acquire Providian Auto and Home Insurance Company ("Providian") and its subsidiaries from an Aegon N.V. subsidiary for approximately $219 million in cash. Providian sells automobile insurance to consumers through direct response marketing in 45 states and the District of Columbia. The closing of this transaction is subject to customary conditions, including regulatory approval and no assurances can be made that the acquisition will be completed. Prior to the acquisition the name of Providian will be changed to Cendant Auto Insurance Company ("Cendant Auto"). The Company intends to expand Cendant Auto's marketing channels to the Company's existing distribution channels, while also providing the Company's existing customer base with a new product offering.

National Parking Corporation. On April 27, 1998, the Company completed the acquisition of National Parking Corporation ("NPC") for $1.6 billion in cash, which included the repayment of approximately $227 million of outstanding NPC debt. NPC is the largest private (non-municipality owned) single car park operator in the United Kingdom, with a portfolio of approximately 500 owned and managed car parks in over 100 towns and city centers and major airport locations. NPC, through its acquisitions of National Breakdown Limited and UK Insurance Limited in 1984, has also developed a broad-based assistance group, under the brand name of Green Flag. Green Flag offers a wide range of emergency support and rescue services to approximately 3.5 million members.

RAC Motoring Services Acquisition. On May 21, 1998, the Company announced that it has reached definitive agreements with the Board of Directors of Royal Automobile Club ("RAC") to purchase RAC Motoring Services ("RACMS") for total consideration of \P450 million, or approximately $735 million in cash. As part of the purchase price, the Company has agreed to make a charitable endowment of \P13 million to the RAC Foundation to promote awareness and understanding of the environmental issues related to mobility and the use of motor vehicles, and to help promote, research and investigate solutions.

On June 19, 1998, members of the RAC approved the first stage of the two-step process to implement the sale of RACMS to the Company. On July 8, 1998, the U.K. Court approved the reorganization within the RAC group companies. The final stage of the process involves the sale of RACMS to the Company. On August 12, 1998, the shareholders of RACMS approved the sale of RACMS to the Company. On September 24, 1998, the U.K. Secretary of State for Trade and Industry referred the RACMS acquisition to the U.K. Monopolies and Mergers Commission (the "MMC'). The closing of this transaction is subject to certain conditions, including MMC approval. Although no assurances can be made, the Company currently anticipates that the transaction will be completed in the spring of 1999.

RACMS operates in three principal segments -- The RAC, the U.K.'s second largest roadside assistance company with over 6 million associate members, including 2.7 million under fleet programs and car manufacturers warranty programs and 2.9 million direct individual members, and London Wall Insurance, a provider of auto warranty products. RACMS also owns the British School of Motoring (BSM), the U.K.'s largest driving school company. Sales for 1997, adjusted for the acquisition of BSM, were approximately $500 million.

Sale of Hebdo Mag and Plan to Sell Software Business. On August 12, 1998, the Company announced that it agreed to sell 100% of its Hebdo Mag International, Inc. ("Hebdo Mag") subsidiary to a company organized by Hebdo Mag management for approximately 7 million shares of Company common stock and $410 million in cash. The sale of Hebdo Mag is conditioned upon, among other things, the receipt of certain governmental approvals and financing. The transaction is expected to be completed in the fourth quarter of 1998.

The Company also announced that it has engaged Credit Suisse First Boston to analyze strategic alternatives in regard to the potential 100% initial public offering or a third party sale of its entire consumer software business unit.

Interval Divestiture. On December 17, 1997, in connection with the Merger, the Company completed the divestiture of its timeshare exchange subsidiary, Interval International Inc., as contemplated by a consent decree with the Federal Trade Commission.

MATTERS RELATING TO THE ACCOUNTING IRREGULARITIES AND ACCOUNTING POLICY CHANGE

Accounting Irregularities. On April 15, 1998, the Company announced that in the course of transferring responsibility for the Company's accounting functions from the former CUC personnel to HFS accounting personnel and preparing for the reporting of first quarter 1998 financial results, it had discovered accounting irregularities in certain CUC business units. As a result, upon discovering such accounting irregularities in certain former CUC business units, the Company together with its counsel and assisted by auditors, immediately began an intensive investigation (the "Company Investigation"). In addition, the Audit Committee of the Board of Directors engaged Willkie Farr & Gallagher ("Willkie Farr") as special legal counsel and Willkie Farr engaged Arthur Andersen LLP to perform an independent investigation into these accounting irregularities (the "Audit Committee Investigation," together with the Company Investigation, the "Investigations"). On July 14, 1998, the Company announced that the accounting irregularities were greater than those initially discovered in April and that the irregularities affected the accounting records of the majority of the CUC business units. On August 13, 1998, the Company announced that the Company Investigation was complete. On August 27, 1998, the Company announced that the Audit Committee of the Board of Directors had submitted its report (the "Report") to the Board of Directors on the Audit Committee Investigation into the accounting irregularities and its conclusions regarding responsibility for those actions. A copy of the Report has been filed as an exhibit to the Company's Current Report on Form 8-K dated August 28, 1998. As a result of the findings of the Investigations, the Company has restated its previously reported financial results for 1997, 1996 and 1995. The restated financial statements also include the cumulative effect of a change in accounting, effective January 1, 1997, related to revenue and expense recognition for memberships (see Note 3 to the consolidated financial statements).

The restated net income (loss) totalled $(217.2) million, $330.0 million and $229.8 million in 1997, 1996 and 1995, respectively ($(0.27), $0.41 and $0.31 per diluted share, respectively). The Company originally reported corresponding net income of $55.4 million, $423.6 million and $302.8 million in 1997, 1996 and 1995, respectively ($0.06, $0.52 and $0.42 per diluted share, respectively).

The Company originally reported $872.2 million of 1997 net income excluding merger-related costs and other unusual charges ("Unusual Charges") or $1.00 per diluted share which included $816.2 million or $.94 per diluted share from continuing operations. The restated income from continuing operations excluding Unusual Charges, extraordinary gain and the cumulative effect of a change in accounting totalled $571.0 million or $.66 per diluted share. The $245.2 million or $.28 per diluted share decrease in income from continuing operations represents additional after tax expense of $15.3 million ($.02 per diluted share) due to the aforementioned change in accounting and $229.9 million ($.26 per diluted share) of accounting errors and irregularities.

The Company originally reported $542.3 million and $364.9 million of 1996 and 1995 net income excluding Unusual Charges, respectively ($0.67 and $0.50 per diluted share, respectively). The restated income from continuing operations excluding Unusual Charges totalled $383.3 million and $269.2 million in 1996 and 1995, respectively ($0.47 and $0.36 per diluted share, respectively). The $159.0 million and $95.7 million decreases in 1996 and 1995, respectively, primarily represent accounting errors and irregularities in both periods.

Class Action Litigation and Government Investigation. As a result of the aforementioned accounting irregularities, numerous purported class action lawsuits, two purported derivative lawsuits and an individual lawsuit have been filed against the Company, and among others, its predecessor, HFS, and certain current and former officers and directors of the Company and HFS, asserting various claims under the federal securities laws and certain state statutory and common laws. SEE "ITEM 3. LEGAL PROCEEDINGS".

In addition, the staff of the Securities and Exchange Commission (the "SEC") and the United States Attorney for the District of New Jersey are conducting investigations (the "Government Investigations") relating to the accounting irregularities. The SEC staff has advised the Company that its inquiry should not be construed as an indication by the SEC or its staff that any violations of law have occurred. While management has made all adjustments considered necessary as a result of the findings of the Investigations and the restatement of the Company's financial statements for 1997, 1996 and 1995, there can be no assurances that additional adjustments will not be required as a result of the Government Investigations.

Management and Corporate Governance Changes. On July 28, 1998, Walter A. Forbes resigned as Chairman of the Company and as a member of the Board of Directors. Henry R. Silverman, Chief Executive Officer of the Company, was unanimously elected by the Board of Directors to be Chairman and will continue to serve as Chief Executive Officer and President of the Company. Ten members of the Board formerly associated with CUC also resigned, leaving the Company with 18 directors.

On July 28, 1998, the Board also approved the adoption of Amended and Restated By-Laws of the Company and voted to eliminate the governance plan adopted as part of the Merger, resulting in the elimination of the 80% super-majority vote requirement provisions of the Company's By-Laws relating to the composition of the Board and the limitations on the removal of the Chairman and the Chief Executive Officer.

* * *

The Company continually explores and conducts discussions with regard to acquisitions and other strategic corporate transactions in its industries and in other franchise, franchisable or service businesses. As part of this regular on-going evaluation of acquisition opportunities, the Company currently is engaged in a number of separate, unrelated preliminary discussions concerning possible acquisitions. The purchase price for the possible acquisitions may be paid in cash, through the issuance of common stock (which would increase the number of shares of common stock outstanding) or other securities of the Company, borrowings, or a combination thereof. Prior to consummating any such possible acquisitions, the Company, among other things, will need to initiate and complete satisfactorily its due diligence investigations; negotiate the financial and other terms (including price) and conditions of such acquisitions; obtain appropriate Board of Directors, regulatory and other necessary consents and approvals; and secure financing. No assurance can be given with respect to the timing, likelihood or business effect of any possible transaction. In the past, the Company has been involved in both relatively small acquisitions and acquisitions which have been significant.

Financial information about the Company's industry segments may be found in Note 24 to the Company's consolidated financial statements presented in Item 8 of this Annual Report on Form 10-K/A and incorporated herein by reference. Except where expressly noted, information herein does not include information on or with respect to American Bankers, NPC, RACMS, Providian or their respective businesses.

Certain statements in this Annual Report on Form 10-K/A constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company 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. Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements, include, but are not limited to: the outcome of the pending litigation relating to the previously announced accounting irregularities; uncertainty as to the Company's future profitability; the Company's ability to develop and implement operational and financial systems to manage rapidly growing operations; competition in the Company's existing and potential future lines of business; the Company's ability to integrate and operate successfully acquired businesses and the risks associated with such businesses, including the Merger and the NPC acquisition and the proposed American Bankers, RACMS and Providian acquisitions; the Company's ability to obtain financing on acceptable terms to finance the Company's growth strategy and for the Company to operate within the limitations imposed by financing arrangements; uncertainty as to the future profitability of acquired businesses; the ability of the Company and its vendors to complete the necessary actions to achieve a year 2000 conversion for its computer systems and applications; and other factors. 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. The Company assumes no obligation to update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

The Company's principal executive offices are located at 6 Sylvan Way, Parsippany, New Jersey 07054 (telephone number: (973) 428-9700).

TRAVEL SERVICES

THE LODGING FRANCHISE BUSINESS

GENERAL. The lodging industry can be divided into three broad segments based on price and services: luxury or upscale, which typically charge room rates above $82 per night; middle market, with room rates generally between $55 and $81 per night; and economy, where rates generally are less than $54 per night. Of the brand names franchised by the Company, Ramada, Howard Johnson and Wingate Inn compete principally in the middle market segment and Days Inn, Knights Inn, Super 8, Travelodge and Villager Lodge ("Villager") compete primarily in the economy segment, which is currently the fastest growing segment of the industry.

As franchisor of lodging facilities, the Company provides a number of services designed to directly or indirectly increase hotel occupancy rates, revenues and profitability, the most important of which is a centralized brand-specific national reservations system. Similarly, brand awareness derived from nationally recognized brand names, supported by national advertising and marketing campaigns, can increase the desirability of a hotel property to prospective guests. The Company believes that, in general, national franchise brands with a greater number of hotels enjoy greater brand awareness among potential hotel guests, and thus are perceived as more valuable by existing and prospective franchisees than brands with a lesser number of properties. Franchise brands can also increase franchisee property occupancy through national direct sales programs to businesses, associations and affinity groups.

In determining whether to affiliate with a national franchise brand, hotel operators compare the costs of affiliation (including the capital expenditures and operating costs required to meet a brand's quality and operating standards, plus the ongoing payment of franchise royalties and assessments for the reservations system and marketing programs) with the increase in gross room revenue anticipated to be derived from brand membership. Other benefits to brand affiliation include group purchasing services, training programs, design and construction advice, and other franchisee support services, all of which provide the benefits of a national lodging services organization to operators of independently-owned hotels. The Company believes that, in general, franchise affiliations are viewed as enhancing the value of a hotel property by providing economic benefits to the property.

The Company entered the lodging franchise business in July 1990 with the acquisition of the Howard Johnson franchise system and the rights to operate the U.S. Ramada franchise system. The Company acquired the Days Inn franchise system in 1992, the Super 8 franchise system and substantially all of the assets of the Park Inn International (Registered Trademark) franchise system in the U.S. and Canada in 1993 (which the Company sold in 1996), the Villager Lodge franchise system in 1994, the Knights Inn franchise system in August 1995 and the Travelodge franchise system in January 1996. Each of these acquisitions has increased the Company's earnings per share. The Company continues to seek opportunities to acquire or license additional hotel franchise systems, including established brands in the upper end of the market, where the Company is not currently represented. See "Lodging Franchise Growth" below.

The fee and cost structure of the Company's business provides significant opportunities for the Company to increase earnings by increasing the number of franchised properties. Hotel franchisors, such as the Company, derive substantially all of their revenue from annual franchise fees. Annual franchise fees are comprised of two components, a royalty portion and a marketing and reservations portion, both of which are normally charged by the franchisor as a percentage of the franchisee's gross room sales. The royalty portion of the franchise fee is intended to cover the operating expenses of the franchisor, such as expenses incurred in quality assurance, administrative support and other franchise services and to provide the franchisor with operating profits. The marketing/reservations portion of the franchise fee is intended to reimburse the franchisor for the expenses associated with providing such franchise services as a national reservations system, national media advertising and certain training programs.

The Company's franchisees are dispersed geographically which minimizes the exposure to any one hotel owner or geographic region. Of the more than 5,500 properties and 3,700 franchisees in the Company's systems, no individual hotel owner accounts for more than 2% of the Company's lodging revenue.

LODGING FRANCHISE GROWTH. Growth of the franchise systems through the sale of long-term franchise contracts to operators of existing and newly constructed hotels is the leading source of revenue and earnings growth in the Company's lodging franchise business. Franchises are terminated primarily for not paying the required franchise fees and/or not maintaining compliance with brand quality assurance standards required pursuant to the applicable franchise agreement.

LODGING FRANCHISE SALES. The Company markets franchises principally to independent hotel and motel owners, as well as to owners whose properties are affiliated with other hotel brands. The Company believes that its existing franchisees also represent a significant potential market because many own, or may own in the future, other hotels which can be converted to the Company's brand names. Accordingly, a significant factor in the Company's sales strategy is maintaining the satisfaction of its existing franchisees by providing quality services.

The Company employs a national franchise sales force consisting of approximately 80 salespeople and sales management personnel, which is divided into several brand-specific sales groups, with regional offices around the country. The sales force is compensated primarily through commissions. In order to provide broad marketing of the Company's brands, sales referrals are made among the sales groups and a referring salesperson is entitled to a commission for referrals which result in a franchise sale.

The Company seeks to expand its franchise systems and provide marketing and other franchise services to franchisees on an international basis through a series of master license agreements with internationally based developers and franchisors. As of December 31, 1997, the Company's franchising subsidiaries (other than Ramada) have entered into international master licensing agreements for part or all of 46 countries on six continents. The agreements typically include minimum development requirements and require an initial development fee upon execution of the license agreement as well as recurring franchise fees.

PRINCIPAL LODGING FRANCHISE SYSTEMS. The following is a summary description of the Company's principal lodging franchise systems. Information reflects properties which are open and operating and is presented as of December 31, 1997.

| BRAND | PRIMARY MARKET SERVED | AVG. ROOMS PER PROPERTY | # OF PROPERTIES | # OF ROOMS | DOMESTIC INTERNATIONAL* |
|---|---|---|---|---|---|
| Days Inn | Lower Economy | 91 | 1,761 | 159,400 | International(1) |
| Howard Johnson | Mid-market | 108 | 483 | 51,944 | International(2) |
| Knights Inn | Lower Economy | 83 | 190 | 15,771 | International(3) |
| Ramada | Mid-market | 135 | 885 | 119,132 | Domestic |
| Super 8 | Economy | 61 | 1,630 | 100,166 | International(3) |
| Travelodge | Upper Economy | 81 | 479 | 39,030 | Domestic(1)(5) |
| Villager Lodge | Lower Economy | 77 | 82 | 6,339 | International(4) |
| Wingate | Mid-market | 94 | 19 | 1,790 | International(4) |

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* Description of rights owned or licensed.

(1) Includes properties in Mexico, Canada, Israel, China, South Africa and India.

(2) Includes Mexico, Canada, Columbia, Israel, Japan, Venezeula and Malta.

(3) Includes properties in Canada.

(4) No international properties currently open and operating.

(5) Rights include all of North America.

OPERATIONS -- LODGING. The Company's organization is designed to provide a high level of service to its franchisees while maintaining a controlled level of overhead expense. In the lodging segment, expenses related to marketing and reservations services are budgeted to match marketing and reservation fees each year.

National Reservations Systems. Unlike many other franchise businesses (such as restaurants), the lodging business is characterized by remote purchasing through travel agencies and through use by consumers of toll-free telephone numbers. Each of the Company's reservations systems is independently operated, focusing on its specific brand and franchise system, and is comprised of one or more nationally advertised toll-free telephone numbers, reservation agents who accept inbound calls, a computer operation that processes reservations, and automated links which accept reservations from travel agents and other travel providers, such as airlines, and which report reservations made through the system to each franchisee property. Each reservation agent handles reservation requests and inquiries for only one of the Company's franchise systems and there is no "cross selling" of franchise systems. The Company maintains seven reservations centers that are located in Knoxville and Elizabethton, Tennessee; Phoenix, Arizona; Winner and Aberdeen, South Dakota; Orangeburg, South Carolina and Saint John, New Brunswick, Canada. Generally, reservation agents for each of the franchise systems are located in at least two of the Company's seven facilities, thereby ensuring continuous service in the event of a power failure or telephone line interruption occurring at any one of the locations.

Brand Name Marketing Programs. The Company's brand name marketing programs seek to increase the traveling public's awareness of the Company's franchise systems and thereby to increase franchisee property occupancy rates and revenues. To achieve this objective, each of the franchise systems' programs is managed by its own staff, who develop the marketing strategy for the system and report to the brand president. A central corporate marketing services department implements the strategy.

The marketing services department publishes hotel directories for each franchise system, conducts market research and produces artwork for national and regional advertising programs. In addition, the marketing services department works with the independent advertising agencies that have been retained for each franchise system. These advertising agencies produce television, radio and print advertising and assist in placing advertisements in the media.

Quality Assurance. The Company believes that franchisees have a high level of interest in the degree to which the quality of fellow franchise operators is monitored, both upon admission to the system and on an ongoing basis. Franchise quality control occurs through inspections at the time of application, upon entry into the system and on an ongoing basis through quality assurance programs. Quality assurance programs promote uniformity within the franchise system, an important marketing factor with respect to increasing consumer demand for lodging facilities. These programs consist of generally unannounced inspections of properties (two to four times a year) by inspectors who are rotated through franchise system properties to promote consistent grading standards. Properties proposed to be converted to one of the Company's franchise systems are inspected by the Company's most experienced inspectors, who are dedicated specifically to this function and who prepare specific renovation schedules to which the potential franchisees are required to adhere. These specialists report to the Senior Vice President of Operations -- Hotel Division rather than to the sales personnel proposing the property. As of December 31, 1997, the Company employed 82 persons in the quality assurance department.

Various brand-specific quality assurance initiatives are designed to encourage compliance. The Company has instituted certain financial incentive programs to encourage franchisees to improve their properties. Approximately 13% of the franchisee properties are in quality assurance default at any time, with many defaults due to operating standards issues (e.g., failure to attend training programs, outdated signage, logo violations, etc.). In general, franchisees are given 30 days to correct the conditions that led to default or implement a plan to correct the default. If the default is not cured in a timely fashion, the Company has the right to terminate the defaulting franchisee's franchise agreement and realize a termination fee.

Training. Each of the Company's franchise systems has a training department which conducts both mandatory and optional training programs. These departments are staffed by experienced Company employees who conduct regularly scheduled regional educational seminars for both non-management and property level management personnel. Training programs are designed to teach franchisees how to utilize best the Company's reservations system and marketing programs, as well as the fundamentals of hotel operations such as recruiting, housekeeping and yield management. The Company also provides special on-site training upon request. The Company has developed and maintains a library of training videos, cassettes and tapes, as well as printed training material, which are available to franchisees. The Company also employs Property Opening Specialists who help the property staff become acclimated when their property enters a franchise system.

Purchasing. Through its Cendant Supplier Services operation, the Company provides its franchisees with volume purchasing discounts for products, services, furnishings and equipment used in lodging operations. In addition to the preferred alliance programs described hereinafter, Cendant Supplier Services establishes relationships with lodging industry vendors and negotiates discounts for purchases by its customers. The Company does not maintain inventory, directly supply any of the products or, generally, extend credit to franchisees for purchases. See "COMBINED OPERATIONS -- Preferred Alliance and Co-Marketing Arrangements" below.

Franchise Services. In all of its operations, the Company emphasizes service to its franchisees. This emphasis is exemplified by the franchise services department which is comprised of 48 persons with extensive experience in the lodging industry, who are available to respond to inquiries by franchisees. Each franchisee is assigned a franchise service manager who is available via a toll-free telephone number. After each communication with a franchisee, the franchise service manager prepares a contact report which is circulated within the Company to the departments responsible for responding to the inquiry.

LODGING FRANCHISE AGREEMENTS. The Company's lodging franchise agreements grant the right to utilize one of the brand names associated with the Company's lodging franchise systems to lodging facility owners or operators under long-term franchise agreements. An annual average of 2.7% of the Company's existing franchise agreements are scheduled to expire from January 1, 1998 through December 31, 2006, with no more than 3.6% (in 2002) scheduled to expire in any one of those years.

The current standard agreements generally are for 15-year terms for converted properties and 20-year terms for newly constructed properties and generally require, among other obligations, franchisees to pay a minimum initial fee of between $15,000 and $35,000 based on property size and type, as well as annual franchise fees comprised of royalty fees and marketing/reservation fees based on gross room revenues.

Under the terms of the standard franchise agreements in effect at December 31, 1997, franchisees are typically required to pay recurring fees comprised of a royalty portion and a reservation/marketing portion, calculated as a percentage of annual gross room revenue that range from 7.0% to 8.8%. The Company discounts fees from the standard rates from time to time and under certain circumstances.

The Company's typical franchise agreement is terminable by the Company upon the franchisee's failure to maintain certain quality standards or to pay franchise fees or other charges. In the event of such termination, the Company is typically entitled to be compensated for lost revenues in an amount equal to the franchise fees accrued during periods specified in the respective franchise agreements which are generally between one and five years.

LODGING SERVICE MARKS AND OTHER INTELLECTUAL PROPERTY. The service marks "Days Inn," "Ramada," "Howard Johnson," "Super 8," "Travelodge" and related logos are material to the Company's business. The Company, through its franchisees, actively uses these marks. All of the material marks in each franchise system are registered (or have applications pending for registration) with the United States Patent and Trademark Office. The marks relating to the Days Inn system, the Howard Johnson system, the Knights Inn system, the Super 8 system, the Travelodge system (in North America), the Villager Lodge system and the Wingate Inn system are owned by the Company through its subsidiaries.

The Company franchises the service mark "Ramada" and related marks, Ramada brands and logos (the "Ramada Marks") to lodging facility owners in the United States pursuant to two license agreements (the "Ramada License Agreements") between an indirect subsidiary of Marriott Corporation ("Licensor") and Ramada Franchise Systems, Inc. ("RFS"), a wholly-owned subsidiary of the Company. The Ramada License Agreements limit RFS's use of the Ramada Marks to the U.S. market.

The Ramada License Agreements have initial terms terminating on March 31, 2024. At the end of the initial terms, RFS has the right either (i) to extend the Ramada License Agreements, (ii) to purchase the Ramada Marks for their fair market value at the date of purchase, subject to certain minimums after the initial terms, or (iii) to terminate the Ramada License Agreements. The Ramada License Agreements require that RFS pay license fees to the Licensor calculated on the basis of percentages of annual gross room sales, subject to certain minimums and maximums as specified in each Ramada License Agreement. RFS received approximately $44 million in royalties from its Ramada franchisees in 1997 and paid the Licensor approximately $22 million in license fees.

The Ramada License Agreements are subject to certain termination events relating to, among other things, (i) the failure to maintain aggregate annual gross room sales minimum amounts stated in the Ramada License Agreements, (ii) the maintenance by the Company of a minimum net worth of $50 million (however, this minimum net worth requirement may be satisfied by a guaranty of an affiliate of the Company with a net worth of at least $50 million or by an irrevocable letter of credit (or similar form of third-party credit support)), (iii) non-payment of royalties, (iv) failure to maintain registrations on the Ramada Marks and to take reasonable actions to stop infringements, (v) failure to pay certain liabilities specified by the Restructuring Agreement, dated July 15, 1991, by and among New World Development Co., Ltd. (a predecessor to Licensor), Ramada International Hotels and Resorts, Inc., Ramada Inc., Franchise System Holdings, Inc., the Company and RFS and (vi) failure to maintain appropriate hotel standards of service and quality. A termination of the Ramada License Agreements would result in the loss of the income stream from franchising the Ramada brand names and could result in the payment by the Company of liquidated damages equal to three years of license fees. The Company does not believe that it will have difficulty complying with all of the material terms of the Ramada License Agreements.

LODGING COMPETITION. Competition among the national lodging brand franchisors to grow their franchise systems is intense. The Company's 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. Days Inn, Travelodge and Super 8 properties principally compete with Comfort Inn, Hampton Inn (Registered Trademark) and Econo Lodge in the limited service economy sector of the market. The chief competitor of Ramada, Howard Johnson and Wingate Inn properties, which compete in the middle market segment of the hotel industry, is Holiday Inn. The Company's 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.

The Company believes 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, as well as the nature of those services. The Company believes that prospective franchisees value a franchise based upon their view of the relationship of conversion costs and future charges to the potential for increased revenue and profitability. The reputation of the franchisor among existing franchisees is also a factor which may lead a property owner to select a particular affiliation. The Company also believes that the perceived value of its brand names to prospective franchisees is, to some extent, a function of the success of its existing franchisees.

The ability of the Company's lodging franchisees to compete in the lodging industry is important to the Company's prospects for growth, although, because franchise fees are based on franchisee gross room revenue, the Company's revenue is not directly dependent on franchisee profitability.

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 effect of these conditions on the Company's results of operations is substantially reduced by virtue of the diverse geographical locations of the Company's franchises. At December 31, 1997, the Company had franchised lodging properties in North America (including all 50 states of the United States), Europe, Asia, Africa and South America.

LODGING SEASONALITY. The principal source of lodging revenue for the Company is based upon the annual gross room revenue of franchised properties. As a result, the Company's revenue from the lodging franchise business experiences seasonal lodging revenue patterns similar to those of the hotel industry wherein the summer months, because of increases in leisure travel, produce higher revenues than other periods during the year. Therefore, any occurrence that disrupts travel patterns during the summer period could have a material adverse effort on the franchisee's annual performance and effect the Company's annual performance.

THE TIMESHARE EXCHANGE BUSINESS

GENERAL. The Company acquired Resort Condominiums International, Inc. (now Resort Condominiums International, LLC), on November 12, 1996. RCI is the world's largest provider of timeshare vacation exchange opportunities and timeshare services for nearly 2.4 million timeshare households from more than 200 nations and more than 3,200 resorts in 90 countries around the world. RCI's business consists primarily of the operation of an exchange program for owners of condominium timeshares or whole units at affiliated resorts, the publication of magazines and other periodicals related to the vacation and timeshare industry, travel related services, resort management, integrated software systems and service and consulting services. RCI has significant operations in North America, Europe, the Middle East, Latin America, Africa, Australia, and the Pacific Rim. RCI has more than 3,500 employees worldwide.

The resort component of the leisure industry is primarily serviced by two alternatives for overnight accommodations: commercial lodging establishments and timeshare resorts. Commercial lodging consists principally of: a) hotels and motels in which a room is rented on a nightly, weekly or monthly basis for the duration of the visit and b) rentals of privately-owned condominium units or homes. Oftentimes, this segment is designed to serve both the leisure and business traveler. Timeshare resorts present an economical and reliable alternative to commercial lodging for many vacationers who want to experience the added benefits associated with ownership. Timeshare resorts are purposely designed and operated for the needs and enjoyment of the leisure traveler.

Resort timesharing -- also referred to as vacation ownership -- is the shared ownership and/or periodic use of property by a number of users or owners for a defined period of years or in perpetuity. An example of a simple form of timeshare is a condominium unit that is owned by fifty-one persons, with each person having the right to use the unit for one week of every year and with one week set aside for maintenance. In the United States, industry sources estimate that the average price of such a timeshare is about $10,000, plus a yearly maintenance fee of approximately $350 per interval owned. Based upon information published about the industry, the Company believes that 1997 sales of timeshares exceeded $6 billion worldwide. Two principal segments make up the timeshare exchange industry: owners of timeshare interests (consumers) and resort properties (developers/operators). Industry sources have estimated that the total number of owner households of timeshare interests is nearly 4 million worldwide, while the total number of timeshare resorts worldwide has been estimated to be more than 4,500. The timeshare exchange industry derives revenue from annual membership fees paid by owners of timeshare interests, fees paid by such owners for each exchange and fees paid by members and resort affiliates for various other products and services.

The "RCI Network" provides RCI members who own timeshares at RCI-affiliated resorts the capability to exchange their timeshare vacation accommodations in any given year for comparable value accommodations at other RCI-affiliated resorts. Approximately 1.2 million members of the RCI Network, representing approximately 50% of the total members of the RCI Network reside outside of the United States. RCI's membership volume has grown at a compound annual rate for the last five years of approximately 8%, while exchange volumes have grown at a compound annual rate of approximately 10% for the same time period.

RCI provides members of the RCI Network with access to both domestic and international timeshare resorts, publications regarding timeshare exchange opportunities and other travel-related services, including discounted purchasing programs. In 1997, members in the United States paid an average annual membership fee of $65 as well as an average exchange fee of $107 for every exchange arranged by RCI. In 1997, membership and exchange fees totaled approximately $300 million and RCI arranged more than 1.8 million exchanges.

Developers of resorts affiliated with the RCI Network typically pay the first year membership fee for new members upon the sale of the timeshare interest. In the United States, nearly 60% of such owners renew their memberships in their second year and nearly 80% of these owners renew each year thereafter.

TIMESHARE EXCHANGE BUSINESS GROWTH. The timeshare exchange industry has experienced significant growth over the past decade. The Company believes 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. The Company believes that future growth of the timeshare exchange industry will be determined by general economic conditions both in the U.S. and worldwide, the public image of the industry, improved approaches to marketing and sales, a greater variety of products and price points, the broadening of the timeshare market and a variety of other factors. Accordingly, the Company cannot predict if future growth trends will continue at rates comparable to those of the recent past.

OPERATIONS. The Company's timeshare exchange business is designed to provide high-quality, leisure travel services to its members and cost-effective, single-source support services to its affiliated timeshare resorts. Most members are acquired from timeshare developers who purchase an initial RCI membership for each buyer at the time the timeshare interval is sold. A small percentage of members are acquired through direct solicitation activities of RCI.

MEMBER SERVICES. International Exchange System. Members are served through a network of call centers located in more than 20 countries throughout the world. These call centers are staffed by approximately 2,000 people. Major regional call and information support centers are located in Indianapolis, Kettering (England), Cork (Ireland), Mexico City and Singapore. All members receive a directory that lists resorts available through the exchange system, a periodic magazine and other information related to the exchange system and available travel services. These materials are published in various languages.

Travel Services. In addition to exchange services, RCI's call centers also engage in telemarketing and cross-selling of other ancillary travel and hospitality services. These services are offered to a majority of members depending on their location. RCI provides travel services to U.S. members of the RCI Network through its affiliate, RCI Travel, Inc. ("RCIT"). On a global basis, RCI provides travel services through entities operating in local jurisdictions (hereinafter, RCIT and its local entities are referred to as "Travel Agencies"). Travel Agencies provide airline reservations and airline ticket sales to members in conjunction with the arrangement of their timeshare exchanges, as well as providing other types of travel services, including hotel accommodations, car rentals, cruises and tours. Travel Agencies also from time to time offer travel packages utilizing resort developers' unsold inventory to generate both revenue and prospective timeshare purchasers to affiliated resorts.

Quality Assurance. Members have a high level of interest in the quality of their home resorts and other resorts within the exchange system. Quality control of affiliated resorts occurs through inspections at the time of application, unannounced inspections and visits by Company personnel, and comment card feedback from members exchanging into each resort. Resorts meeting certain quality measures are given special recognition through RCI's Gold Crown Resort and Resorts of International Distinction award programs.

RESORT SERVICES. Resort Affiliations. Growth of the timeshare business is dependent on the sale of timeshare units by affiliated resorts. RCI affiliates international brand names and independent developers, owners' associations and vacation clubs. The Company believes that national lodging and hospitality companies are attracted to the timeshare concept because of the industry's relatively low product cost and high profit margins, and the recognition that timeshare resorts provide an attractive alternative to the traditional hotel-based vacation and allow the hotel companies to leverage their brands into additional resort markets where demand exists for accommodations beyond traditional rental-based lodging operations. Today, 7 of every 10 timeshare resorts worldwide are affiliated with RCI. The Company also believes that RCI's existing affiliates represent a significant potential market because many developers and resort managers may become involved in additional resorts in the future which can be affiliated with RCI. Accordingly, a significant factor in RCI's growth strategy is maintaining the satisfaction of its existing affiliates by providing quality support services.

Sales Support Services. Exchange services are considered to be an essential component of timeshare ownership. In fact, exchange is one of the primary reasons given for purchasing timeshare. RCI provides a wide variety of sales and marketing materials to assist its affiliated resorts in selling more efficiently and effectively. These include videos explaining the concept of timesharing and exchange, interactive multi-media sales tools, wall displays customized for the resort, a wide variety of promotional brochures, travel services, purchasing discounts and the Endless Vacation Special Resort Edition Directory which includes photos and/or summary information for all RCI-affiliated resorts. In addition, RCI uses state-of-the-art database marketing techniques to identify highly qualified sales prospects for its resort affiliates.

Advertising. RCI provides many advertising opportunities in its member and developer focused publications, as well as through its site on the Internet World Wide Web at http://www.rci.com.

Timeshare Consulting. RCI provides worldwide timeshare consulting services through its affiliate, RCI Consulting, Inc. ("RCIC"). These services include comprehensive market research, site selection, strategic planning, community economic impact studies, resort concept evaluation, financial feasibility assessments, on-site studies of existing resort developments, and tailored sales and marketing plans.

Resort Management Software. RCI provides computer software systems to timeshare resorts and developers through its affiliate, Resort Computer Corporation ("RCC"). RCC provides software that integrates resort functions such as sales, accounting, inventory, maintenance, dues and reservations. The Company's RCC Premier information management software is believed to be the only technology available today that can fully support timeshare club operations and points-based reservation systems.

Property Management. RCI provides resort property management services through its affiliate, RCI Management, Inc. ("RCIM"). RCIM is a single source for any and all resort management services, and offers a menu including hospitality services, a centralized reservations service center, advanced reservations technology, human resources expertise and owners' association administration.

TIMESHARE PROPERTY AFFILIATION AGREEMENTS. More than 3,200 timeshare resorts are affiliated with the RCI Network, of which nearly 1,300 resorts are located in the United States and Canada, more than 1,200 in Europe and Africa, more than 450 in Mexico and Latin America, and nearly 300 in the Asia-Pacific region. The terms of RCI's affiliation agreement with its affiliates generally require that the developer enroll each new timeshare purchaser at the resort as a member of RCI, license the affiliated resort to use the RCI name and marks for certain purposes, set forth the materials and services RCI will provide to the affiliate, and generally describe RCI's expectations of the resort's management. The affiliation agreement also includes stipulations for representation of the exchange program, minimum enrollment requirements and treatment of exchange guests. Affiliation agreements are typically for a term of five or six years, and automatically renew thereafter for terms of one to six years unless either party takes affirmative action to terminate the relationship. RCI makes available a wide variety of goods and services to its affiliated developers, including publications, advertising, sales and marketing materials, timeshare consulting services, resort management software, travel packaging and property management services.

RCI LICENSED MARKS AND INTELLECTUAL PROPERTY. The service marks "RCI", "Resort Condominiums International" and related marks and logos are material to RCI's business. RCI and its subsidiaries actively use the marks. All of the material marks used in RCI's business are registered (or have applications pending for registration) with the United States Patent and Trademark Office as well as major countries worldwide where RCI or its subsidiaries have significant operations. The marks used in RCI's business are owned by the Company.

SEASONALITY. A principal source of timeshare 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 comparison to other quarters of the year. The Company cannot predict whether this trend will continue in the future as the timeshare business expands outside of the United States and Europe, and as global travel patterns shift with the aging of the world population.

COMPETITION. The global timeshare exchange industry is comprised of a number of entities, including resort developers and owners. RCI's largest competitor is Interval International Inc. ("Interval"), formerly a wholly-owned subsidiary of the Company, and a few other smaller firms. Based upon industry sources, the Company believes that 98% of the more than 4,500 timeshare resorts in the world are affiliated with either RCI or Interval. Based upon 1997 published statistics and Company information, RCI has nearly 2.4 million timeshare households that are members, while Interval has approximately 850,000 timeshare households that are members. Also in 1997, RCI confirmed more than 1.8 million exchange transactions while Interval confirmed approximately 480,000 transactions. As a result, based on 1997 business volume, RCI services approximately 73% of members and approximately 79% of exchange transactions. RCI is bound by the terms of a Consent Order issued by the Federal Trade Commission which restricts the right of RCI to solicit, induce, or attempt to induce clients of Interval International Inc. to either terminate or not to renew their existing Interval contracts. The proposed Consent Order contains certain other restrictions. The restrictions generally expire on or before December 17, 1999.

AVIS CAR RENTAL FRANCHISE BUSINESS

GENERAL. On October 17, 1996, the Company completed the acquisition of all of the outstanding capital stock of Avis, Inc. which together with its subsidiaries, licensees and affiliates, operated the Avis Worldwide Vehicle System (the "Avis System"). As part of its previously announced plan, on September 24, 1997, the Company completed the initial public offering ("IPO") of the subsidiary, Avis Rent A Car, Inc. ("ARAC"), which owned and operated the company-owned Avis car rental operations. The Company currently owns approximately 20% of the outstanding Common Stock of ARAC. The Company no longer operates any car rental locations but owns the Avis brand name and the Avis System, which it licenses to its franchisees, including ARAC, the largest Avis System franchisee.

The Avis System is comprised of approximately 4,200 rental locations, including locations at the largest airports and cities in the United States and approximately 160 other countries and territories and a fleet of approximately 378,000 vehicles during the peak season, all of which are granted by franchisees. Approximately 87% of the Avis System rental revenues in the United States are received from locations operated by ARAC directly or under agency arrangements, with the remainder being received from locations operated by independent licensees. The Avis System in Europe, Africa, part of Asian and the Middle East is operated under franchise by Avis Europe Ltd ("Avis Europe").

INDUSTRY. The car rental industry provides vehicle rentals to business and individual customers worldwide. The industry has been composed of two principal segments: general use (mainly at airport and downtown locations) and local (mainly at downtown and suburban locations). The car rental industry rents primarily from on-airport, near-airport, downtown and suburban locations to business and leisure travelers and to individuals who have lost the use of their vehicles through accident, theft or breakdown. In addition to revenue from vehicle rentals, the industry derives significant revenue from the sale of rental related products such as insurance, refueling services and loss damage waivers (a waiver of the franchisee's right to make a renter pay for damage to the rented car).

Car renters generally are (i) business travelers renting under negotiated contractual arrangements between specified rental companies and the travelers' employers, (ii) business travelers who do not rent under negotiated contractual arrangements (but who may receive discounts through travel, professional or other organizations), (iii) leisure travelers and (iv) renters who have lost the use of their own vehicles through accident, theft or breakdown. Contractual arrangements normally are the result of negotiations between rental companies and large corporations, based upon rates, billing and service arrangements, and influenced by reliability and renter convenience. Business travelers who are not parties to negotiated contractual arrangements and leisure travelers generally are influenced by advertising, renter convenience and access to special rates because of membership in travel, professional and other organizations.

AVIS SYSTEM AND WIZARD SYSTEM SERVICES. The Avis System provides Avis System franchisees access to the benefits of a variety of services, including (i) comprehensive safety initiatives, including the "Avis Cares" Safe Driving Program, which offers vehicle safety information, directional assistance such as satellite guidance, regional maps, weather reports and specialized equipment for travelers with disabilities; (ii) standardized system-identity for rental location presentation and uniforms; (iii) training program and 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 System internet website; and (v) brand awareness of the Avis System through the familiar "We try harder" service announcements.

Avis System franchisees are also provided with access to the Wizard System, a reservations, data processing and information management system for the vehicle rental business. The Wizard System is linked to all major travel networks on six continents through telephone lines and satellite communications. Direct access with other computerized reservations systems allows real-time processing for travel agents and corporate travel departments. Among the principal features of the Wizard System are:

- an advanced graphical interface reservation system;
- "Rapid Return," which permits customers who are returning vehicles to obtain completed charge records from radio-connected "Roving Rapid Return" agents who complete and deliver the charge record at the vehicle as it is being returned;
- "Preferred Service," an expedited rental service that provides customers with a preferred service rental record printed prior to arrival, a pre-assigned vehicle and fast convenient check out;
- "Wizard on Wheels," which enables the Avis System locations to assign vehicles and complete rental agreements while customers are being transported to the vehicle; a flight arrival notification system that alerts the Company's rental location when flights have arrived so that vehicles can be assigned and paperwork prepared automatically;
- "Flight Check," a system that provides flight arrival and departure times and the next three available flights to the Roving Rapid Return terminals and Wizard System terminals;
- "Avis Link," which automatically identifies the fact that a user of a major credit card is entitled to special rental rates and conditions, and therefore sharply reduces the number of instances in which the Company inadvertently fails to give renters the benefits of negotiated rate arrangements to which they are entitled;
- interactive interfaces through third-party computerized reservation systems; and
- sophisticated automated ready-line programs that, among other things, enable rental agents to ensure that a customer who rents a particular type of vehicle will receive the available vehicle of that type which has the lowest mileage.

In 1997, the Wizard System processed approximately 30.8 million incoming customer calls, during which customers inquired about locations, rates and availability and placed or modified reservations. In addition, millions of inquiries and reservations come to franchisees through travel agents and travel industry partners, such as airlines. Regardless of where in the world a customer may be located, the Wizard System is designed to ensure that availability of vehicles, rates and personal profile information is accurately delivered at the proper time to the customer's rental destination.

AVIS LICENSED MARKS AND INTELLECTUAL PROPERTY. The service mark "Avis", related marks incorporating the word "Avis", and related logos are material to the Company's business. The Company, through its subsidiaries, joint ventures and licensees, actively uses these marks. All of the material marks used in Avis's business are registered (or have applications pending for registration) with the United States Patent and Trademark Office. The marks used in Avis's business are owned by the Company through its subsidiaries. The purposes for which the Company is authorized to use the marks include use in connection with businesses in addition to car rental and related businesses, including, but not limited to, equipment rental and leasing, hotels, insurance and information services.

LICENSEES AND LICENSE AGREEMENTS. The Company has 73 independent licensees which operate locations in the United States. The largest licensee, ARAC, accounts for approximately 87% of all United States licensees' rentals. Other than ARAC, certain licensees in the United States pay the Company a fee equal to 5% of their total time and mileage charges, less all customer discounts, of which the Company is required to pay 40% for corporate licensee-related programs, while 17 licensees pay 8% of their gross revenue. Licensees outside the United States normally pay higher fees. Most of the Company's United States licensees currently pay 50 cents per rental agreement for use of certain portions of the Wizard System, and they are charged for use of other aspects of the Wizard System.

ARAC has entered into a Master License Agreement with the Company which grants ARAC the right to operate the Avis vehicle rental business in certain specified territories. Pursuant to the Master License Agreement, ARAC has agreed to pay the Company a monthly base royalty of 3.0% of ARAC's gross revenue. In addition, ARAC has agreed to pay a supplemental royalty of 1.0% of gross revenue payable quarterly in arrears which will increase 0.1% per year commencing in 1999 and in each of the following four years thereafter to a maximum of 1.5% (the "Supplemental Fee"). These fees have been paid by ARAC since January 1, 1997. Until the fifth anniversary of the effective date of the Master License Agreement, the Supplemental Fee or a portion thereof may be deferred by ARAC if ARAC does not attain certain financial targets.

In, 1997, Avis Europe's previously paid-up license for Europe, the Middle East and Africa was modified to provide for a paid-up license only as to Europe and the Middle East. Avis Europe will pay annual royalties to the Company for Africa and a defined portion of Asia which covers the area between 60E longitude and 150E longitude, excluding Australia, New Zealand and Papua New Guinea. The Avis Europe license expires on November 30, 2036, unless earlier termination is effected in accordance with the license terms. Avis Europe also entered into a Preferred Alliance Agreement with the Company under which Avis Europe became a preferred alliance provider for car rentals to RCI customers in Europe, Asia and Africa, and for car rentals to PHH customers needing replacement vehicles for fleets managed by PHH in Europe, Asia and Africa.

COMPETITION. The vehicle rental industry is characterized by intense price and service competition. In any given location, franchisees may encounter competition from national, regional and local companies, many of which, particularly those owned by the major automobile manufacturers, have greater financial resources than the Company and Avis. However, because the Company's royalty fees are based upon the gross revenue of Avis and the other Avis System franchisees, the Company's revenue is not directly dependent on franchisee profitability.

The franchisees' principal competitors for commercial accounts in the United States are the Hertz Corporation ("Hertz") and National Car Rental System, Inc. ("National"). Principal competitors for unaffiliated business and leisure travelers in the United States are Budget Rent A Car Corporation, Hertz and National, and, particularly with regard to leisure travelers, Alamo Rent-A-Car Inc. In addition, the franchisees compete with a variety of smaller vehicle rental companies throughout the country.

SEASONALITY. The car rental franchise business is subject to seasonal variations in customer demand, with the third quarter of the year, which covers the summer vacation period, representing the peak season for vehicle rentals. Therefore, any occurrence that disrupts travel patterns during the summer period could have a material adverse effect on the franchisee's annual performance and affect the Company's annual financial performance. The fourth quarter is generally the weakest financial quarter for the Avis System because there is limited leisure travel and a greater potential for adverse weather conditions at such time.

FLEET MANAGEMENT SERVICES BUSINESS

Fleet Management Services. The Company, through PHH Vehicle Management Services Corporation ("VMS"), is a provider of fully integrated fleet management services principally to corporate clients and government agencies comprising over 600,000 units under management on a worldwide basis. These services include vehicle leasing, advisory services and fleet management services for a broad range of vehicle fleets. Advisory services include fleet policy analysis and recommendations, benchmarking, and vehicle recommendations and specifications. In addition, VMS provides managerial services which include ordering and purchasing vehicles, arranging for their delivery through dealerships located throughout the United States, Canada, the United Kingdom, Germany and the Republic of Ireland, as well as capabilities throughout Europe, administration of the title and registration process, as well as tax and insurance requirements, pursuing warranty claims with vehicle manufacturers and remarketing used vehicles. VMS offers various leasing plans for its vehicle leasing programs, financed primarily through the issuance of commercial paper and medium-term notes and through unsecured borrowings under revolving credit agreements and bank lines of credit.

Fuel and Expense Management Programs. VMS also offers fuel and expense management programs to corporations and government agencies for the effective management and control of automotive business travel expenses. By utilizing the VMS service card issued under the fuel and expense management programs, a client's representatives are able to purchase various products and services such as gasoline, tires, batteries, glass and maintenance services at numerous outlets.

The Company also provides a fuel and expense management program and a centralized billing service for companies operating truck fleets in each of the United Kingdom, Republic of Ireland and Germany. Drivers of the clients' trucks are furnished with courtesy cards together with a directory listing the names of strategically located truck stops and service stations which participate in this program. Service fees are earned for billing, collection and record keeping services and for assuming credit risk. These fees are paid by the truck stop or service stations and/or the fleet operator and are based upon the total dollar amount of fuel purchased or the number of transactions processed.

Other. Wright Express Corporation, a wholly-owned subsidiary of the Company acquired as part of the Ideon acquisition, is a provider of information and transaction processing services for commercial fleet operators, as well as private label fleet card processing, in North America. The Wright Express Universal Fleet Card is the nation's most widely accepted electronic fleet fueling credit card and is accepted at over 120,000 fueling locations.

Competitive Conditions. The principal factors for competition in vehicle management services are service quality and price. In the United States and Canada, an estimated 30% of the market for vehicle management services is served by third-party providers. There are 5 major providers of such services in North America, as well as an estimated several hundred local and regional competitors. The Company is the second largest provider of comprehensive vehicle management services in North America. In the United Kingdom, the Company is the market leader for fuel and fleet management services. Numerous local and regional competitors serve each such market element.

## TAX REFUND BUSINESS

Through a subsidiary, Global Refund, the Company assists travelers to receive valued-added tax ("VAT") refunds in 22 European countries, Canada and Singapore. Global Refund is the world's leading VAT refund service, with over 125,000 affiliated retailers and seven million transactions per year. Global Refund operates over 400 cash refund offices at international airports and other major points of departure and arrival worldwide. The Company plans to expand the services Global Refund provides to travelers to include Entertainment (Registered Trademark) coupon book memberships and the Travelers Advantage (Registered Trademark) memberships.

## REAL ESTATE SERVICES

### REAL ESTATE BROKERAGE FRANCHISE BUSINESS

GENERAL. In August 1995, the Company acquired Century 21 Real Estate Corporation ("Century 21"), the world's largest franchisor of residential real estate brokerage offices with approximately 6,300 independently owned and operated franchised offices with approximately 110,000 sales agents worldwide. In February 1996, the Company acquired the ERA franchise system. The ERA system is the fourth largest residential real estate brokerage franchise system with over 2,500 independently owned and operated franchised offices and more than 30,000 sales agents worldwide. In May 1996, the Company acquired Coldwell Banker Corporation ("Coldwell Banker"), the owner of the world's premier brand for the sale of million-dollar-plus homes and the third largest residential real estate brokerage franchise system with approximately 2,800 independently owned and operated franchised offices and approximately 61,000 sales agents worldwide.

The Company believes that application of its franchisee focused management strategies and techniques can significantly increase the revenues produced by its real estate brokerage franchise systems while also increasing the quality and quantity of services provided to franchisees. The Company believes that independent real estate brokerage offices currently affiliate with national real estate franchisors principally to gain the consumer recognition and credibility of a nationally known and promoted brand name. Brand recognition is especially important to real estate brokers since home buyers are generally infrequent users of brokerage services and have often recently arrived in an area, resulting in little ability to benefit from word-of-mouth recommendations.

During 1996, the Company implemented a preferred alliance program which seeks to capitalize on the dollar volume of home sales brokered by CENTURY 21, Coldwell Banker and ERA agents and the valuable access point these brokerage offices provide for service providers who wish to reach these home buyers and sellers. Preferred alliance marketers include providers of property and casualty insurance, moving and storage services, mortgage and title insurance, environmental testing services, and sellers of furniture, fixtures and other household goods.

The Company's real estate brokerage franchisees are dispersed geographically, which minimizes the exposure to any one broker or geographic region. During 1997, the Company acquired an equity interest in NRT Incorporated ("NRT"), a newly formed corporation created to acquire residential real estate brokerage firms. NRT acquired the assets of National Realty Trust, the largest franchisee of the Coldwell Banker system, in September 1997. NRT has also acquired other independent regional real estate brokerage businesses during 1997 which NRT has converted to Coldwell Banker, CENTURY 21 and ERA franchises. As a result, NRT is the largest franchisee of the Company's franchise systems representing 4% of the franchised offices. Of the more than 11,700 franchised offices in the Company's real estate brokerage franchise systems, no individual broker, other than NRT, accounts for more than 1% of the Company's real estate brokerage services.

REAL ESTATE FRANCHISE SYSTEMS. CENTURY 21. Century 21 is the world's largest residential real estate brokerage franchisor, with approximately 6,300 independently owned and operated franchise offices with more than 110,000 sales agents located in 20 countries and territories.

The primary component of Century 21's revenue is service fees on commissions from real estate transactions. Service fees are 6% of gross commission income. CENTURY 21 franchisees who meet certain levels of annual gross revenue (as defined in the franchise agreements) are eligible for the CENTURY 21 Incentive Bonus ("CIB") Program, which results in a rebate payment to qualifying franchisees determined in accordance with the applicable franchise agreement (up to 2% of gross commission income in current agreements) of such annual gross revenue. For 1997, approximately 12% of CENTURY 21 franchisees qualified for CIB payments and such payments aggregated less than 1% of gross commissions.

CENTURY 21 franchisees generally contribute 2% (subject to specified minimums and maximums) of their brokerage commissions each year to the CENTURY 21 National Advertising Fund (the "NAF") which in turn disburses them for local, regional and national advertising, marketing and public relations campaigns. In 1997, the NAF spent approximately $37 million on advertising and marketing campaigns.

Coldwell Banker. Coldwell Banker is the world's premier brand for the sale of million-dollar-plus homes and the third largest residential real estate brokerage franchisor, with approximately 2,800 independently owned and operated franchise offices in the United States, Canada and Puerto Rico, with approximately 61,000 sales agents. The primary revenue from the Coldwell Banker system is derived from service and other fees paid by franchisees, including initial franchise fees and ongoing services. Coldwell Banker franchisees pay annual fees to the Company consisting of ongoing service and advertising fees, which are generally 6.0% and 2.5%, respectively, of a franchisee's annual gross revenues (subject to annual rebates to franchisees who achieve certain threshold levels of gross commission income annually, and to minimums and maximums on advertising fees).

Coldwell Banker franchisees who meet certain levels of annual gross revenue (as defined in the franchise agreements) are eligible for the Performance Premium Award ("PPA") Program, which results in a rebate payment to qualifying franchisees determined in accordance with the applicable franchise agreement (up to 3% in current agreements) of such annual gross revenue. For 1997, approximately 24% of Coldwell Banker franchisees qualified for PPA payments and such payments aggregated approximately 1% of gross commissions.

Advertising fees collected from Coldwell Banker franchisees are generally expended on local, regional and national marketing activities, including media purchases and production, direct mail and promotional activities and other marketing efforts. In 1997, Coldwell Banker expended approximately $19 million for such purposes.

ERA. The ERA franchise system is the fourth largest residential real estate brokerage franchise system in the world, with more than 2,500 independently owned and operated franchise offices, with more than 30,000 sales agents located in 15 countries. The primary revenue from the ERA franchise system results from (i) franchisees' payments of monthly membership fees ranging from $213 to $839 per month, based on volume, plus per transaction fees of approximately $119, and (ii) for franchise agreements entered into after January 1, 1998, royalty fees equal to 6% of the franchisees' gross revenues. For franchise agreements dated after January 1, 1998, the Volume Incentive Program may result in a rebate payment to qualifying franchisees determined in accordance with the applicable franchise agreement.

In addition to membership fees and transaction fees, franchisees of the ERA system pay (i) a fixed amount per month, which ranges from $229 to $918, based on volume, plus an additional $229 per month for each branch office, into the ERA National Marketing Fund (the "ERA NMF") and (ii) for franchise agreements entered into after January 1, 1998, an NMF equal to 2% of the franchisees' gross revenues, subject to minimums and maximums. The Company utilizes the funds in the ERA NMF for local, regional and national marketing activities, including media purchases and production, direct mail and promotional activities and other marketing efforts. In 1997, the ERA NMF spent approximately $9 million on marketing campaigns.

REAL ESTATE BROKERAGE FRANCHISE SALES. The Company markets 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. The Company believes that its existing franchisee base represents another source of potential growth, as franchisees seek to expand their existing business to additional markets. Therefore, the Company's sales strategy focuses on maintaining satisfaction and enhancing the value of the relationship between the franchisor and the franchisee.

The Company's real estate brokerage franchise systems employ a national franchise sales force consisting of approximately 123 salespersons and sales management personnel, which is divided into separate sales organizations for the CENTURY 21, Coldwell Banker and ERA systems. These sales organizations are compensated primarily through commissions on sales concluded. Members of the sales forces are also encouraged to provide referrals to the other sales forces when appropriate.

OPERATIONS -- REAL ESTATE BROKERAGE. The Company's brand name marketing programs for the real estate brokerage business focus on increasing brand awareness generally, in order to increase the likelihood of potential home buyers and home sellers engaging franchise brokers' services. Each brand has a dedicated marketing staff in order to develop the brand's marketing strategy while maintaining brand integrity. The corporate marketing services department provides services related to production and implementation of the marketing strategy developed by the brand marketing staffs.

Each brand provides its franchisees and their sales associates with training programs which have been developed by such brand. The training programs include mandatory programs instructing the franchisee and/or the sales associate on how to best utilize the methods of the particular system and additional optional training programs which expand upon such instruction. Each brand's training department is staffed with instructors experienced in both real estate practice and instruction. In addition, the Company has established regional support personnel who provide consulting services to the franchisees in their respective regions.

Each system provides a series of awards to brokers and their sales associates who are outstanding performers in each year. These awards signify the highest levels of achievement within each system and provide a significant incentive for franchisees to attract and retain sales associates.

Each system provides its franchisees with referrals of potential customers, which referrals are developed from sources both within and outside of the system.

Through its Cendant Supplier Services operations, the Company provides its franchisees with volume purchasing discounts for products, services, furnishings and equipment used in real estate brokerage operations. In addition to the preferred alliance programs described hereinafter, Cendant Supplier Services establishes relationships with vendors and negotiates discounts for purchases by its customers. The Company does not maintain inventory, directly supply any of the products or, generally, extend credit to franchisees for purchases. See "COMBINED OPERATIONS -- Preferred Alliance and Co-Marketing Arrangements" below.

REAL ESTATE BROKERAGE FRANCHISE AGREEMENTS. The Company's real estate brokerage franchise agreements grant the franchises the right to utilize one of the brand names associated with the Company's real estate brokerage franchise systems to real estate brokers under franchise agreements.

The current standard franchise agreement for the CENTURY 21 system provides for a 10-year term (prior to October 1995, agreements provided for five-year terms). Franchise agreements generally require, among other obligations, that franchisees pay annual fees comprised of royalty fees and National Advertising Fund fees which are generally 6% and 2%, respectively, of gross commissions on closed transactions (subject to minimums and maximums or advertising fees). See "CENTURY 21" above. The marketing fee is brand-specific national and local media advertising and promotion. In addition, the CENTURY 21 agreements provide for the payment of the CIB to qualified franchisees who meet certain levels of annual gross revenue (as defined in the franchise agreements).

Coldwell Banker franchise agreements generally have a term of seven to ten years for which franchisees pay annual fees consisting of ongoing service and advertising fees, which are generally 6.0% and 2.5%, respectively, of a franchisee's annual gross revenues (subject to minimums and maximums on advertising fees and subject to annual rebates to franchisees who achieve certain threshold levels of gross commission revenue annually). See "Coldwell Banker" above. In return for payment of the franchise fees, the Company provides Coldwell Banker franchisees access to the Coldwell Banker name and systems and the combined market presence of all its franchised offices.

The current form of the franchise agreement for the ERA system provides for a term of 10 years. New ERA franchisees pay royalty fees and advertising fees of 6.0% and 2.0% respectively on annual gross revenue. Prior to 1997, ERA agreements provided for franchisees to pay monthly membership fees and marketing fees at fixed rates determined by gross annual volume of real estate sales, and a per transaction charge of approximately $119. See "ERA" above.

The Company's current form of franchise agreement for all real estate brokerage brands is terminable by the Company for the franchisee's failure to pay fees thereunder or other charges or for other material default under the franchise agreement. In the event of such termination, the agreement generally provides that the Company is entitled to be compensated for lost revenues in an amount equal to the average monthly franchise fees calculated for the remaining term of the agreement. Pre-1996 agreements do not provide for liquidated damages of this sort.

REAL ESTATE BROKERAGE SERVICE MARKS. The service marks "CENTURY 21," "Coldwell Banker," and "ERA" and related logos are material to the Company's business. The Company, through its franchisees, actively uses these marks. All of the material marks in each franchise system are registered (or have applications pending for registration) with the United States Patent and Trademark Office. The marks used in the real estate brokerage systems are owned by the Company through its subsidiaries.

COMPETITION. Competition among the national real estate brokerage brand franchisors to grow their franchise systems is intense. The chief competitors of the Company's real estate brokerage franchise systems are the RE/MAX, Better Homes & Gardens and Prudential real estate brokerage brands. In addition, a real estate broker may choose to affiliate with a regional chain or not to affiliate with a franchisor but to remain independent.

The Company believes 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, as well as the nature of those services. The Company also believes that the perceived value of its brand names to prospective franchisees is, to some extent, a function of the success of its existing franchisees.

The ability of the Company's real estate brokerage franchisees to compete in the industry is important to the Company's prospects for growth, although, because franchise fees are based on franchisee gross commissions or volume, the Company's revenue is not directly dependent on franchisee profitability.

The ability of an individual franchisee to compete may be affected by the location and 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 effect of these conditions on the Company's results of operations is substantially reduced by virtue of the diverse geographical locations of the Company's franchises. At December 31, 1997, the combined real estate franchise systems had more than 8,600 franchised brokerage offices in the United States and more than 11,700 offices worldwide. The real estate franchise systems have offices in 23 countries and territories in North America, Europe, Asia, Africa and Australia.

SEASONALITY. The principal sources of real estate segment revenue for the Company are based upon the timing of residential real estate sales, which are lower in the first calendar quarter each year, and relatively level the other three quarters of the year. As a result, the Company's revenue from the real estate brokerage segment of its business is less in the first calendar quarter of each year.

## RELOCATION SERVICES BUSINESS

Cendant Mobility Services Corporation ("Cendant Mobility"), a wholly owned subsidiary of the Company, is the largest provider of employee relocation services in the world. The employee relocation business offers relocation clients a variety of services in connection with the transfer of its clients' employees. At December 31, 1997, Cendant Mobility employed approximately 2,720 people in its relocation business at its corporate office and five regional offices.

The relocation services provided to customers of Cendant Mobility include primarily appraisal, inspection and selling of transferees' homes, equity advances (guaranteed by the corporate customer), purchase of a home which is not sold for at least a price determined on the appraised value within a specified time period, certain home management services, assistance in locating a new home at the transferee's destination, consulting services and other related services.

All costs associated with such services are reimbursed by the corporate client, including, if necessary, repayment of equity advances and reimbursement of losses on the sale of homes purchased by one of the Company's relocation subsidiaries. Corporate clients also pay a fee for the services performed. Another source of revenue for the Company is interest on the equity advances. As a result of the obligations of corporate clients to pay the losses and guarantee repayment of equity advances, the exposure of the Company on such items is limited to the credit risk of the corporate clients of its relocation businesses and not on the potential changes in value of residential real estate. The Company believes such risk is minimal, due to the credit quality of the corporate, government and affinity clients of its relocation subsidiaries.

Competitive Conditions. The principal methods of competition within relocation services are service quality and price. In each of the United States and Canada, there are two major national providers of such services. The Company is the market leader in the United States and Canada, and third in the United Kingdom.

## MORTGAGE SERVICES BUSINESS

The Company, through Cendant Mortgage Corporation, is the eleventh largest originator of residential first mortgage loans in the United States as reported by Inside Mortgage Finance in 1997. Cendant Mortgage offers services consisting of the origination, sale and servicing of residential first mortgage loans. A variety of first mortgage products are marketed to consumers through relationships with corporations, affinity groups, financial institutions, real estate brokerage firms and other mortgage banks. Cendant Mortgage is a centralized mortgage lender conducting its business in all 50 states. Cendant Mortgage customarily sells all mortgages it originates to investors (which include a variety of institutional investors) either as individual loans, as mortgage-backed securities or as participation certificates issued or guaranteed by Fannie Mae Corp., the Federal Home Loan Mortgage Corporation or the Government National Mortgage Association 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.

Competitive Conditions. The principal methods of competition in mortgage banking services are service, quality and price. There are an estimated 20,000 national, regional or local providers of mortgage banking services across the United States.

## OTHER REAL ESTATE SERVICES

Welcome Wagon International, Inc. ("Welcome Wagon"), a wholly-owned subsidiary of the Company, has approximately 1,800 field representatives who visit households and campuses each year to provide consumers with discounts for local merchants. Getko Group Inc. ("Getko"), a wholly-owned subsidiary of the Company, distributes complimentary welcoming packages which provide new homeowners throughout the United States and Canada with discounts for local merchants. The Company is exploring opportunities to leverage the assets and the distribution channels of such subsidiaries.

## ALLIANCE MARKETING

The Company's Alliance Marketing segment is divided into three divisions; individual membership: insurance/wholesale; and lifestyle. The individual membership division, with more than 33 million memberships, provides customers with access to a variety of products and services in such areas as retail shipping, travel, auto, dining and home improvement. The insurance/wholesale division, with nearly 31 million customers, markets and administers insurance products, primarily accidental death insurance, and also provides products and services such as checking account enhancement packages, financial products and discount programs to customers of various financial institutions. The lifestyle division, with over 11 million customers, provides customers with unique products and services that are designed to enhance a customer's purchasing power. The Alliance Marketing activities are conducted principally through Cendant Membership Services, Inc. and certain of the Company's other wholly-owned subsidiaries, including FISI, BCI, and EPub.

The Company derives its Alliance Marketing revenue principally from membership service fees, insurance premiums and product sales. The Company solicits members and customers for many of its programs by direct marketing and by using a direct sales force to call on financial institutions, schools, community groups, companies and associations. Some of the Company's individual memberships are available on-line to interactive computer users via major on-line services and the Internet's World Wide Web. See "-- Distribution Channels".

### INDIVIDUAL MEMBERSHIP

The Individual Membership division represented 43%, 45% and 47% of the Alliance Marketing revenues for the year ended December 31, 1997, 1996 and 1995, respectively. The Company affiliates with business partners such as leading financial institutions, retailers, and oil companies to offer membership as an enhancement to their credit card customers. Participating institutions generally receive commissions on initial and renewal memberships, averaging fifteen to twenty percent of the net membership fees. Individual memberships are marketed, primarily using direct marketing techniques, through participating institutions with the Company generally paying for the marketing costs to solicit the prospective members. The member pays the Company directly for the service and, in most instances, is billed via a credit card. Membership fees vary depending upon the particular membership program, and annual fees generally range from $49 to $79 per year. Most of the Company's memberships are for one-year renewable terms, and members are generally entitled to unlimited use during the membership period of the service for which the members have subscribed. Members generally may cancel their memberships and obtain a full refund at any point during the membership term.

Individual membership programs link consumers to an array of products and services offering shop at home convenience with significant savings in areas such as retail shopping, travel, automotive, dining and home improvement. Membership programs include among others Shoppers Advantage (Registered Trademark) , Travelers Advantage (Registered Trademark) , AutoVantage (Registered Trademark) , Credit Card Guardian (Registered Trademark) , and PrivacyGuard (Registered Trademark) , and other membership programs. A brief description of the different types of membership programs are as follows:

Shopping. Shoppers Advantage (Registered Trademark) is a discount shopping program whereby the Company, through Comp-U-Card Services, Inc., provides product price information and home shopping services to its members. The Company's merchandise database contains information on over 100,000 brand name products, including a written description of the product, the manufacturer's suggested retail price, the vendor's price, features and availability. All of these products may be purchased through the Company's independent vendor network. Vendors include manufacturers, distributors and retailers nationwide. Individual members are entitled to an unlimited number of toll-free calls seven days a week to the Company's shopping consultants, who access the merchandise database to obtain the lowest available fully delivered cost from participating vendors for the product requested and accept any orders that the member may place. The Company informs the vendor providing the lowest price of the member's order and that vendor then delivers the requested product directly to the member. The Company acts as a conduit between its members and the vendors; accordingly, it does not maintain an inventory of products.

As part of its individual member Shoppers Advantage (Registered Trademark) program, the Company distributes catalogs four to ten times per year to certain members. In addition, the Company automatically extends the manufacturer's warranty on all products purchased through the Shoppers Advantage (Registered Trademark) program and offers a low price guarantee.

Travel. Travelers Advantage (Registered Trademark) is a discount travel service program whereby the Company, through Cendant Travel, Inc. ("Cendant Travel") (one of the ten largest full-service travel agencies in the U.S.), obtains information on schedules and rates for major scheduled airlines, hotel chains and car rental agencies from the American Airlines Sabre (Registered Trademark) Reservation System. In addition, the Company maintains its own database containing information on tours, travel packages and short-notice travel arrangements. Members book their reservations through Cendant Travel, which earns commissions (ranging from 5%-25%) on all travel sales from the providers of the travel services. Certain Travelers Advantage (Registered Trademark) members can earn cash awards from the Company equal to a specified percentage (generally 5%) of the price of travel arrangements purchased by the member through Cendant Travel. Travel members may book their reservations by making toll-free telephone calls seven days a week, twenty-four hours a day to agents at Cendant Travel. Cendant Travel provides its members with special negotiated rates on many air, car and hotel bookings. Cendant Travel's agents reserve the lowest air, hotel and car rental fares available for the members' travel requests and offers a low price guarantee on such fares.

Auto. The Company's auto service, AutoVantage (Registered Trademark) , offers members comprehensive new car summaries and preferred prices on new domestic and foreign cars purchased through the Company's independent dealer network (which includes over 1,800 dealer franchises); discounts on maintenance, tires and parts at more than 25,000 locations, including over 35 chains, including nationally known names, such as Goodyear (Registered Trademark) and Firestone (Registered Trademark) , plus regional chains and independent locations; and used car valuations. AutoVantage Gold (Registered Trademark) offers members additional services including road and tow emergency assistance 24 hours a day in the United States and trip routing.

Dining. Dinner on Us Club (Registered Trademark) features two-for-one dining offers at more than 17,000 restaurants in major metropolitan areas across the United States. The Company also manages other dining programs which allow members to earn additional benefits for each dollar spent for dining at participating restaurants in the United States.

Credit Card Registration. The Company's Credit Card Guardian (Registered Trademark) service enables consumers to register their credit and debit cards with the Company so that the account numbers of these cards may be kept securely in one place. If the member notifies the Company that any of these credit or debit cards are lost or stolen, the Company will notify the issuers of these cards, arrange for them to be replaced and reimburse the member for any amount for which the card issuer may hold the member liable. During 1996, the Company acquired Ideon Group, Inc. ("Ideon"), which through its principal subsidiary, SafeCard Services, Inc. ("SafeCard"), offers a credit card registration service, "Hot-Line". If a member notifies SafeCard of a loss or theft of his/her credit cards, SafeCard retrieves (or, if cards have not been previously registered, obtains) the necessary card registration information, and then promptly notifies the credit card issuers of the loss, simultaneously requesting replacement, and reimburses the member for any amount for which the card issuer may hold the member liable.

PrivacyGuard Service. The PrivacyGuard (Registered Trademark) service provides members with a comprehensive and understandable means of monitoring key personal information. The service offers a member access to information in certain key areas including: credit history and monitoring, driving records maintained by state motor vehicle authorities, and medical files maintained by third parties. This service is designed to assist members in obtaining and monitoring information concerning themselves that is used by third parties in making decisions such as granting or denying credit or setting insurance rates. The Company also operates the Credentials (Registered Trademark) service, which provides its members with a credit monitoring service offering a credit report, quarterly credit monitoring and automatic inquiry notification.

Buyers Advantage. The Buyers Advantage (Registered Trademark) service extends the manufacturer's warranty on products purchased by the member. This service also rebates 20% of repair costs and offers members price protection by refunding any difference between the price the member paid for an item and its reduced price, should the item be sold at a lower price within sixty days after purchase. In addition, the service offers return guarantee protection by refunding the purchase price of an item that the member wishes to return.

CompleteHome. The CompleteHome (Registered Trademark) service is designed to save members time and money in maintaining and improving their homes. Members can order do-it-yourself "How-To Guides" or call the service for a tradesperson referral. Tradespersons are available in all 50 states through a toll-free phone line. Members also receive discounts ranging from 10% to 50% off on a full range of home-related products and services.

Family FunSaver Club. The Family FunSaver Club (Registered Trademark) provides its members with a variety of benefits, including the opportunity to inquire about and purchase family travel services and family related products, the opportunity to buy new cars at a discount, a discounted family dining program and a Family Values Guide offering coupon savings on family related products such as movie tickets, casual restaurants, and theme parks.

The Family Software Club. The Family Software Club(SM) has no membership fee and offers members a way to purchase educational and entertainment CD-ROM titles, often at an introductory price with a small commitment to buy titles at regular club prices over a specified time period. Approximately every six to eight weeks, members receive information on CD-ROM titles and other related products and have the opportunity to purchase their featured selection, alternate titles or no selections at that time. The club also provides its members with special offers and discounts on software and other related products from time to time.

Business Advantage. The Business Advantage(SM) service is targeted at small business operators and provides benefits in the areas of travel, auto, shopping, and health. In addition, the service provides its members with special discounts and other benefits from a number of partners in product areas that appeal to small business owners, such as telecommunications, office supplies, shipping, printing and insurance.

Health Services. The HealthSaver(SM) membership provides discounts ranging from 10% to 60% off retail prices on prescription drugs, eyewear, eyecare, dental care, selected health-related services and fitness equipment, including sporting goods. Members may also purchase prescription and over-the-counter drugs through the mail.

INSURANCE/WHOLESALE

The Insurance/Wholesale division represented 31%, 30% and 27% of Alliance Marketing revenues for the year ended December 31, 1997, 1996 and 1995, respectively. The Company affiliates with financial institutions, such as credit unions and community banks, to offer their respective customer base competitively priced insurance products, primarily accidental death insurance, as well as an array of services associated with the Individual Membership division.

Enhancement Package Service. The Company, primarily through FISI, sells enhancement package for financial institution consumer and business checking and deposit account holders. FISI's financial institution clients select a customized package of the Company's products and services and then usually adds its 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 the Company's marketing and promotional assistance, the financial institution then offers the complete package of account enhancements to its checking account holders as a special program for a monthly fee. Most these financial institutions choose a standard enhancement package, which generally includes $10,000 of accidental death insurance associated with BCI, travel discounts and a nationwide check cashing service. Others may choose the Company's shopping and credit card registration services, a financial newsletter or pharmacy, eyewear or entertainment discounts as enhancements. The accidental death coverage is underwritten under group insurance policies with independent insurers. The Company continuously seeks to develop new enhancement features which may be added to any package at an additional cost to the financial institution. The Company generally charges 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. The Company's enhancement packages are designed to enable a financial institution to generate additional fee income, because the institution should be able to charge participating accounts more than the combined costs of the services it provides and the payments it makes to the Company.

The Company, primarily through National Card Control Inc. ("NCCI"), a wholly-owned subsidiary, also sells enhancement services to credit card issuers who make these services available to their credit card holders to foster increased product usage and loyalty. NCCI's clients create a customized package of the Company's products and services. These enhancements include loyalty products, such as frequent flyer/buyer programs, as well as shopping, travel, concierge, insurance and credit card registration services. Like FISI, NCCI generally charges its credit card issuer clients an initial fee to implement the program and monthly fees thereafter, based on the number of accounts participating in that institution's program.

Insurance Products. The Company, through BCI, serves as a third party administrator for marketing accidental death insurance throughout the country to the customers of BCI's financial institution clients. This accidental death insurance is often combined with other Company services to enhance their value. These products are generally marketed through direct mail solicitations, which generally offer $1,000 of accidental death insurance at no cost to the customers and the opportunity to choose additional coverage of up to $300,000. The annual premium generally ranges from $10 to $250. BCI also acts as an administrator for some term, graded term and hospital accident insurance.

BCI's insurance products and other services are offered through credit unions to their account holders and to the account holders of FISI's and the Company's financial institution clients. BCI also markets the Company's shopping and travel membership services as well as certain lifestyle products to its clients. See also "-- General -- Proposed Acquisitions and Recent Divestiture -- Providian Acquisition" and "-- Proposed Acquisition of American Bankers."

LIFESTYLE

The Lifestyle division represented 26%, 25% and 26% of Alliance Marketing revenues for the year ended December 31, 1997, 1996 and 1995, respectively. The Lifestyle division includes numerous businesses established to provide unique products and services that are designed to enhance a customers' purchasing power.

Products. The Company, primarily through its wholly-owned subsidiary, EPub, offers discount programs in specific markets throughout North America and certain international markets and enhances other of the Company's Individual and Insurance/Wholesale products. The Company believes EPub is the largest marketer of discount program books of this type in the United States.

EPub solicits restaurants, hotels, theaters, sporting events, retailers and other businesses which agree to offer books and/or merchandise at discount prices (primarily on a two-for-the-price-of-one or 50% discount basis). EPub sells discount programs, under its Entertainment (Registered Trademark) , Entertainment (Registered Trademark) Values, Gold C (Registered Trademark) and other trademarks, which typically provides discount offers to individuals in the form of local discount coupon books. These books typically contain coupons and/or a card entitling individuals to hundreds of discount offers from participating establishments. Targeting middle to upper income consumers, many of EPub's products also contain selected discount travel offers, including offers for hotels, car rentals, airfare, cruises and tourist attractions. More than 100,000 merchants participate in these programs. EPub also uses this national base of merchants to develop other products, most notably, customized discount programs for major corporations. These programs also may contain additional discount offers, specifically designed for customized discount programs.

EPub's discount coupon books are sold annually by geographic area. Customers are solicited primarily through schools and community groups that distribute the discount coupon books and retain a portion of the proceeds for their non-profit causes. To a lesser extent, distribution occurs through corporations as an employee benefit or customer incentive, as well as through retailers and directly to the public. The discount coupon books are generally provided to schools and community groups on a consignment basis. Customized discount programs are distributed primarily by major corporations as loyalty incentives for their current customers and/or as premiums to attract new customers.

While prices of local discount coupon books vary, the customary price for Entertainment (Registered Trademark) , Entertainment (Registered Trademark) Values and Gold C (Registered Trademark) coupon books range between $10 and $45. Customized discount programs are generally sold at significantly lower prices. In 1997, over nine million Entertainment (Registered Trademark) , Entertainment (Registered Trademark) Values, Gold C (Registered Trademark) and other trademarked local discount coupon books were published in North America.

Sally Foster, Inc., a subsidiary of EPub, provides elementary and middle schools and selected youth community groups with gift wrap and other seasonal products for sale in their fund-raising efforts. EPub uses the same sales force that sells the discount coupon books to schools, attempting to combine the sale of gift wrap with the sale of discount coupon books. In addition, EPub has a specialized Sally Foster sales force.

Clubs. The Company's North American Outdoor Group, Inc. subsidiary ("NAOG") owns and operates the North American Hunting Club (Registered Trademark) , the North American Fishing Club (Registered Trademark) , the Handyman Club of America (Registered Trademark) , the National Home Gardening Club (Registered Trademark) and the PGA Tour Partners Club (Registered Trademark) , among others. Members of these clubs receive fulfillment kits, discounts on related goods and services, magazines and other benefits.

Spark Services, Inc. ("Spark") provides database-driven dating services to over 300 radio stations throughout the United States and Canada. Spark is the leading provider of dating and personals services to the radio industry. Spark has also begun to test television distribution of its services through infomercials, as well as through short form advertising and affiliation deals with various programs. Consumers pay for Spark's services on a per minute of usage transaction basis.

Other. The Company's Numa Corporation subsidiary publishes personalized heritage publications, including publications under the Halbert's name, and markets and sells personalized merchandise.

ONLINE PRODUCTS

The Company operates netMarket (www.netmarket.com), its flagship online, membership-based, value-oriented consumer site which offers discounts on over a million products and services. It offers discounted shopping, travel, auto and other benefits to both members and non-members, with members receiving preferred pricing, access to specials, cash back benefits, low price guarantees and extended warranties on certain items.

The Company also operates other online consumer offerings such as Books.com (www.books.com), one of the largest online booksellers in the world with more than four million titles available in its database with discounts of up to 20 to 40 percent below retail prices; Musicspot (www.musicspot.com) an online music store with more than 145,000 titles discounted up to 20 percent below retail prices; and GoodMovies (www.goodmovies.com) an online movie store offering more than 30,000 movie titles up to 20 to 40 percent below retail cost. The Company, through Match.com, Inc. ("Match"), is the leading matchmaking service on the Internet, servicing over 100,000 consumers. Subscriptions to the Match service range from approximately $10 per month to just under $60 for one year.

The Company, through its Rent Net operation (www.rent.net) is the leading apartment information and rental service on the Internet, with listings in more than 2,000 North American cities. Rent Net's clients include many of the top 50 property management companies across North America, and its apartment and relocation information has been seen by more than one million users monthly.

## DISTRIBUTION CHANNELS

The Company markets its Individual Memberships, Insurance/Wholesale and Lifestyle products through a variety of distribution channels. The consumer is ultimately reached in the following ways: 1) at financial institutions or other associations through direct marketing; 2) at financial institutions or other associations through a direct sales force, participating merchant or general advertising; and 3) through schools, community groups and companies. Some of the Company's individual memberships, such as shopping, travel and auto services, are available to computer users via on-line services and the Internet's World Wide Web. These users are solicited primarily through direct mail, inserts in newly-purchased computer equipment containers and interactive communications networks, such as America Online. The Company believes that its interactive users account for less than 2% of its total Alliance Marketing members and customers. The Company is currently working with a range of industry leaders developing interactive technologies. Strategic alliances have been formed with major phone companies and on-line services.

## INTERNATIONAL

As of December 31, 1997, Cendant International Membership Services had expanded its international membership and customer base to almost four million individuals. This base is driven by retail and wholesale membership through over 35 major banks in Europe and Asia, as well as through other distribution channels. The Company has exclusive licensing agreements covering the use of its merchandising systems in Japan, Canada and Australia, under which licensees paid initial license fees and agree to pay royalties to the Company on membership fees, access fees and merchandise service fees paid to them. Royalties to the Company from these licenses were less than 1% of the Company's Alliance Marketing revenues and profits in the years-ended December 31, 1997, 1996 and 1995, respectively.

In 1997, in addition to Canadian discount coupon books, Entertainment (Registered Trademark) discount coupon books were distributed in seven European markets and Australia. The Canadian discount coupon books are published independently by a Canadian subsidiary of EPub and the European discount books are published by the Company's European subsidiaries. The Australian discount coupon books are published by an Australian joint venture in which EPub has a controlling interest. United States and Canadian discount coupon books are also made available to foreign travelers. With publication of these overseas discount programs, the Company has created additional customized discount programs for international use.

The economic impact of currency exchange rate movements on the Company is complex because it is linked to variability in real growth, inflation, interest rates and other factors. Because the Company operates in a mix of services and numerous countries, management believes currency exposures are fairly well diversified. See Item 7A: "Quantitative and Qualitative Disclosure About Market Risk".

## SEASONALITY

Except principally for the sale of discount coupon books and gift wrap, the Company's Alliance Marketing business is not seasonal. Publication of Entertainment (Registered Trademark) , Entertainment (Registered Trademark) Values and Gold C (Registered Trademark) discount coupon books is substantially completed by the end of August of each year with significant solicitations beginning immediately thereafter. Most cash receipts from these discount coupon books are received in the fourth quarter and, to a lesser extent, in the first and third quarters of each fiscal year. For financial statement purposes, the Company recognizes revenue upon the sale of its discount coupon books and gift wrap through participating institutions.

COMPETITION

Individual Membership. The Company believes that there are competitors which offer membership programs similar to the Company's and some of these entities, which include large retailers, travel agencies, insurance companies and financial service institutions, have financial resources, product availability, technological capabilities or customer bases greater than those of the Company. To date, the Company has been able to compete effectively with such competitors. However, there can be no assurances that it will continue to be able to do so. In addition, the Company competes with traditional methods of merchandising that enjoy widespread consumer acceptance, such as catalog and in-store retail shopping and shopping clubs (with respect to its discount shopping service), and travel agents (with respect to its discount travel service). The Company's systems are not protected by patent.

Insurance/Wholesale. Each of the Company's account enhancement services competes with similar services offered by other companies, including insurance companies. Many of the competitors are large and more established, with greater resources and financial capabilities than those of the Company. Finally, in attempting to attract any relatively large financial institution as a client, the Company also competes with that institution's in-house marketing staff and the institution's perception that it could establish programs with comparable features and customer appeal without paying for the services of an outside provider.

Lifestyle. The Company believes that there are a number of competitors in most markets throughout North America which offer similar lifestyle products. The majority of these competitors are relatively small, with discount coupon books in only a few markets. To date, the Company has been able to compete effectively in markets that include these competitors, primarily on the basis of price and product performance. The Company does not anticipate that these competitors will significantly affect the Company's ability to expand.

COMBINED OPERATIONS

PREFERRED ALLIANCE AND CO-MARKETING ARRANGEMENTS

The Company believes a significant portion of its revenue growth opportunities will arise from its ability to capitalize on the significant and increasing amount of aggregate purchasing power and marketing outlets represented by the businesses in the Company's business units. The Company initially tapped the potential of these synergies within the lodging franchise systems in 1993 when it launched its Preferred Alliance Program, under which hotel industry vendors provide significant discounts, commissions and co-marketing revenue to hotel franchisees plus preferred alliance fees to the Company in exchange for being designated as the preferred provider of goods or services to the owners of the Company's franchised hotels or the preferred marketer of goods and services to the millions of hotel guests who stay in the hotels and customers of the real estate brokerage offices each year.

The Company currently participates in preferred alliance relationships with more than 90 companies, including AT&T, ADT Security Systems, Aon, Kodak, VISA U.S.A., Office Depot and Coca-Cola. Fees to the Company from these contracts have increased from $6.5 million in 1993 to $77.5 million in 1997. The operating profit generated by most new preferred alliance arrangements closely approximates the incremental revenue produced by such arrangements since the costs of the existing infrastructure required to negotiate and operate these programs are largely fixed.

OTHER BUSINESSES

TAX PREPARATION BUSINESS. In January 1998, the Company acquired Jackson Hewitt, the second largest tax preparation service in the United States, with a 43-state network comprised of approximately

2,000 offices operating under the trade name "Jackson Hewitt Tax Service" during the 1997 tax season. The Company believes that the application of its focused management strategies and techniques for franchise systems to the Jackson Hewitt network can significantly increase revenues produced by the Jackson Hewitt franchise system while also increasing the quality and quantity of services provided to franchisees.

Office locations range from stand-alone store front offices to offices within Wal-Mart Stores, Inc. and Montgomery Ward & Co., Inc. locations. Through the use of proprietary interactive tax preparation software, the Company is engaged in the preparation and electronic filing of federal and state individual income tax returns (collectively referred to as "tax returns"). During 1997, Jackson Hewitt prepared approximately 875,000 tax returns, which represented an increase of 21% from the approximately 722,000 tax returns it prepared during 1996. To complement its tax preparation services, the Company also offers accelerated check requests and refund anticipation loans to its tax preparation customers.

INFORMATION TECHNOLOGY SERVICES. WizCom International, Ltd ("WizCom"), a wholly owned indirect subsidiary of the Company, owns and operates the Wizard System more fully described under "TRAVEL SERVICES -- Avis Car Rental Franchise Business -- Avis System and Wizard System" above. In 1995, Budget Rent A Car Corporation ("Budget") entered into a computer services agreement with WizCom that provides Budget with certain reservation system computer services that are substantially similar to computer services provided to the Avis System. WizCom has also entered into agreements with hotel and other rental car companies to provide travel related reservation and distribution system services.

CREDIT INFORMATION BUSINESS. In 1995, the Company acquired Central Credit Inc. ("CCI"), a gambling patron credit information business. CCI maintains a database of information provided by casinos regarding the credit records of casino gaming patrons, and provides, for a fee, such information and related services to its customers, which primarily consist of casinos.

FINANCIAL PRODUCTS. Essex Corporation ("Essex"), a subsidiary of the Company, is a third-party marketer of financial products for banks, primarily marketing annuities, mutual funds and insurance products through financial institutions. Essex generally markets annuities issued by insurance companies or their affiliates, mutual funds issued by mutual fund companies or their affiliates, and proprietary mutual funds of banks. Essex's contracts with the insurance companies whose financial products it distributes generally entitle Essex to a commission of slightly less than 1% on the premiums generated through Essex's sale of annuities for these insurance companies.

MUTUAL FUNDS. In August 1997, the Company formed a joint venture with Frederick R. Kobrick, a longtime mutual fund manager, to form a mutual fund company known as Kobrick-Cendant Funds, Inc. ("Kobrick-Cendant"). Kobrick-Cendant currently offers two no-load funds, Kobrick-Cendant Capital Fund and Kobrick-Cendant Emerging Growth Fund.

## DISCONTINUED OPERATIONS

On August 12, 1998, the Company announced that its Executive Committee of the Board of Directors committed to discontinue the Company's consumer software and classified advertising businesses by disposing of wholly-owned subsidiaries Cendant Software Corporation ("Software") and Hebdo Mag, respectively. The Company disclosed that it has entered into a definitive agreement to sell Hebdo Mag to its former 50% owners for 7.1 million shares of Company common stock and approximately $410 million in cash. The transaction is expected to generate a gain of approximately $250 million upon anticipated consummation date in the fourth quarter of 1998 subject to certain conditions, including regulatory approval and financing by the purchaser. The Company also disclosed that it has engaged investment bankers to analyze various strategic alternatives in regard to the disposition of Software. The Company anticipates that the disposition of Software will be completed within one year and will result in a significant gain.

SOFTWARE. The Company offers consumer software in various multimedia forms, predominately on CD-ROM for personal computers. The Company's Cendant Software unit is one of the largest personal computer consumer software groups in the world, and a leader in entertainment, educational and personal productivity software. It includes Sierra On-Line, Inc., Blizzard Entertainment and Knowledge Adventure, Inc., and offers such titles as Diablo, Starcraft, You Don't Know Jack, King's Quest, JumpStart, Math Blaster, Reading Blaster and many others. These products are offered through a variety of distribution channels, including specialty retailers, mass merchandisers, discounters and schools.

The entertainment, education and productivity software industry is competitive. The Company competes primarily with other developers of multimedia PC based software. Products in the market compete primarily on the basis of subjective factors such as entertainment value and objective factors such as price, graphics and sound quality. Large diversified entertainment, cable and telecommunications companies, in addition to large software companies, are increasing their focus on the interactive entertainment and education software market, which will result in greater competition for the Company.

The Company's software segment has seasonal elements. Revenues are typically highest during the third and fourth quarters and lowest during the first and second quarters. This seasonal pattern is due primarily to the increased demand for the Company's products during the holiday season.

CLASSIFIED ADVERTISING BUSINESS. Hebdo Mag is an international publisher of over 180 titles and distributor of classified advertising information with operations in fifteen countries including Canada, France, Sweden, Hungary, Taiwan, the United States, Italy, Russia, the Netherlands, Australia, Argentina and Spain. Hebdo Mag is involved in the publication, printing and distribution, via print and electronic media, of branded classified advertising information products. Hebdo Mag has also expanded into other related business activities, including the distribution of third-party services and classified advertising web sites.

Hebdo Mag publishes over 11 million advertisements per year in over 180 publications. With a total annual circulation of over 85 million, management estimates Hebdo Mag publications are read by over 200 million people. Unlike newspapers which contain significant editorial content, Hebdo Mag publications contain primarily classified and display advertisements. These advertisements target buyers and sellers of goods and services in the markets for used and new cars, trucks, boats, real estate, computers, second-hand general merchandise and employment as well as personals.

Hebdo Mag owns leading local classified advertising publishing franchises in most of the regional markets where it has a presence. In addition to its print titles, Hebdo Mag generates revenues by distributing third-party services related to its classified business such as vehicle financing, vehicle and life insurance and warranty protection.

The classified advertising information industry is highly fragmented, with a large number of small, independent companies publishing local or regional titles. Hebdo Mag is the only major company focused exclusively on this industry on an international basis. In most of its major markets, the Company owns leading classified advertising franchises which have long standing, recognized reputations with readers and advertisers. Among the Company's leading titles, many of which have been in existence for over 15 years, are: La Centrale des Particuliers (France) - 1969, Expressz (Hungary) - 1986, The Trader (Indianapolis) - 1969, Traders Post (Nashville) - 1972, Car News (Taiwan) - 1991, Secondamano (Italy) - 1977, Auto Trader - 1978, Renters News - 1998, The Computer Paper (Canada) - 1989, Iz Ruk v Ruki (Russia) - 1992, Gula Tidningen (Sweden) - 1981, Segundamano (Argentina) and The Melbourne Trading Post (Australia) - 1966.

Hebdo Mag publications fall into three general revenue generating models:

1. Paid ad papers in which both the individual and commercial "display" ads are paid for as well as having paid circulation. Examples include Auto Trader (Canada), La Centrale des Particuliers (France), Truck Trader (Canada), and Expressz (Hungary).

2. Free ad papers in which the individual classified ads are free and commercial "display" ads, are paid for, with paid circulation. Examples include Secondamano (Italy), Buy & Sell (Canada), Gula Tidningen (Sweden) and Iz Ruk v Ruki (Russia).

3. Free distribution papers in which the ads, typically commercial classified and "display" ads, are paid for and the paper is distributed without charge to free-standing racks at targeted locations. Examples include Renters News, Immobilier Hebdo and Condo Guide (Canada) and Zart New Homes Guide (Indianapolis).

Because of the broad mix of the types of classified publications published by Hebdo Mag, it has a diversified revenue mix. In 1997, Hebdo Mag's classified advertisements represented 29% of its revenues, commercial display advertisements 37%, circulation 31%, and printing, royalties and other services 3%. Hebdo Mag is not dependent on any one publication, with the Company's largest publication, La Centrale des Particuliers ("La Centrale"), representing only 11% of revenues in 1997. Hebdo Mag is diversified geographically with 63% of 1997 revenues coming from Europe, 23% coming from Canada, 10% coming from the United States and 4% coming from Asia. Hebdo Mag is also diversified across the products sold in its publications such as automobiles, real estate and general merchandise.

Specialized classified publications compete locally with daily newspapers, and in some segments, with free shoppers and other classified publications. The competition is both for the content, the advertisement, and for the consumer of that content, the reader.

## REGULATION

Alliance Marketing Regulation. The Company markets its products and services through a number of distribution channels including telemarketing, direct mail and on-line. These channels are regulated on the state and federal level and the Company believes that these activities will increasingly be subject to such regulation. Such regulation may limit the Company's ability to solicit new members or to offer one or more products or services to existing members and may materially affect the Company's business and revenues.

A number of the Company's products and services (such as Buyers Advantage (Registered Trademark) and certain insurance products) are also subject to state and local regulations. The Company believes that such regulations do not have a material impact on its business or revenues.

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. 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 the Company's franchising operations have not been materially adversely affected by such existing regulation, the Company cannot predict the effect of any future legislation or regulation.

Real Estate Regulation. The federal Real Estate Settlement Procedures Act and state real estate brokerage laws restrict payments which real estate brokers 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 the Company's real estate brokerage franchisees, mortgage business and relocation business. The Company's mortgage banking services 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.

Timeshare Exchange Regulation. The Company's 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, the Company is subject to state statutes in those states regulating timeshare exchange services, and must prepare and file annually, with regulators in states which require it, the "RCI Disclosure Guide to Vacation Exchange". The Company is not subject to those state statutes governing the development of timeshare condominium units and the sale of timeshare interests, but such statutes directly affect the members and resorts that participate in the RCI Network. Therefore, the statutes indirectly impact the Company.

## EMPLOYEES

As of December 31, 1997, the Company employed approximately 34,000 persons full time. Management considers its employee relations to be satisfactory.

ITEM 2. PROPERTIES

The principal executive offices of the Company are located in a building owned by the Company and situated at 6 Sylvan Way, Parsippany, New Jersey 07054.

The Travel Services Division owns two properties, a 166,000 facility in Virginia Beach, Virginia which serves as a satellite administrative and reservations facility for Wizcom and ARAC, and a property located in Kettering, Europe which is the European office for RCI. The Travel Services Division also leases space for its reservations centers and data warehouse in Winner and Aberdeen, South Dakota; Phoenix, Arizona; Knoxville and Elizabetown, Tennessee; Tulsa and Drumright, Oklahoma; Indianapolis, Indiana; Orangeburg, South Carolina and St. John, New Brunswick, Canada pursuant to leases that expire in 2000, 2003, 2007, 2015, 2004, 1999, 2001, 2000/2001, 2008, 2008 and 2008 respectively. The Tulsa, Oklahoma location serves as an Avis car rental reservations center. In addition, the Travel Services Division has 38 leased offices spaces located in various countries outside the United States.

The Real Estate Services Division has two owned buildings in Mission Viejo, California, one in Westbury, New York and one owned internationally in Swindon, UK. The Real Estate Services Division has leased properties located in Danbury, Connecticut; Oak Brook and Schaumburg, Illinois; Mount Laurel, New Jersey and Walnut Creek, CA, pursuant to leases that expire in 2003, 2003, 2001, 2001, and 2003, respectively. The Real Estate Services Division shares approximately 6 leases with the Travel Services Division in various locations that function as sales offices.

The Alliance Marketing Division's principal offices are located in Stamford and Trumbull, Connecticut. The Alliance Marketing Division has an owned building that is located in Cheyenne, Wyoming and also leases space for several of its call centers in Aurora, Colorado; Westerville, Ohio; Brentwood, Tennessee; Nashville, Tennessee; Houston and Arlington, Texas; San Carlos, California and Woburn, Massachusetts and Great Falls, Montana pursuant to leases that expire in 2000, 2005, 2002, 2006, 2000, 2000, 2003, 2001 and 1999, respectively. In addition, the Alliance Marketing Division has leased smaller space in various locations for business unit and ancillary needs. Internationally, the Alliance Marketing Division has approximately 45 leased office spaces located in various countries.

The Company owns properties located in Torrance and Oakhurst, California and Virginia Beach, Virginia and leases 9 office spaces internationally, which represent space for businesses classified as "Other". In addition, there are approximately 66 sales offices and other ancillary office space leased in locations around the country.

Management believes that such properties are sufficient to meet its present needs and does not anticipate any difficulty in securing additional space, as needed, on terms acceptable to the Company.

ITEM 3. LEGAL PROCEEDINGS

As described in Item 1 above, as a result of the discovery of accounting irregularities in the former CUC business units and the investigation of the Audit Committee of the Company's Board of Directors into such matters, the Company has restated its previously reported financial results for 1997, 1996 and 1995.

Since the Company's announcement of the discovery of such irregularities on April 15, 1998, and prior to the date hereof, seventy-one purported class action lawsuits and one individual lawsuit have been filed against the Company, and certain current and former officers and directors of the Company and HFS, asserting various claims under the federal securities laws (the "Federal Securities Actions"). Some of the actions also name as defendants Merrill Lynch & Co. and, in one case, Chase Securities Inc., underwriters for the Company's PRIDES securities offerings; two others also name Ernst & Young LLP, the Company's former independent accountants. Sixty-four of the Federal Securities Actions were filed in the United States District Court for the District of New Jersey, six were filed in the United States District Court for the District of Connecticut (including the individual action), one was filed in the United States District Court for the Eastern District of Pennsylvania and one was filed in New Jersey Superior Court. The Federal Securities Actions filed in the District of Connecticut and the Eastern District of Pennsylvania have been transferred to the District of New Jersey. On June 10, 1998, the Company moved to dismiss or stay the Federal Securities Action filed in New Jersey Superior Court on the ground that, among other things, it is duplicative of the actions filed in federal courts. The court granted that motion on August 7, 1998, without prejudice to the plaintiff's right to re-file the case in the District of New Jersey.

Certain of the Federal Securities Actions purport to be brought on behalf of purchasers of the Company's common stock and/or options on common stock during various periods, most frequently beginning May 28, 1997 and ending April 15, 1998 (although the alleged class periods begin as early as March 21, 1995 and end as late as July 15, 1998). Others claim to be brought on behalf of persons who exchanged HFS common stock for the Company's common stock in connection with the Merger. Some plaintiffs purport to represent both of these types of investors. In addition, eight actions pending in the District of New Jersey purport to be brought, either in their entirety or in part, on behalf of purchasers of the Company's PRIDES securities. The complaints in the Federal Securities Actions allege, among other things, that as a result of accounting irregularities, the Company's previously issued financial statements were materially false and misleading and that the defendants knew or should have known that these financial statements caused the prices of the Company's securities to be inflated artificially. The Federal Securities Actions variously allege violations of Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 10b-5 promulgated thereunder, Section 14(a) of the Exchange Act and Rule 14a-9 promulgated thereunder, Section 20(a) of the Exchange Act, and Sections 11, 12 and 15 of the Securities Act of 1933, as amended (the "Securities Act"). Certain actions also allege violations of common law. The individual action also alleges violations of Section 18(a) of the Exchange Act and the Florida securities law. The class action complaints seek damages in unspecified amounts. The individual action seeks damages in the amount of approximately $9 million plus interest and expenses.

On May 29, 1998, United States Magistrate Judge Joel A. Pisano entered an Order consolidating the 50 Federal Securities Actions that had at that time been filed in the United States District Court for the District of New Jersey under the caption In re: Cendant Corporation Litigation, Master File No. 98-1664 (WHW). Pursuant to the Order, all related actions subsequently filed in the District of New Jersey are also to be consolidated under that caption. United States District Judge William H. Walls has selected lead plaintiffs to represent all potential class members in the consolidated action. He has also ordered that applications seeking appointment as lead counsel to represent the lead plaintiffs are to be filed with the Court by September 17, 1998. The selection of lead counsel is pending.

In addition, on April 27, 1998, a purported shareholder derivative action, Deutch v. Silverman, et al., No. 98-1998 (WHW), was filed in the District of New Jersey against certain of the Company's current and former directors and officers; The Bear Stearns Companies, Inc.; Bear Stearns & Co., Inc.; and, as a nominal party, the Company. The complaint in the Deutch action alleges that certain 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. The complaint also alleges various other breaches of fiduciary duty, mismanagement, negligence and corporate waste, and seeks damages on behalf of the Company.

Another action, entitled Corwin v. Silverman, et al., No. 16347-NC, was filed on April 29, 1998 in the Court of Chancery for the State of Delaware. The Corwin action is purportedly brought both derivatively, on behalf of the Company, and as a class action, on behalf of all shareholders of HFS who exchanged their HFS shares for the Company's shares in connection with the Merger. The Corwin action names as defendants HFS and twenty-eight individuals who are or were directors of Cendant and HFS. The complaint in the Corwin action, as amended on July 28, 1998, alleges that HFS and its directors breached their fiduciary duties of loyalty, good faith, care and candor in connection with the Merger, in that they failed to properly investigate the operations and financial statements of the Company before approving the Merger at an allegedly inadequate price. The amended complaint also alleges that the Company's directors breached their fiduciary duties by entering into an employment agreement with Cendant's former Chairman, Walter Forbes, in connection with the Merger that purportedly amounted to corporate waste. The Corwin action seeks, among other things, recission of the Merger and compensation for all losses and damages allegedly suffered in connection therewith.

The staff of the SEC and the United States Attorney for the District of New Jersey are conducting investigations relating to the matters referenced above. The SEC staff has advised the Company that its inquiry should not be construed as an indication by the SEC or its staff that any violations of law have occurred.

In connection with the Merger, certain officers and directors of HFS exchanged their shares of HFS common stock and options exercisable for HFS common stock for shares of the Company's Common Stock and options exercisable for the Company's Common Stock, respectively. As a result of the aforementioned accounting irregularities, such officers and directors have advised the Company that they believe they have claims against the Company in connection with such exchange. In addiiton, certain current and former officers and directors of the Company would consider themselves to be members of any class ultimately certified in the Federal Securities Actions now pending in which the Company is named as a defendant by virtue of their having been HFS stockholders at the time of the Merger.

While it is not feasible to predict or determine the final outcome of these proceedings or to estimate the amounts or potential range of loss with respect to these matters, management believes that an adverse outcome with respect to such proceedings could have a material adverse impact on the Company's financial position, results of operations and cash flow.

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

The Company held a special meeting of its shareholders on October 1, 1997, pursuant to a Notice of Special Meeting and Proxy Statement dated August 28, 1997, a copy of which has been filed previously with the Securities and Exchange Commission, at which shareholders of the Company considered and approved the Merger (and related transactions contemplated thereby) and the Company's 1997 Stock Incentive Plan. The results of such matters are as follows:

Proposal 1: To approve the proposed Merger (and related transactions contemplated below).

| Results: | For | Against | Abstain |
|---|---|---|---|
| | 280,653,487 | 630,695 | 911,958 |

Proposal 2: To approve the Company's 1997 Stock Incentive Plan.

| Results: | For | Against | Abstain |
|---|---|---|---|
| | 214,725,702 | 65,934,965 | 1,535,472 |

PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCK HOLDER MATTERS

### MARKET PRICE ON COMMON STOCK

The Company's Common Stock is listed on the New York Stock Exchange ("NYSE") under the symbol "CD". At September 25, 1998 the number of stockholders of record was approximately 13,768. The following table sets forth the quarterly high and low sales prices per share as reported by the NYSE for 1997 and 1996 based on a year ended December 31.

| 1996 | HIGH | LOW |
|---|---|---|
| First Quarter .................. | 26 11/64 | 19 5/64 |
| Second Quarter ................. | 26 1/2 | 18 43/64 |
| Third Quarter .................. | 26 37/64 | 21 1/4 |
| Fourth Quarter ................. | 27 21/64 | 22 1/2 |

| 1997 | HIGH | LOW |
|---|---|---|
| First Quarter .................. | 26 7/8 | 22 1/2 |
| Second Quarter ................. | 26 3/4 | 20 |
| Third Quarter .................. | 31 3/4 | 23 11/16 |
| Fourth Quarter ................. | 31 3/8 | 26 15/18 |

On September 25, 1998, the last sale price of the Company's Common Stock on the NYSE was $13 9/16 per share.

All stock price information has been restated to reflect a three-for-two stock split effected in the form of a dividend to stockholders of record on October 7, 1996, payable on October 21, 1996.

### DIVIDEND POLICY

The Company expects to retain its earnings for the development and expansion of its business and the repayment of indebtedness and does not anticipate paying dividends on Common Stock in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data of the Company should be read in conjunction with the Company's financial statements and notes thereto appearing on pages F-1 through F-61. Such financial data for 1997, 1996 and 1995 was restated as described in Note 3 to the Consolidated Financial Statements. Financial data prior to December 31, 1994 has not been restated and is therefore not presented herein. Previously reported information for periods prior to December 31, 1994 should not be relied upon.

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1997(4)(5)(6) | 1996(4)(7) | 1995(4)(8) |
| | (IN MILLIONS, EXCEPT PER SHARE AMOUNTS) | | |
| Statement of Operations Data:(1)(2) | | | |
| Net Revenues | $ 4,240.0 | $ 3,237.7 | $ 2,616.1 |
| Expenses: | | | |
| Total expenses exclusive of depreciation, amortization and interest, net | 3,694.4 | 2,544.4 | 2,148.8 |
| Depreciation and amortization | 237.7 | 145.5 | 100.4 |
| Interest-net | 50.6 | 14.3 | 16.6 |
| Total expenses | 3,982.7 | 2,704.2 | 2,265.8 |
| Income from continuing operations before extraordinary gain and cumulative effect of accounting change | 66.3 | 313.3 | 207.1 |
| Per share information: | | | |
| Income from continuing operations before extraordinary gain and cumulative effect of accounting change | .08 | .39 | .28 |
| Weighted average shares outstanding -- diluted | 851.7 | 821.6 | 763.7 |

| | AT DECEMBER 31, | | |
|---|---|---|---|
| | 1997 | 1996 | 1995 |
| Balance Sheet Data:(1)(2)(3) | | | |
| Total assets | $ 14,073.4 | $ 12,762.5 | $ 8,519.5 |
| Long-term debt | 1,246.0 | 780.8 | 336.0 |
| Assets under management and mortgage programs | 6,443.7 | 5,729.2 | 4,955.6 |
| Debt under management and mortgage programs | 5,602.6 | 5,089.9 | 4,427.9 |
| Shareholders' equity | 3,921.4 | 3,955.7 | 1,898.2 |

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(1) Financial data includes the following mergers and acquisitions accounted for under the pooling of interests method of accounting: (i) the Merger; (ii) the April 30, 1997 merger with PHH Corporation ("PHH"); (iii) the August 1996 merger with Ideon Group, Inc. ("Ideon"); and (iv) the 1995 acquisitions of Getko Group Inc., North American Outdoor Group, Inc. and Advance Ross Corporation.

(2) Financial data includes the operating results of the following significant acquisitions accounted for under the purchase method of accounting since the respective dates of acquisition: (i) Resort Condominiums International, Inc. ("RCI") in November 1996; (ii) Avis, Inc. ("Avis") equity investment in October 1996; (iii) Coldwell Banker Corporation ("Coldwell Banker") in May 1996; and (iv) Century 21 Real Estate Corporation in August 1995.

(3) Prior to the Merger, CUC and HFS had not declared or paid cash dividends on their common stock. However, cash dividends were declared and paid by Ideon and PHH to their shareholders prior to

their respective mergers with the Company. The Company expects to retain its earnings for the development and expansion of its business and the repayment of indebtedness and does not anticipate paying dividends on its common stock in the foreseeable future.

(4) Excludes a non-cash after-tax charge of $283.1 million or $.35 per diluted share, to account for the cumulative effect of a change in accounting, effective January 1, 1997, related to revenue and expense recognition for memberships. The effect of adopting such accounting change on the Company's 1997 operating results, before the cumulative effect adjustment, was additional after-tax expense of $15.3 million or $0.02 per diluted share comprised of a reduction in revenues of $4.7 million with an increase in operating expenses of $19.0 million and a tax benefit of $8.4 million. The pro forma effect of the accounting change on income from continuing operations before extraordinary gain for 1996 and 1995, as if the accounting change had been applied retroactively to those years, was additional after-tax expense of $7.4 million ($0.01 per diluted share) and $29.1 million ($0.04 per diluted share), respectively.

(5) Includes merger related costs and other unusual charges ("Unusual Charges") related to continuing operations, recorded during the second and fourth quarters of 1997 primarily associated with and coincident to the Merger and the PHH Merger, of $704.1 million ($504.7 million after-tax, or $.58 per diluted share).

(6) Excludes extraordinary gain, net of tax of $26.4 million, or $.03 per diluted share, related to the sale of a Company subsidiary which was sold in consideration of Federal Trade Commission anti-trust concerns within the timeshare industry.

(7) Includes provision for merger-related costs and other unusual charges, related to continuing operations of $109.4 million ($70.0 million after-tax, or $.09 per diluted share) incurred in connection with the 1996 merger with Ideon.

(8) Includes provision for costs related to the abandonment of certain Ideon development efforts and the restructuring of the SafeCard division and corporate infrastructure of Ideon. The charges aggregated $97.0 million ($62.1 million, after-tax or $.08 per diluted share).

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

GENERAL OVERVIEW

On December 17, 1997, Cendant Corporation (the "Company") was created through the merger (the "Cendant Merger") of HFS Incorporated ("HFS") and CUC International Inc. ("CUC"). The Company is one of the foremost consumer and business services companies in the world. The combination of HFS and CUC provides the Company's businesses new access to consumer contacts through the Company's expanded consumer base, while providing such businesses with the direct marketing expertise necessary to successfully cross-market within its existing business units.

The Company provides fee-based services to consumers within the Travel, Real Estate and Alliance Marketing business segments. The Company generally does not own the assets or share the risks associated with the underlying businesses of its customers. In the Travel Services segment, the Company is the world's largest franchisor of lodging facilities and rental car facilities, the leading provider of vacation timeshare exchange services and a leading provider of international fleet management services. In the Real Estate Services segment, the Company is both the world's largest franchisor of residential real estate brokerage offices and provider of corporate relocation services and is a leading mortgage lender in the United States. In the Alliance Marketing segment, the Company is a leading provider of membership consumer services and products.

As publicly announced on April 15, 1998, the Company discovered accounting irregularities in the former CUC business units. The Audit Committee of the Company's Board of Directors (the "Audit Committee") initiated an investigation into such matters, which has since been completed (see "Litigation"). As a result of the findings of the Audit Committee investigation and the Company's investigation, the Company has restated its financial results for the years 1995 through 1997. The financial information contained herein has been restated to incorporate all relevant information obtained from the aforementioned investigations. The 1997 annual results, presented herein, have also been restated for a change in accounting, effective January 1, 1997, related to revenue and expense recognition for memberships (See Notes 2 and 3 to the consolidated financial statements).

The restated net income (loss) totalled $(217.2) million, $330.0 million and $229.8 million in 1997, 1996 and 1995, respectively ($(0.27), $0.41, and $0.31 per diluted share, respectively). The Company originally reported corresponding net income of $55.4 million, $423.6 million and $302.8 million in 1997, 1996 and 1995, respectively ($0.06, $0.52 and $0.42 per diluted share, respectively).

The Company originally reported $872.2 million of 1997 net income excluding merger-related costs and other unusual charges ("Unusual Charges") or $1.00 per diluted share which included $816.2 million or $.94 per diluted share from continuing operations. The restated income from continuing operations excluding Unusual Charges, extraordinary gain and the cumulative effect of a change in accounting totalled $571.0 million or $.66 per diluted share. The $245.2 million or $.28 per diluted share decrease in income from continuing operations represents additional after-tax expense of $15.3 million ($.02 per diluted share) due to the aforementioned change in accounting and $229.9 million ($.26 per diluted share) of accounting errors and irregularities.

The Company originally reported $542.3 million and $364.9 million of 1996 and 1995 net income excluding Unusual Charges, respectively ($0.67 and $0.50 per diluted share, respectively). The restated income from continuing operations excluding Unusual Charges totalled $383.3 million and $269.2 million in 1996 and 1995, respectively ($0.47 and $0.36 per diluted share, respectively). The $159.0 million and $95.7 million decreases in 1996 and 1995, respectively, primarily represent accounting errors and irregularities in both periods.

RESULTS OF OPERATIONS

This discussion should be read in conjunction with the information contained in the Company's Consolidated Financial Statements and accompanying Notes thereto appearing elsewhere in this Form 10-K/A.

The operating results of the Company and its underlying business segments are comprised of business combinations, which were accounted for as poolings of interests. Accordingly, all financial information has been restated as if all of the pooled companies operated as one entity since inception. In addition, the Company and certain of its business segments also include businesses, which were acquired and accounted for by the purchase method of accounting. Accordingly, the results of operations of such acquired companies were included in the consolidated operating results of the Company from the respective dates of acquisition. See "Liquidity and Capital Resources - Business Combinations" for a discussion of the Company's mergers and acquisitions. In the underlying Results of Operations discussion, operating expenses exclude net interest expense and income taxes.

YEAR ENDED DECEMBER 31, 1997 VS. YEAR ENDED DECEMBER 31, 1996

| (IN MILLIONS) | YEAR ENDED DECEMBER 31, 1997 | 1996 | VARIANCE |
|---|---|---|---|
| CONTINUING OPERATIONS | | | |
| Revenue | $ 4,240.0 | $ 3,237.7 | 31% |
| Operating expenses: | | | |
| Excluding Unusual Charges | 3,228.0 | 2,580.5 | 25% |
| Unusual Charges (1) | 704.1 | 109.4 | 544% |
| Operating income | 307.9 | 547.8 | (44%) |
| Interest, net | 50.6 | 14.3 | 254% |
| Pre-tax income before extraordinary gain and cumulative effect of accounting change | 257.3 | 533.5 | (52%) |
| Provision for income taxes | 191.0 | 220.2 | (13%) |
| Income from continuing operations | 66.3 | 313.3 | (79%) |
| Income (loss) from discontinued operations, net of taxes | (26.8) | 16.7 | * |
| Extraordinary gain, net of tax | 26.4 | -- | * |
| Cumulative effect of accounting change, net of tax | (283.1) | -- | * |
| Net income (loss) | $ (217.2) | $ 330.0 | (166%) |

- ----------
(1) Merger-related costs and other unusual charges ("Unusual Charges")

* Not meaningful

Operating income from continuing operations decreased $239.9 million (44%) despite a $1.0 billion (31%) revenue increase and only a $647.5 million (25%) increase in operating expenses, excluding Unusual Charges. A discussion of operating income excluding Unusual Charges is included in the segment discussion to follow. Unusual Charges increased $594.7 million (544%) representing merger-related costs and other unusual charges incurred primarily in connection with and coincident to HFS's merger with PHH Corporation (the "PHH Merger") in April 1997 (the "Second Quarter 1997 Charge") and the Cendant Merger in December 1997 (the "Fourth Quarter 1997 Merger Charge"). Unusual Charges primarily represent costs such as irrevocable contributions to independent trusts, asset impairments as well as exit costs for terminated personnel, consolidation of office locations and terminated contracts coincident with the mergers. The Unusual Charges are discussed separately below.

As a result of the discussion above, pre-tax income from continuing operations before extraordinary gain and cumulative effect of accounting change decreased $276.2 million (52%) to $257.3 million. In addition to the decrease in operating income discussed above, interest, net, increased $36.3 million (254%) to $50.6 million. The increase in interest, net, resulted primarily from the February 1997 issuance of $550 million 3% Convertible Subordinated Notes and interest income earned in 1996 on approximately $420 million of excess proceeds generated from the $1.2 billion public offering of 46.6 million shares of Company common stock in May 1996. The increase in interest, net, was partially offset by a decrease in the weighted average interest rate from 7.5% in 1996 to 6.0% in 1997 as a result of a greater proportion of fixed rate debt carrying lower interest rates to total debt.

Income from continuing operations decreased $247.0 million (79%) to $66.3 million. This resulted from the unfavorable variance in pre-tax income and an increase in the effective income tax rate from 41.2% in 1996 to 74.3% in 1997. The 1997 effective income tax rate includes an additional 29.1% effective tax rate on Unusual Charges due to the significant non-deductibility of such costs. The effective income tax rate on 1997 income from continuing operations excluding Unusual Charges is 40.6%.

Discontinued operations showed a $26.8 million net loss in 1997 compared to $16.7 million of net income in 1996. The operating results of discontinued operations included $15.2 million of extraordinary losses, net of tax, in 1997 and $24.4 million and $24.9 million of Unusual Charges, net of tax, in 1997 and 1996, respectively. Unusual Charges in 1997 primarily consisted of $19.4 million of after tax severance associated with four terminated consumer software company executives and $5.0 million of after tax compensation expense incurred in connection with a stock appreciation rights plan paid upon a change in control associated with the October 1997 merger with Hebdo Mag International ("Hebdo Mag"). The Hebdo Mag merger also resulted in a $15.2 million extraordinary loss, net of tax, associated with the early extinguishment of debt. Unusual Charges in 1996 consisted primarily of professional fees incurred in connection with mergers with Sierra On-Line, Inc. ("Sierra") and Davidson and Associates, Inc. ("Davidson") in July 1996. Excluding Unusual Charges and extraordinary items, income from discontinued operations decreased $28.8 million (69%) from $41.6 million in 1996 to $12.8 million in 1997. While classified advertising net income remained relatively unchanged from 1996, net income from the consumer software business decreased $28.5 million (72%) to $11.1 million in 1997. Increased sales in 1997 of $49.2 million (13%) was offset by increased operating expenses of $93.2 million (29%). The disproportionate increase in operating expenses results from accelerating development and marketing costs incurred on titles without a corresponding revenue increase partially attributable to titles which were not released to the marketplace as planned in December 1997.

The $26.4 million extraordinary gain represents the after tax gain on the sale of Interval International, Inc. ("Interval") in December 1997. The Federal Trade Commission directed the Company to sell Interval in connection with the Cendant Merger as a result of anti-trust concerns regarding the combined market share in the timeshare exchange industry of Interval and HFS subsidiary, Resort Condominiums International, Inc. ("RCI").

The $283.1 million represents a non-cash after-tax charge to account for a cumulative effect of an accounting change. In August 1998, in connection with the Company's cooperation with the Securities and Exchange Commission's ("SEC") investigation of accounting irregularities discovered in the former CUC business units, the SEC Staff concluded that if membership fees are fully refundable during the entire membership period, membership revenue should be recognized at the end of the membership period upon the expiration of the refund offer. The SEC Staff further concluded that non-refundable solicitation costs should be expensed as incurred since such costs are not recoverable if membership fees are refunded. The Company previously recognized revenue and expenses associated with the selling of memberships over the term of the membership period. While the Company believed that its prior accounting policies were appropriate and consistent with industry practice, it agreed to change its accounting for membership revenue and expenses effective January 1, 1997.

1997 MERGER RELATED COSTS AND OTHER UNUSUAL CHARGES

In 1997, the Company incurred merger-related costs and other unusual charges ("Unusual Charges") of $738.0 million of which $704.1 million ($504.7 million after tax or $.58 per diluted share) was related to continuing operations and $33.9 million was associated with businesses which are discontinued. Charges incurred during the fourth quarter of 1997 of $454.9 million were substantially associated with and/or coincident to the Cendant Merger and the merger with Hebdo Mag (collectively, the "Fourth Quarter 1997 Charge"). Unusual Charges of $283.1 million, comprised of $295.4 million of charges incurred in the second quarter of 1997 reduced by $12.3 million of changes in estimates recorded in the fourth quarter of 1997, were substantially associated with the PHH Merger (the "Second Quarter 1997 Charge"). The Unusual Charges recorded during 1997 related to the aforementioned mergers and the utilization of such liabilities is summarized by charge below.

FOURTH QUARTER 1997 CHARGE

The Company incurred Unusual Charges in the fourth quarter of 1997 totaling $454.9 million substantially associated with the Cendant and Hebdo Mag mergers. In addition to $170.0 million of professional fees and executive compensation expense incurred directly as a result of the mergers, the Company incurred $284.9 million of costs resulting from reorganization plans formulated prior to and implemented as a result of the merger.

The Company determined to streamline its corporate organization functions and eliminate several office locations in overlapping markets. Management initiated a plan in 1997 to consolidate European call centers in Cork, Ireland in 1998 and upgrade the quality standards of its hotel franchise businesses, which resulted in planned terminations of franchise properties commencing in January 1998. In December 1997, the Company irrevocably contributed $70.0 million to independent technology trusts which made technology investments for the direct benefit of hotel and real estate franchisees. Management also approved a plan to terminate a contract, which may restrict the Company from maximizing opportunities afforded by the merger of HFS and CUC.

Following is a description of costs by type of expenditure and reduction of corresponding liabilities through December 31, 1997.

Unusual Charges include $93.0 million of estimated professional fees primarily consisting of investment banking, legal and accounting fees incurred in connection with the mergers. Approximately $43.4 million of invoices were paid in the fourth quarter of 1997 leaving a $49.6 million balance to be paid in 1998. The Company also incurred $170.7 million of personnel related costs including $73.3 million of retirement and employee benefit plan costs, $23.7 million of restricted stock compensation, $61.4 million of severance resulting from consolidations of corporate functions and nine European call centers and $12.3 million of other personnel related costs. Total employees to be terminated, including seven corporate employees, approximated 474 with limited terminations in 1997. The $170.7 million of personnel related liabilities were reduced in 1997 by $35.2 million of non-cash reductions primarily including $23.7 and $9.5 million of costs associated with restricted stock and stock option compensation, respectively, and $8.9 million of personnel related payments. Approximately $45.3 million of retirement plan costs were paid in January 1998. Unusual Charges include $78.3 million of business termination costs which consists of a $48.3 million impairment of hotel franchise agreement assets associated with a quality upgrade program and $30.0 million of contract termination costs. Of the $78.3 million of business termination liabilities, $30.0 million was paid in December 1997 and $48.3 million of non-cash reductions of intangible assets were recorded. Facility related and other unusual charges of $112.9 million include $70.0 million of irrevocable contributions to independent technology trusts for the direct benefit of lodging and real estate franchisees, $16.4 million of building lease termination costs and a $22.0 million reduction in intangible assets associated with the Company's wholesale annuity business for which impairment was determined in accordance with SFAS 121 in the fourth quarter of 1997. Approximately $70.0 million was paid for these obligations in December 1997 and the remaining $21.2 million is anticipated to be paid over the earlier of lease buy-out or lease term.

SECOND QUARTER 1997 CHARGE

The $295.4 million of Unusual Charges in the second quarter of 1997 was primarily associated with the PHH Merger. During the fourth quarter, as a result of changes in estimates, the Company adjusted certain merger-related liabilities which resulted in a $12.3 million credit to Unusual Charges. In addition to $125.8 million of professional fees and executive compensation expenses incurred directly as a result of the merger, the Company incurred $157.3 million of expenses resulting from reorganization plans formulated prior to and implemented as of the merger date. The merger afforded the combined Company an opportunity to rationalize its combined corporate, real estate and travel segment businesses, and corresponding support and service functions to gain organizational efficiencies and maximize profits. Such initiatives included 500 job reductions including the virtual elimination of all PHH Corporate functions and facilities in Hunt Valley, Maryland. Management initiated a plan prior to the merger to close hotel reservation call centers, combine travel agency operations and continue the downsizing of fleet operations by reducing headcount and eliminating unprofitable products. With respect to the real estate segment, management initiated plans to integrate its relocation, franchise and mortgage origination businesses to capture additional revenue through the referral of one business unit's customers to another. Management also formalized a plan to centralize the management and headquarters functions of the world's largest, second largest and other company owned corporate relocation business unit subsidiaries. The real estate segment initiatives resulted in approximately 380 planned job reductions, write-offs of abandoned systems and leasehold assets commencing in the second quarter 1997.

Following is a description of costs by type of expenditure and reduction of corresponding liabilities through December 31, 1997:

Unusual Charges included $154.1 million of personnel related costs associated with employee reductions necessitated by the planned and announced consolidation of the Company's several corporate relocation service businesses, including the previous two largest relocation businesses worldwide as well as the consolidation of corporate activities. Personnel related charges also include termination benefits such as severance, medical and other benefits. Personnel related charges also include retirement benefits pursuant to pre-existing contracts resulting from a change in control. Several grantor trusts were established and funded by the Company in November 1996 to pay such benefits in accordance with the terms of the PHH merger agreement. The Company's restructuring plan resulted in the termination of approximately 560 employees (principally corporate employees located in North America), of which 364 were terminated by December 31, 1997. Approximately $102.4 million of personnel related costs were paid in 1997 and $9.8 million of non-cash stock compensation was recognized. Unusual Charges also include professional fees of $30.3 million of which $29.2 million was paid in 1997 and is primarily comprised of investment banking, accounting and legal fees incurred in connection with the PHH Merger. Unusual Charges also include business termination charges of $55.6 million, which are comprised of $38.8 million of costs to exit certain activities primarily within the Company's fleet management business, a $7.3 million termination fee associated with a joint venture that competed with PHH Mortgage Services business and $9.6 million of costs to terminate a marketing agreement with a third party in order to replace the function with internal resources. In connection with the business termination charges, approximately $16.0 million was paid in 1997 and $35.7 million of assets associated with discontinued activities were written off. Facility related and other net charges totaling $43.1 million include costs associated with contract and lease terminations, asset disposals and other charges incurred in connection with the consolidation and closure of excess office space. Approximately $2.6 million was paid and $11.3 million of assets were written off in 1997. The remaining facility related obligations will be paid or are otherwise anticipated to be extinguished in 1998.

The Company had substantially completed the aforementioned restructuring activities by the the second quarter of 1998. The $76.1 million of liabilities remaining at December 31, 1997 primarily consist of $41.9 million of severance and benefit plan payments and $29.2 million related to contract, leasehold and lease termination obligations.

1996 UNUSUAL CHARGES

The Company incurred Unusual Charges of approximately $134.3 million in 1996 in connection with its August 1996 merger with Ideon Group, Inc. ("Ideon") and its July 1996 mergers with Davidson and Associates, Inc. ("Davidson") and Sierra On-Line, Inc. ("Sierra"). Unusual charges of $109.4 million related to continuing operations (substantially Ideon) and $24.9 million was associated with businesses that are discontinued (Davidson and Sierra). Unusual Charges include $80.4 million of litigation related liabilities associated with the Company's determination to settle acquired Ideon litigation upon the August 1996 merger date. The primary obligation consists of litigation with the co-founder of SafeCard Services, Incorporated ("SafeCard") which was acquired by Ideon in 1995. The Company entered into a settlement agreement in June 1997 requiring $70.5 million of payments through 2003. The Company paid $14.4 million for litigation related charges in 1997.

The balance of the Unusual Charges consists of $27.5 million of professional fees incurred and paid in connection with the mergers, $7.5 million of severance incurred and paid in connection with employee terminations and $18.9 million of facility related and other obligations for which $6.9 million of payments and $9.7 million of leaseheld improvement write-offs were made through December 31, 1997.

SEGMENT DISCUSSION -- 1997 VS. 1996

The underlying discussion of each segment's continuing operating results focuses on profits from continuing operations, excluding interest, taxes, Unusual Charges, extraordinary gain and cumulative effect of a change in accounting ("Operating Income"). Management believes such discussion is the most informative representation of recurring, non-transactional related operating results of the Company's business segments.

TRAVEL SERVICES SEGMENT

The Company operates business units that provide a spectrum of services necessary to domestic and international travelers. The Company is the world's largest franchisor of nationally recognized hotel brands and car rental operations (Avis), which are responsible for 16% of all hotel rooms sold and 25% of all cars rented in the United States, respectively. Royalty revenue is received from franchisees under contracts that generally range from 10 to 50 years in duration. The Company is the world's largest provider of timeshare exchange services (RCI) to timeshare owners under one to three year membership programs which require both exchange fees for swapping vacation weeks and recurring and renewal membership fees. In addition, the Company is a leading provider of corporate fleet management and leasing services and is also the largest value added tax processor worldwide.

| | YEAR ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| (IN MILLIONS) | 1997 | HISTORICAL 1996 | PRO FORMA 1996 | HISTORICAL VARIANCE | PRO FORMA VARIANCE |
| Net revenues | $ 1,337.2 | $ 802.4 | $ 1,226.9 | 67% | 9% |
| Operating expenses | 878.6 | 548.1 | 874.1 | 60% | 1% |
| Operating income | $ 458.6 | $ 254.3 | $ 352.8 | 80% | 30% |

HISTORICAL DISCUSSION

Operating income increased $204.3 million (80%) as a result of growth from businesses owned and/or consolidated in both 1997 and 1996 and from car rental franchise (Avis) and timeshare (RCI) operations each acquired during the fourth quarter of 1996. Timeshare business operations contributed incremental revenue and operating income in 1997 of $315.5 million and $77.2 million, respectively, and the car rental franchise business accounted for incremental revenues and operating income of $140.2 million and $75.7 million, respectively. Lodging franchise revenue increased $38.4 million (10%) while expenses increased only $6.9 million (3%). The lodging revenue increase was attributable to 4% system growth, 2% revenue per available room ("REVPAR") increases at franchised properties and increased revenue received from preferred alliance partners seeking access to franchisees and franchisee customers. Expense increases were minimized due to the significant operating leverage associated with mature franchise operations and a reduction of corporate overhead allocated to the Travel Services Segment as the Company leveraged its corporate infrastructure among more businesses. Fleet management revenue increased $30.6 million (10%) while expenses only increased $8.2 million (4%). The increase in revenue is primarily the result of a 24% increase in service fee revenue due to a 20% increase in number of cards and an 8% increase in asset based revenues due primarily to a 5% increase in pricing.

PRO FORMA DISCUSSION

On a pro forma basis, as if car rental franchise and timeshare operations were acquired on January 1, 1996 operating income increased $105.8 million (30%). The pro forma increase results from a $110.3 million (9%) increase in revenue while corresponding operating expenses increased $4.5 million (1%). Most travel business units contributed double digit percentage point growth in pro forma operating income with timeshare and hotel franchising contributing the most significant increases at $51.6 million (84%) and $32.1 million (18%), respectively. Timeshare profits reflected a 22% increase in membership fees driven by increases in both memberships and pricing. Simultaneously, approximately $21.1 million of operating expense reductions were achieved during a post-acquisition reorganization of timeshare operations.

REAL ESTATE SERVICES SEGMENT

The Company operates business units that provide a range of services related to home sales, principally in the United States. The Company is the world's largest franchisor of real estate brokerage offices through its CENTURY 21 (Registered Trademark) , Coldwell Banker (Registered Trademark) and ERA (Registered Trademark) franchise brands, which were involved in more than 25% of homes sold in the United States in 1997. Similar to Travel Services Segment franchise businesses, the Company receives royalty revenue from approximately 11,500 franchisees under contracts with terms ranging from 5 to 50 years. The Company operates the world's largest provider of corporate employee relocation services and receives fees for providing an array of services which include selling relocating employees' homes (without recourse to the Company), assisting the relocating employee in finding a home, moving household goods, expense reporting and other services. The Company also operates the largest in-bound mortgage telemarketing operation in the United States. Cendant Mortgage Corporation generates origination profits from the sale of mortgage notes, generally within 45 days of origination but retains recurring servicing revenue streams over the life of the mortgage. Each Real Estate Services business provides customer referrals to other Real Estate Services businesses.

| | YEAR ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| (IN MILLIONS) | 1997 | HISTORICAL 1996 | PRO FORMA 1996 | HISTORICAL VARIANCE | PRO FORMA VARIANCE |
| Net revenues | $ 987.0 | $ 782.4 | $ 860.9 | 26% | 15% |
| Operating expenses | 641.0 | 566.4 | 620.8 | 13% | 3% |
| Operating income | $ 346.0 | $ 216.0 | $ 240.1 | 60% | 44% |

HISTORICAL DISCUSSION

Operating income increased $130.0 million (60%) as a result of growth from businesses owned and/or consolidated in both 1997 and 1996 and from the acquisitions of the Coldwell Banker franchise system and Coldwell Banker Relocation Services Inc. ("CBRS") in May 1996 and the ERA franchise system in February 1996. Real estate franchise revenue and operating income increased $98.4 million (42%) and $72.8 million (66%), respectively from 1996 to 1997 primarily due to the aforementioned acquisitions of the Coldwell Banker and ERA franchise brands which collectively contributed incremental revenues and operating income of $73.8 million and $69.0 million, respectively. In addition, the real estate franchise business realized growth in the operating results of businesses owned in both 1997 and 1996 principally as a result of increases in both the volume and average price of homes sold. Corporate relocation revenue and operating income increased $56.7 million (16%) and $30.2 million (56%), respectively, principally due to the operating results of acquired CBRS operations which contributed incremental revenues and operating income in 1997 of $47.2 million and $18.4 million, respectively. Mortgage services operating income increased $28.3 million (69%) due to a $51.5 million (40%) increase in revenue while expenses increased only $23.2 million (27%). The revenue increase resulted from a 40% increase in loan origination volume to $11.7 billion, which accelerated to nearly an $18 billion annual run rate by year-end 1997. Although the Company generally sells originated notes within 45 days of origination, it routinely retains servicing rights. Servicing revenue increased $13.4 million (28%) primarily due to gains on sales of servicing. The increase in expenses was not only related to processing current year volume, but to preparation for hiring, training and providing office facilities for increased staff needed to handle the processing of future origination volume as monthly applications more than doubled.

PRO FORMA DISCUSSION

On a pro forma basis, as if Coldwell Banker, CBRS and ERA were acquired on January 1, 1996, operating income in 1997 increased $105.9 million (44%) from 1996. The increase results from a $126.1 million (15%) increase in revenue while corresponding operating expenses increased only $20.2 million (3%). Operating income of the real estate franchise, corporate relocation and mortgage services businesses each increased by more than 30% over 1996 pro forma results. Real estate franchise operating income increased $59.2 million (48%) based on revenue growth of $54.8 million (20%) primarily due to a 17% combined increase in 1997 in home sales and the average price of homes sold. Real estate franchise operating expenses decreased $4.4 million primarily as a result of consolidation of certain franchise administration functions of the recently acquired franchise brands. Corporate relocation operating income increased $19.7 million (30%) due to a $21.8 million increase in revenue, primarily relocation referrals, while operating expenses increased only $2.1 million (1%) due to the consolidation of the PHH Relocation Services Inc. and CBRS into one operating company, Cendant Mobility Services, Inc. The Pro Forma operating results for Mortgage Services are the same as the historical results.

ALLIANCE MARKETING SEGMENT

The Company derives its Alliance Marketing revenue principally from membership fees, insurance premiums and product sales. The Alliance Marketing Segment is divided into three divisions: individual membership ("Individual Membership"); insurance/wholesale ("Insurance/Wholesale"); and lifestyle ("Lifestyle"). Individual Membership with more than 33 million members, provides customers with access to a variety of products and services in such areas as retail shopping, credit information, travel, auto, dining and home improvement. Insurance/Wholesale with nearly 31 million customers, markets and administers insurance products, primarily accidental death insurance. Insurance/Wholesale also 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. Lifestyle with over 11 million customers, provides customers with unique products and services that are designed to enhance a customer's lifestyle.

Alliance Marketing growth is generated primarily from direct marketing to consumers or by partnering with businesses such as banks, credit card and travel companies which furnish access to their client base. Commencing with the Cendant Merger, Alliance Marketing businesses have unfettered access to the customers of the Company's Travel Segment businesses which account for 1 of 6 U.S. hotel rooms sold, 1 of 4 cars rented in the U.S. and more than 70% of timeshare resort vacation exchanges worldwide.Alliance Marketing businesses also have access to customers of the Company's Real Estate Segment business which participate in more than 25% of U.S. home sales, more than 50% of corporate employee relocations and more than $25 billion in annual mortgage originations.

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| (IN MILLIONS) | 1997 | 1996 | VARIANCE |
| Net revenues | $ 1,570.3 | $ 1,474.3 | 7% |
| Operating expenses | 1,432.6 | 1,316.0 | 9% |
| Operating income | $ 137.7 | $ 158.3 | (13%) |

Operating income for the Alliance Marketing segment decreased $20.6 million (13%) to $137.7 million primarily due to a $23.7 million reduction in 1997 operating income due to a change in accounting policy.

Prior to 1997, the Company recorded deferred membership income, net of estimated cancellations, at the time members were billed (upon expiration of the free trial period). Such net billings were recognized as revenue ratably over the membership term and modified periodically based on actual cancellation experience. In addition, membership acquisition and renewal costs, which related primarily to membership solicitations were capitalized as direct response advertising costs due to the Company's ability to demonstrate that the direct response advertising resulted in future economic benefits. Such costs were amortized on a straight-line basis as corresponding revenues were recognized (over the average membership period). The Company believed that these accounting policies were appropriate and consistent with industry practice.

In August 1998, in connection with the Company's cooperation with the SEC Staff's investigation of accounting irregularities discovered in the former CUC business units, the SEC Staff concluded that when membership fees are fully refundable during the entire membership period, membership revenue should be recognized at the end of the membership period upon the expiration of the refund offer. The SEC Staff further concluded that non-refundable solicitation costs should be expensed as incurred since such costs are not recoverable if membership fees are refunded. The Company adopted the new accounting policy effective January 1, 1997.

The Company anticipates a significant increase in costs to solicit new members in 1998. Since revenue from members solicited in 1998 will not be recognized under the new accounting policy until 1999, the Company anticipates a negative impact in 1998 in its individual membership business.

Individual Membership operating income decreased $25.4 million (183%) from a pro forma 1996 operating income of $13.9 million which was adjusted for the accounting change applied retroactively. Revenues increased $24.5 million (4%) due primarily to increased monthly membership billings of $7.1 million (55%) and a $14.7 million (22%) increase in travel agent commissions. Individual Membership operating expenses increased $49.9 million (8%) due primarily to increased call center and other servicing expenses as well as higher general & administrative expenses.

Insurance/Wholesale operating income increased $12.7 million (13%) to $108.1 million. Revenue increased $34.7 million (8%) to $482.7 million and was partially offset by an increase in expenses of $22.0 million (6%). Domestic revenues increased $18.7 million to $394.9 million. This revenue increase reflected the addition of 1.6 million new customers and was partially offset primarily by an increase in insurance claims (which are accounted for as a reduction in revenue) from 27.6% to 29.0% of revenue. Domestic expenses increased by $8.9 million (3%) due to increased marketing and servicing expenses. International revenue increased $16.0 million (22%) to $87.8 million while expenses increased $13.1 million (18%) to $85.2 million. The international business continued its expansion into new countries and markets, accounting for growth in both revenue and expenses.

Lifestyle operating income decreased to $41.1 million from $42.1 million in 1996. This reduction was due to revenue increases of $52.5 million (14%) being offset by expense increases of $53.5 million (17%). Revenues and operating income at Entertainment Publications, Inc. ("EPub") increased by $14.9 million (9%) and $3.7 million (23%) respectively reflecting stable coupon book prices and increased sales through new sales channels. Revenues and operating income in the Company's dating membership business increased by $13.8 million (65%) and $5.2 million (95%) respectively due primarily to an additional 210 participating radio stations and the September 1997 acquistion of Match.Com. The North American Outdoor Group ("NAOG") posted revenue gains of $15.4 million (19%), but operating income fell $13.9 million (92%). NAOG also adopted the change in accounting policies for membership revenues and marketing expenses discussed above resulting in a decrease in revenue of $2.0 million and an increase in operating expenses of $5.1 million. These changes were due primarily to increases in book, video and advertising revenues being offset by higher membership acquisition costs and start-up expenses associated with the introduction of new Garden and Golf clubs.

OTHER SERVICES SEGMENT

The Company operates a variety of other businesses in addition to those which comprise each of the Company's core business segments. Such business operations include (i) information technology and reservation system support services provided to the car rental and hotel industry ("Wizcom"); (ii) casino credit information and marketing services ("Casino Marketing") and the equity in earnings from the Company's investment in the Avis Rent A Car, Inc. ("Avis") car rental company.

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| (IN MILLIONS) | 1997 | 1996 | VARIANCE |
| Net revenues | $ 345.5 | $ 178.6 | 93% |
| Operating expenses | 275.8 | 150.0 | 84% |
| Operating income | $ 69.7 | $ 28.6 | 144% |

Operating income increased $41.1 million (144%) primarily from a $41.7 million incremental increase in the equity in earnings of Avis, which was initially acquired by the Company in October 1996.

YEAR ENDED DECEMBER 31, 1996 VS. YEAR ENDED DECEMBER 31, 1995

| (IN MILLIONS) | YEAR ENDED DECEMBER 31, 1996 | 1995 | VARIANCE |
|---|---|---|---|
| CONTINUING OPERATIONS: | | | |
| Revenue .............................. | $ 3,237.7 | $ 2,616.1 | 24% |
| Operating expenses: | | | |
| Excluding Unusual Charges ......... | 2,580.5 | 2,152.2 | 20% |
| Unusual Charges (1) ............... | 109.4 | 97.0 | 13% |
| Operating income ..................... | 547.8 | 366.9 | 49% |
| Interest, net ....................... | 14.3 | 16.6 | (14%) |
| Pre-tax income ....................... | 533.5 | 350.3 | 52% |
| Provision for income taxes ........... | 220.2 | 143.2 | 54% |
| Income from continuing operations, net of taxes ........................ | 313.3 | 207.1 | 51% |
| Income from discontinued operations .......................... | 16.7 | 22.7 | (26%) |
| Net income ........................... | $ 330.0 | $ 229.8 | 44% |

- ----------

(1) Merger-related costs and other unusual charges

Operating income from continuing operations increased $180.9 million (49%) due to a $621.6 million (24%) revenue increase and only a $440.7 million (20%) increase in operating expenses, which includes a $12.4 million increase in Unusual Charges (see Unusual Charge discussion below). This aggregate net increase is primarily the result of increases in the Travel and Real Estate Segments included in separate segment discussions to follow.

Pre-tax income from continuing operations increased $183.2 million (52%). Exclusive of the increase in operating income discussed above, interest, net decreased $2.3 million (14%) to $14.3 million. The decrease in interest, net resulted from incremental interest income in 1996 generated from excess of proceeds of the May 1996 offering of common stock which raised $1.2 billion of proceeds and funded the $745 million acquisition of Coldwell Banker in May 1996, and subsequently the cash portions of the Avis and RCI acquisitions which were completed in October and November of 1996, respectively.

Income from continuing operations increased $106.2 million (51%). This resulted from the favorable variance in pre-tax income discussed above offset by an increase in the effective income tax rate from 40.9% in 1995 to 41.2% in 1996.

Income from discontinued operations decreased $6.0 million (26%) to $16.7 million. Net income for 1996 included $24.9 million, after tax, of Unusual Charges incurred coincident to the July 1996 Davidson and Sierra mergers. Excluding the Unusual Charges, income from discontinued operations increased $18.9 million (83%) to $41.6 million. The increase was primarily attributable to a $19.3 million (95%) increase in software business net income, which was primarily generated from a $76.1 million (25%) increase in sales of software titles while operating expenses increased only $41.5 million (16%).

UNUSUAL CHARGE DISCUSSION

1996 UNUSUAL CHARGE

The Company incurred Unusual Charges of approximately $134.3 million in 1996 in connection with its August 1996 merger with Ideon and its July 1996 mergers with Davidson and Sierra. Unusual Charges of $109.4 million were related to continuing operations (substantially Ideon). Unusual Charges include $80.4 million of litigation related liabilities associated with the Company's determination to settle acquired

Ideon litigation upon the August 1996 merger date. The primary obligation consists of litigation with the co-founder of SafeCard Services, Incorporated ("SafeCard") which was acquired by Ideon in 1995. The Company entered into a settlement agreement in June 1997 requiring $70.5 million of payments through 2003. The Company paid $14.4 million for litigation related charges in 1997.

The balance of the Unusual Charges consists of $27.5 million of professional fees incurred and paid in connection with the mergers, $7.5 million of severance incurred and paid in connection with employee terminations and $18.9 million of facility related and other obligations for which $6.9 million of payments and $9.7 million of leasehold improvement write-offs were made through December 31, 1997.

## 1995 COSTS RELATED TO IDEON PRODUCTS ABANDONED AND RESTRUCTURING

During the year ended December 31, 1995, Ideon incurred special charges totaling $43.8 million, net of recoveries, related to the abandonment of certain new product developmental efforts and the related impairment of certain assets and the restructuring of the SafeCard division of Ideon and the Ideon corporate infrastructure as discussed below. The original charge of $45.0 million was composed of accrued liabilities of $36.2 million and asset impairments of $8.8 million. In December 1995, Ideon recovered $1.2 million of costs in the above charges. Also included in costs related to products abandoned are marketing and operational costs incurred of $53.2 million. During the year ended December 31, 1996, all remaining amounts that had been previously accrued were paid.

During 1995, the following costs related to products abandoned and restructuring were incurred. In early 1995, Ideon launched an expanded PGA TOUR Partners program that provided various benefits to members and consumer response rates after the launch were significantly less than Ideon management's expectations. The product as configured was deemed not economically viable and a charge of $18 million was incurred. Costs associated with the abandonment of the product marketing included employee severance payments (approximately 130 employees), costs to terminate equipment and facilities leases, costs for contract impairments and write-downs taken for asset impairments. In September 1995, after a period of product redesign and test marketing, Ideon discontinued its PGA TOUR Partners credit card servicing role and recorded a charge of $3.6 million for costs associated with the abandonment of this role, including employee severance payments (approximately 60 employees), costs to terminate equipment and facilities leases and the recognition of certain commitments. In April 1995, Ideon launched a nationwide child registration and missing child search program. Consumer response rates after the launch were significantly less than Ideon management's expectations and a charge of $9.0 million was incurred to cover severance payments (approximately 100 employees), costs to terminate equipment and facilities leases and write-down taken for asset impairments. As a result of the discontinuance of these products, Ideon undertook an overall restructuring of its operations and incurred charges of $7.2 million to terminate operating leases and write-down assets to realizable value, $3.0 million for restructuring its SafeCard division and $4.2 million for restructuring its corporate infrastructure.

## SEGMENT DISCUSSION -- 1996 VS. 1995

The underlying discussion of each segment's financial results focuses on profits from continuing operations, excluding interest, taxes and Unusual Charges ("Operating Income"). Management believes such discussion is the most informative representation of recurring, non-transactional related operating results of the Company's business segments.

## TRAVEL SERVICES SEGMENT

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| (IN MILLIONS) | 1996 | 1995 | VARIANCE |
| Net revenues | $ 802.4 | $ 684.4 | 17% |
| Operating expenses | 548.1 | 488.2 | 12% |
| Operating income | $ 254.3 | $ 196.2 | 30% |

Operating income increased as a result of growth from businesses owned in both 1996 and 1995 and profits from car rental franchise and timeshare operations acquired in the fourth quarter of 1996. Net revenues increased $118.0 million (17%) to $802.4 million while expenses increased only $59.9 million (12%). The increase in operating income was generated primarily from $25.2 million and $22.0 million increases in the lodging franchise and fleet management services businesses, respectively, as well as $3.8 million of increases from acquired company operations. Lodging franchise operating income increased 21% to $145.8 million as a result of a $50.0 million (15%) increase in revenue and only a $24.9 million (12%) increase in expenses. The revenue increase resulted from a 13% increase in royalty fees and a 41% increase in fees from preferred alliance partners. As a result of high operating leverage, more than 50% of the revenue increase resulted in incremental operating income. PHH fleet management services operating income increased $19.3 million (34%) to $76.2 million as a result of an increase in fee-based services and an $11.7 million gain on the sale of a truck fuel management business in January 1996.

REAL ESTATE SERVICES SEGMENT

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| (IN MILLIONS) | 1996 | 1995 | VARIANCE |
| Net revenues | $ 782.4 | $ 504.3 | 55% |
| Operating expenses | 566.4 | 390.2 | 45% |
| Operating income | $ 216.0 | $ 114.1 | 89% |

Operating income increased as a result of acquired real estate franchise system operations and growth from businesses owned in both 1996 and 1995. Real estate franchise operating income increased $91.2 million (472%) in 1996 to $110.5 million which was primarily driven from the incremental operating results of Century 21, ERA and Coldwell Banker which were acquired in August 1995, February 1996 and May 1996, respectively. The increase in operating income was comprised of incremental revenue, including $162.8 million of royalty and $12.2 million of preferred alliance revenue offset by $97.2 million of incremental operating expenses. Corporate relocation operating income increased $12.6 million as a result of $23.5 million of operating income from acquired operations offset by a $10.9 million net decrease in relocation business operating profits associated with the development of an expanded full service infrastructure that supports a greater range of client services.

ALLIANCE MARKETING SEGMENT

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| (IN MILLIONS) | 1996 | 1995 | VARIANCE |
| Net revenues | $ 1,474.3 | $ 1,302.3 | 13% |
| Operating expenses | 1,316.0 | 1,166.5 | 13% |
| Operating income | $ 158.3 | $ 135.8 | 17% |

Operating income increased $22.5 million (17%) to $158.3 million due to a $172.0 million (13%) revenue increase being partially offset by an increase of $149.5 million (13%) in operating expenses.

Individual Membership operating income increased $2.7 million (15%) to $20.7 million. Revenue increased $48.8 million (8%) due primarily to a $21.9 million (4%) increase in annual billings while monthly billings increased by $10.7 million (510%). The annual billing increase was primarily due to increases of $21.1 million for the Travelers Advantage product and $14.8 million for the Privacy Guard product but was partially offset by decreases of $9.2 million and $6.5 million for the Shopping and Auto Advantage products, respectively. Cancellation rates remained relatively constant in both years. Individual membership operating expenses increased $45.9 million (8%) to $642.5 million due primarily as a result of increases in annual membership acquisition costs of $44.9 million (14%). As a percentage of annual revenues, membership acquisition costs increased from 57% in 1995 to 63% in 1996.

Insurance/Wholesale operating income increased $36.5 million (62%) to $95.4 million. Revenues increased $93.9 million (27%) to $448.0 million and were partially offset by an increase in expenses of $57.4 million (19%). Domestic revenue increased $57.1 million (18%) to $376.2 million reflecting the addition of 1.7 million new customers, 1996 acquisitions and a reduction in insurance claims and premiums (which are accounted for as a reduction in revenues) from 30.3% to 27.6% of revenue. Domestic expenses increased $23.9 million (9%) due to 1996 acquisitions and increased marketing and servicing expenses associated with additional revenue. International revenue increased $36.8 million (105%) to $71.8 million while expenses increased $33.5 million (87%) to $72.1 million. The small prior year base of international revenue coupled with continued expansion into new countries and markets accounted for accelerated growth in both revenue and expenses.

Lifestyle operating income decreased to $42.1 million from $59.0 million in 1995. This reduction was due to revenue increases of $29.4 million (9%) being offset by expense increases of $46.2 million (17%). Revenue and operating income at EPub decreased by $23.9 million (12%) and $20.4 million (56%) respectively due primarily to revenue declines resulting from a decrease in coupon book prices. Revenue and operating income at the Company's dating membership business increased by $17.5 million (477%) and $4.9 million respectively due primarily to the addition of 70 new participating radio stations. The NAOG generated revenue and operating income increases of $18.2 million (28%) and $9.2 million (154%) respectively due primarily to increased book/video sales and increased membership in the Handyman Club. Revenues at NUMA Corporation increased by $16.9 million (33%) but were more than offset by operating expense increases of $24.6 million (66%) due primarily to an increase in advertising costs from 27% to 34% of sales.

OTHER SERVICES SEGMENT

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| (IN MILLIONS) | 1996 | 1995 | VARIANCE |
| Net revenues | $ 178.6 | $ 125.1 | 43% |
| Operating expenses | 150.0 | 107.3 | 40% |
| Operating income | $ 28.6 | $ 17.8 | 61% |

The increase in operating income primarily includes $9.5 million in consideration received during 1996 for the termination of a corporate services agreement and $9.5 million from the equity in earnings of Avis, representing the Company's proportionate share of Avis's car rental operating results since the October 1996 acquisition date, partially offset by incremental corporate related expenses due to infrastructure growth in 1996.

LIQUIDITY AND CAPITAL RESOURCES

BUSINESS COMBINATIONS

1997 Poolings

Cendant. The Cendant Merger was completed on December 17, 1997 pursuant to which CUC issued approximately 440.0 million shares of its common stock for all of the outstanding common stock of HFS. Pursuant to the agreement and plan of merger, HFS stockholders received 2.4031 shares of CUC common stock for each share of HFS common stock.

On December 17, 1997, as directed by the Federal Trade Commission in connection with the Cendant Merger, the Company sold all of the outstanding shares of one of its timeshare exchange businesses Interval for net proceeds of $240.0 million in cash less transaction related costs. The Company is precluded from soliciting any of Interval's employees, customers or clients for a period of two years from the closing date of the transaction. Also in conjunction with the sale, the Company agreed to continue to provide services to certain of Interval's customers for a specified period, guarantee performance of certain responsibilities to third parties (i.e., lease payments and certain other contracts) and absorb certain additional transitional costs related to the transaction.

PHH. On April 30, 1997, the Company issued 72.8 million shares of Company common stock in exchange for all of the outstanding common stock of PHH. PHH operates the world's largest provider of corporate relocation services and also is a leading provider of mortgage and fleet management services.

Numa. In February 1997, the Company issued 3.0 million shares of its common stock for all the outstanding capital stock of Numa Corporation ("Numa"). Numa publishes and markets personalized heritage publications.

1996 Poolings

Ideon. In August 1996, the Company acquired all of the outstanding capital stock of Ideon, principally a provider of credit card enhancement services, for a purchase price approximating $393 million, which was satisfied by the issuance of 16.6 million shares of Company common stock.

Other. In 1996, the Company acquired the outstanding stock of certain other entities by issuing 4.8 million shares of its common stock.

1995 Poolings

Getko, NAOG and Advance Ross. In June 1995, the Company issued 5.6 million shares of its common stock for all of the outstanding capital stock of Getko Group Inc. ("Getko"). Getko distributes complimentary welcoming packages to new homeowners throughout the United States and Canada. In September 1995, the Company issued 2.3 million shares of its common stock for all of the outstanding capital stock of North American Outdoor Group, Inc. ("NAOG"). NAOG owns one of the largest for-profit hunting and general interest fishing membership organizations in the United States, and also owns various other membership organizations. In January 1996, the Company issued 8.9 million shares of its common stock for all of the outstanding capital stock of Advance Ross Corporation ("Advance Ross"). Advance Ross is the parent company to Global Refund, a subsidiary which processes value-added tax refunds for travelers in over 20 European countries.

Pending Acquisitions

American Bankers. On March 23, 1998, the Company entered into a definitive agreement (the "ABI Merger Agreement") to acquire American Bankers Insurance Group, Inc. ("American Bankers") for $67 per share in cash and stock, for aggregate consideration of approximately $3.1 billion. The Company has agreed to purchase 23.5 million shares of American Bankers at $67 per share through its pending cash tender offer, to be followed by a merger in which the Company has agreed to deliver Cendant shares with a value of $67 for each remaining share of American Bankers common stock outstanding. The Company has received anti-trust clearance to acquire American Bankers. The tender offer is subject to the receipt of tenders representing at least 51 percent of the common shares of American Bankers as well as customary closing conditions, including regulatory approvals. The Company plans to fund this acquisition with proceeds received from either its new term loan arrangement, borrowings under other committed facilities, operating cash flow or a combination of the above. The Company may also fund a portion of the purchase price with equity or proceeds from the disposition of its consumer software and classified advertising businesses. From time to time representatives of the Company and representatives of American Bankers have discussed possible modifications to the terms of the ABI Merger Agreement, including a change in the mix of consideration to increase the cash component and decrease the stock component and changing the transaction to a taxable transaction. No agreement regarding any such modification has been reached and there can be no assurance that such discussion will result in any agreement being reached. If no agreement regarding the terms of any modification to the terms of the ABI Merger Agreement is reached, the current ABI Merger Agreement will remain in effect in accordance with its terms. The transaction is expected to be completed in the fourth quarter of 1998 or the first quarter of 1999. American Bankers provides affordable, specialty insurance products and services through financial institutions, retailers and other entities offering consumer financing.

Providian. On December 10, 1997, the Company announced that it had entered into a definitive agreement to acquire Providian Auto and Home Insurance Company ("Providian") and its subsidiaries from an Aegon N.V. subsidiary for approximately $219 million in cash. Providian sells automobile insurance to consumers through direct response marketing in 45 states and the District of Columbia. The closing of this transaction is subject to customary conditions, including regulatory approval and no assurances can be made that the acquisition will be completed. Prior to the acquisition the name of Providian will be changed to Cendant Auto Insurance Company ("Cendant Auto"). The Company intends to expand Cendant Auto's marketing channels to the Company's existing distribution channels, while also providing the Company's existing customer base with a new product offering.

RAC Motoring Services. On May 21, 1998, the Company announced that it has reached a definitive agreement with the Board of Directors of Royal Automobile Club Limited ("RACL") to acquire their RAC Motoring Services subsidiary for approximately $735 million in cash. The sale of RAC Motoring Services has subsequently been approved by its shareholders. Closing is subject to certain conditions, regulatory approval. Although no assurances can be made, the Company currently anticipates that the transaction will be completed in the spring of 1999. The Company plans to fund this acquisition with proceeds from either its new term loan arrangement, borrowings under other committed facilities, operating cash flow or a combination of the above.

Completed Acquisitions

National Parking Corporation. On April 27, 1998, the Company acquired National Parking Corporation ("NPC") for $1.6 billion in cash, which included the repayment of approximately $227.0 million of outstanding NPC debt. NPC is substantially comprised of two operating subsidiaries. National Car Parks is the largest private (non-municipal) single car park operator in the UK with approximately 500 locations. Green Flag operates the third largest roadside assistance group in the UK and offers a wide-range of emergency support and rescue services to approximately 3.5 million members. The Company funded the NPC acquisition with borrowings under its revolving credit facilities.

Harpur Group. On January 20, 1998, the Company completed the acquisition of Harpur, a leading fuel card and vehicle management company in the UK, from privately held H-G Holdings, Inc. for approximately $186 million in cash plus future contingent payments of up to $20.0 million over the next two years.

Jackson Hewitt. On January 7, 1998, the Company completed the acquisition of Jackson Hewitt Inc. for approximately $480.0 million in cash. Jackson Hewitt operates the second largest tax preparation service franchise system in the United States. The Jackson Hewitt franchise system specializes in computerized preparation of federal and state individual income tax returns.

Other Completed 1998 Acquisitions. Subsequent to December 31, 1997, the Company acquired certain entities for an aggregate purchase price of $348.5 million in cash.

1997 Purchase Acquisitions and Investments

Investment in NRT. During the third quarter of 1997, the Company executed an agreement with NRT Incorporated ("NRT") (a corporation created to acquire residential real estate brokerage firms) and the principal stockholders' of NRT, which permitted the Company, at its discretion, to acquire up to $263.3 million of NRT preferred stock and $446.0 million of intangible assets of real estate brokerage firms acquired by NRT. During the third quarter of 1997, the Company acquired $182.0 million of NRT preferred stock and through June 30, 1998 the Company had also acquired $359.3 million of certain intangible assets including trademarks associated with real estate brokerage firms acquired by NRT which are subject to a 50 year franchise agreement.

In September 1997, NRT acquired the real estate brokerage business and operations of the National Realty Trust (the "Trust"), and two other regional real estate brokerage businesses. The Trust is an independent trust to which the Company contributed the brokerage offices formerly owned by Coldwell Banker in connection with the Company's acquisition of Coldwell Banker in 1996. NRT is the largest residential brokerage firm in the United States.

Other. The Company acquired certain entities in 1997 for an aggregate purchase price of $289.5 million, comprised of $267.9 million in cash and $21.6 million in Company common stock (0.9 million shares).

1996 Purchase Acquisitions and Investments

RCI. In November 1996, the Company completed the acquisition of all the outstanding common stock of RCI for $487.1 million comprised of $412.1 million in cash and $75.0 million (approximately 2.4 million shares) in Company common stock plus future contingent payments of up to $200.0 million over the next five years. The Company made a contingent payment of $100.0 million during the first quarter of 1998. RCI is the world's largest provider of timeshare exchange.

Avis. In October 1996, the Company completed the acquisition of all of the outstanding capital stock of Avis Inc. ("Avis"), including payments under certain employee stock plans of Avis and the redemption of certain series of preferred stock of Avis for $806.5 million. The purchase price was comprised of approximately $367.2 million in cash, $100.9 million in indebtedness and $338.4 million (approximately 11.1 million shares) in Company common stock. Subsequently, the Company made contingent cash payments of $26.0 million in 1996 and $60.8 million in 1997. The contingent payments made in 1997 represented the incremental amount of value attributable to Company common stock as of the stock purchase agreement date in excess of the proceeds realized upon subsequent sale of such Company common stock.

Prior to the consummation of the acquisition, the Company announced its strategy to dilute its interest in the Avis car rental operations while retaining assets that are consistent with its service provider business profile, including the trademark, franchise agreements, reservation system and information technology system assets. In September 1997, ARAC (the company which operated the rental car operations of Avis) completed an initial public offering ("IPO") resulting in a 72.5% dilution of the Company's equity interest in ARAC. Net proceeds of $359.3 million were retained by ARAC. The Company's interest in ARAC was further diluted to 20.4% due to a primary offering by ARAC and a secondary offering of common stock in March 1998.

Coldwell Banker. In May 1996, the Company acquired by merger Coldwell Banker Corporation, the largest gross revenue producing residential real estate company in North America and a leading provider of corporate relocation services. The Company paid $640.0 million in cash for all of the outstanding capital stock of Coldwell Banker and repaid $105.0 million of Coldwell Banker indebtedness. The aggregate purchase price for the transaction was financed through the May 1996 sale of an aggregate 46.6 million shares of Company common stock generating $1.2 billion of proceeds pursuant to a public offering.

Other. During 1996, the Company acquired certain other entities for an aggregate purchase price of $281.5 million comprised of $224.0 million in cash, $52.5 million of Company common stock (2.5 million shares) and $5.0 million of notes.

1995 Purchase Acquisitions

Century 21. In August 1995, a majority owned (87.5%) subsidiary of the Company, C21 Holding Corp. ("Holding"), acquired Century 21 Real Estate Corporation ("Century 21"), the world's largest residential real estate brokerage franchisor. The Aggregate purchase price of $245.0 million for the acquisition consisted of $100.2 million in cash, $64.8 million in Company common stock (9.6 million shares), and $80.0 million of preferred stock. Pursuant to an agreement, as amended, between the Company and a management group of Holding, the Company acquired the remaining 12.5% interest in Holding for $52.8 million in 1997.

Other. The Company acquired certain other entities for an aggregate purchase price of $163.3 million comprised of $122.5 million in cash and $40.8 million in Company common stock (6.0 million shares).

DISCONTINUED OPERATIONS

Classified Advertising Acquisition. In October 1997, the Company issued 14.2 million shares of its common stock for all of the outstanding capital stock of Hebdo Mag International ("Hebdo Mag"). Hebdo Mag is a publisher and distributor of international classified advertising information.

Software Acquisitions. In July 1996, the Company issued 45.1 million shares and 38.4 million shares of Company common stock for all of the outstanding capital stock of Davidson and Sierra, respectively. Davidson and Sierra develop, publish and distribute educational and entertainment software for home and school use and comprise the majority of the Company's wholly owned subsidiary, Cendant Software Corporation ("Cendant Software").

Divestitures. On August 12, 1998, the Company announced that its Executive Committee of the Board of Directors committed to discontinue the Company's classified advertising and consumer software businesses by disposing of Hebdo Mag and Cendant Software, respectively. The Company has since entered into a definitive agreement to sell Hebdo Mag to its former 50% owners for 7.1 million shares of Company common stock and approximately $400 million in cash. The transaction is expected to consummate in the fourth quarter of 1998 and is subject to certain conditions, including regulatory approval and financing by the purchaser. The Company expects to recognize a gain of approximately $250 million upon the disposal of Hebdo Mag assuming a Company stock price of $15.66 per share. In addition, the Company has engaged investment bankers to analyze various strategic alternatives in regard to the disposition of Cendant Software. The Company anticipates that the disposition of Cendant Software will also result in a significant gain. The Company believes that the divesting of its Hebdo Mag and Cendant Software subsidiaries will generate significant proceeds, thereby increasing equity while reducing debt.

FINANCING (EXCLUSIVE OF MANAGEMENT AND MORTGAGE PROGRAM FINANCING)

The Company believes that it has excellent liquidity and access to liquidity through various sources. The Company has also demonstrated its ability to access equity and public debt markets and financial institutions to generate capital for strategic acquisitions. The Company is unable to access equity and public debt markets until the filing of restated financial statements with the Securities and Exchange Commission. Accordingly, the Company has secured additional liquidity through other sources including a 364-day, $3.25 billion term loan facility and committed revolving credit facilities of $2.65 billion, including a bank commitment to provide a $650 million, 364-day revolving facility, which is available to partially fund the American Bankers acquisition.

On May 29, 1998 the Company entered into a 364-day term loan facility with a syndicate of financial institutions which provides for borrowings of up to $3.25 billion (the "Term Loan Facility"). The Term Loan Facility bears interest at LIBOR plus the applicable LIBOR spread, as defined. The Company intends to repay all outstanding borrowings under the Term Loan Facility as soon as practicable. Upon the execution of the Term Loan Facility, temporary credit agreements, which provided for $1.0 billion of borrowings, were terminated. The Term Loan Facility contains certain restrictive covenants, which are substantially similar to and consistent with the covenants in effect for the Company's existing revolving credit agreements. At June 30, 1998, the full amount of the committment under the Term Loan Facility was drawn. The Company used $2 billion of the proceeds from the Term Loan Facility to refinance the outstanding borrowings under its revolving credit facilities and intends to use the remainder for the acquisition of American Bankers, RAC Motors Services (See Note 26) and for general corporate purposes.

The Company's primary credit facility consists of (i) a $750.0 million, five year revolving credit facility (the "Five Year Revolving Credit Facility") and (ii) a $1.25 billion, 364 day revolving credit facility (the "364 Day Revolving Credit Facility") (collectively, the "Revolving Credit Facilities"). The 364 Day Revolving Credit Facility will mature on October 31, 1998 but may be renewed on an annual basis for an additional 364 days upon receiving lender approval. The Company has submitted an extension request to the lenders under the 364 Day Revolving Credit Facility and anticipates that approximately $1.0 billion will be renewed. The Five Year Revolving Credit Facility will mature on October 1, 2001. Borrowings under the Revolving Credit Facilities, at the option of the Company, bear interest based on competitive bids of lenders participating in the facilities, at prime rates or at LIBOR, plus a margin of approximately 22 basis points. The Company is required to pay a per annum facility fee of .08% and .06% of the average daily unused commitments under the Five Year Revolving Credit Facility and 364 Day Revolving Credit Facility, respectively. The interest rates and facility fees are subject to change based upon credit ratings of the Company's senior unsecured long-term debt by nationally recognized debt rating agencies. The Revolving Credit Facilities contain certain restrictive covenants including restrictions on indebtedness, mergers, liquidations and sale and leaseback transactions and requires the maintenance of certain financial ratios, including a 3:1 minimum interest coverage ratio and a 3.5:1 maximum debt coverage ratio, as defined.

Long-term debt increased $465.2 million to $1.2 billion at December 31, 1997 when compared to amounts outstanding at December 31, 1996, primarily as a result of the $550 million issuance of 3% Notes in February 1997, the proceeds of which were used to repay outstanding revolving credit facility borrowings at the Cendant Merger date. The Company's debt was $4.0 billion at June 30, 1998 which primarily consisted of $3.25 billion of borrowings under the Company's Term Loan Facility and $700 million of publicly issued fixed rate debt.

The Company filed an amended shelf registration statement (the "Shelf Registration Statement") on February 6, 1998 with the Securities and Exchange Commission for the issuance of up to an aggregate $4.0 billion of debt and equity securities. Pursuant to the Shelf Registration Statement, the Company issued 29.9 million FELINE PRIDESSM and 2.3 million trust preferred securities on March 2, 1998 and received approximately $1.4 billion in gross proceeds therefrom. The issuance of the FELINE PRIDES resulted in the utilization of approximately $3 billion of availability under the Shelf Registration Statement. The FELINE PRIDES consist of 27.6 million Income PRIDES and 2.3 million Growth PRIDES, each with a face amount of $50 per PRIDE. The Income PRIDES consist of trust preferred securities and stock purchase contracts under which the holders will purchase common stock from the Company in February of 2001. The Growth PRIDES consist of stock purchase contracts under which the holders will purchase common stock from the Company in February of 2001 and zero coupon U.S. Treasury securities. The trust preferred securities will bear interest at the annual rate of 6.45 percent, and the forward purchase contract forming a part of the Income PRIDE will pay 1.05 percent annually in the form of a contract adjustment payment. The forward purchase contract forming a part of the Growth PRIDES will pay 1.3 percent annually in the form of a contract adjustment payment. The forward purchase contracts call for the holder to purchase a minimum of 1.0395 shares and a maximum of 1.3514 shares of Company common stock per PRIDES security, depending upon the average of the closing price per share of Company common stock for a 20 consecutive trading day period ending in mid-February of 2001.

The Company filed a shelf registration statement with the Securities and Exchange Commission which has not yet become effective for the aggregate issuance of up to $3.0 billion of debt and equity securities.

On May 4, 1998, the Company redeemed all of the outstanding ($144.5 million principal amount) of 4 3/4% Convertible Senior Notes due 2003 at a price of 103.393% of the principal amount, together with interest accrued to the redemption date. Prior to May 4, 1998, $90.5 million of such notes were exchanged for 2.5 million shares of Company common stock.

On April 8, 1998, the Company exercised its option to call its 6 1/2% Convertible Subordinated Notes (the "6 1/2% Notes") for redemption on May 11, 1998, in accordance with the provisions of the indenture relating to the 6 1/2% Notes. Prior to the redemption date, all of the outstanding 6 1/2% Notes were converted into 2.1 million shares of Company common stock.

MANAGEMENT AND MORTGAGE PROGRAM FINANCING

PHH operates their mortgage services, fleet management services and relocation services businesses as a separate public reporting entity and supports purchases of leased vehicles and originated mortgages primarily by issuing commercial paper and medium term notes. Financial covenants related to such debt are designed to ensure the self-sufficient liquidity status of PHH. Accordingly, PHH's publicly filed financial statements and underlying publicly issued debt were not impacted by the accounting irregularities previously disclosed and PHH continues to issue debt securities in public markets. Such borrowings are not classified based on contractual maturities, but rather are included in liabilities under management and mortgage programs rather than long-term debt since such debt corresponds directly with high quality related assets. Additionally, PHH continues to pursue opportunities to reduce its borrowing requirements by securitizing increasing amounts of its high quality assets. In May 1998, PHH commenced a program to sell originated mortgage loans to an unaffiliated buyer, at the option of the Company, up to the buyer's asset limit of $1.5 billion. The buyer may sell or securitize such mortgage loans into the secondary market, however, servicing rights are retained by the Company.

PHH debt is issued without recourse to the Company. PHH expects to continue to have broad access to global capital markets by maintaining the quality of its assets under management. This is achieved by establishing credit standards to minimize credit risk and the potential for losses. Depending upon asset growth and financial market conditions, PHH utilizes the United States, European and Canadian commercial paper markets, as well as other cost-effective short-term instruments. In addition, PHH will continue to utilize the public and private debt markets as sources of financing. Augmenting these sources, PHH will continue to manage outstanding debt with the potential sale or transfer of managed assets to third parties while retaining fee-related servicing responsibility. At June 30, 1998, PHH's outstanding debt was comprised of commercial paper, medium-term notes and other borrowings of $3.2 billion, $3.4 billion and $.2 billion, respectively. PHH's aggregate borrowings at the underlying balance sheet dates were as follows ($ billions):

| | DECEMBER 31, 1997 | DECEMBER 31, 1996 |
|---|---|---|
| Commercial paper | $ 2.6 | $ 3.1 |
| Medium-term notes | 2.7 | 1.7 |
| Other | 0.3 | 0.3 |
| | $ 5.6 | $ 5.1 |

PHH filed a shelf registration statement with the Securities and Exchange Commission, which became effective March 2, 1998, for the aggregate issuance of up to $3 billion of debt securities. These securities may be offered from time to time, together or separately, based on terms to be determined at the time of sale. The proceeds will be used to finance assets PHH manages for its clients and for general corporate purposes. As of July 31, 1998, PHH had issued $795 million of medium-term notes under this shelf registration statement.

To provide additional financial flexibility, the Company's current policy is to ensure that minimum committed facilities aggregate 80 percent of the average amount of outstanding commercial paper. PHH maintains a $2.5 billion syndicated unsecured credit facility which is backed by domestic and foreign banks and is comprised of $1.25 billion of lines of credit maturing in March 1999, which may be extended upon receiving lender approval, $1.25 billion maturing in the year 2000 and a $200 million facility maturing in June 1999. In addition, PHH has approximately $186 million of uncommitted lines of credit with various financial institutions which were unused at June 30, 1998. Management closely evaluates not only the credit of the banks but also the terms of the various agreements to ensure ongoing availability. The full amount of PHH's committed facilities at June 30, 1998 was undrawn and available. Management believes that its current policy provides adequate protection should volatility in the financial markets limit PHH's access to commercial paper or medium-term notes funding.

PHH minimizes its exposure to interest rate and liquidity risk by effectively matching floating and fixed interest rate and maturity characteristics of funding to related assets, varying short and long-term domestic and international funding sources, and securing available credit under committed banking facilities.

On July 10, 1998, the Company entered into a Supplemental Indenture No. 1 (the "Supplemental Indenture") with The First National Bank of Chicago, as trustee, under the Senior Indenture dated as of June 5, 1997, which formalizes the policy for PHH of limiting the payment of dividends and the outstanding principal balance of loans to the Parent Company to 40% of consolidated net income (as defined in the Supplemental Indenture) for each fiscal year. The Supplemental Indenture prohibits PHH from paying dividends or making loans to the Parent Company if upon giving effect to such dividends and/or loan, PHH's debt to equity ratio exceeds 8 to 1.

CREDIT RATINGS

The Company's long-term debt credit ratings from S&P, Duff & Phelps ("Duff") and Moody's remain at A, A and A3, respectively; however such ratings are being reviewed by such agencies with negative implications following the Company's March 23, 1998 announcements relating to the Company's agreements to acquire American Bankers and NPC and its April 15, 1998 announcement regarding accounting irregularities discovered at the former CUC business units. PHH's present long term and short term debt ratings are A+/A1, A2/P1, A+/F1, A+/D1 with Standard & Poor's (S&P), Moody's Investor Service (Moody's), Fitch IBCA and Duff & Phelps Credit Rating Co. (Duff), respectively. Presently, the ratings of both S&P and Moody's related to PHH debt are on watch with negative implications. While this negative watch period has caused PHH to incur a marginal increase in its cost of funds, management believes its sources of liquidity continue to be adequate. (A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time).

CASH FLOWS (1997 VS. 1996)

The Company generated $1.2 billion of cash flows from operations in 1997 representing a $312.6 million decrease from 1996. The decrease in cash flows from operations was primarily due to a $314.7 million increase in mortgage loans held for sale due to increased mortgage loan origination volume.

The Company used $2.3 billion of cash flows for investing activities in 1997, consisting of approximately $1.5 billion of a net investment in assets under management and mortgage programs and $568.2 million for acquisition costs, including ARAC and RCI. In 1996, the Company used $3.1 billion for investing activities including a $1.3 billion net investment in assets under management and mortgage programs and $1.6 billion of acquisition costs. In 1997, cash flows from financing activities of approximately $900.1 million, primarily consisted of net borrowings totaling $435.9 million including net proceeds of $543.2 million from the issuance of the 3% Convertible Notes in February 1997 and management and mortgage program financing consisting of $509.9 million of net borrowings which funded the Company's purchases of assets under management and mortgage programs. In 1996, cash flows from financing activities of approximately $1.8 billion consisted of public offerings of common stock that resulted in $1.2 billion of net proceeds and $241.9 million of net borrowings which funded the Company's purchase of assets under management and mortgage programs.

Deferred membership income at December 31, 1997 of $1.3 billion primarily represents fees collected for the sale of one year memberships to individual consumers. In accordance with the Company's membership agreement, members have the right to a full refund at any time during the active membership period. Based on the Company's experience, approximately 45% of fees billed will be refunded to new members prior to expiration of the membership term. Deferred membership income at December 31, 1996 of $900.9 million primarily represents the estimated unamortized portion of the aggregate membership fees billed primarily in 1996 net of estimated cancellation refunds. Such deferral was calculated prior to the change in accounting for memberships. Deferred membership acquisition costs of $269.9 million at December 31, 1996 represents direct member solicitation costs which were amortized to expense over the membership period prior to the Company adopting the new policy for accounting for memberships effective January 1, 1997. Solicitation costs were expensed as incurred in 1997.

SEVERANCE AGREEMENT

On July 28, 1998, the Company announced that Walter A. Forbes resigned as Chairman of the Company and as a member of the Board of Directors. The severance agreement reached with Mr. Forbes gives him the benefits required by his employment contract relating to a termination of Mr. Forbes' employment with the Company for reasons other than for cause. Those benefits total $35 million in cash and include the granting of approximately 1.3 million stock options. The benefits to Mr. Forbes will result in the Company recording an unusual expense of approximately $47.5 million in the third quarter of 1998.

REPRICING OF STOCK OPTIONS

On July 28, 1998, the Compensation Committee of the Board of Directors approved, in principle, a program to reprice certain Company stock options granted to employees of the Company, other than executive officers, during December 1997 and the first quarter of 1998. The new option price for such stock options is to be the market price of the Company's common stock as reported on the New York Stock Exchange shortly after the filing of the Company's Annual Report on Form 10-K/A for the year ended December 31, 1997. On September 23, 1998, the Compensation Committee extended such repricing program to certain executive officers and senior managers of the Company subject to certain conditions including revocation of a portion of existing options plus repricing of other portions at prices at and above fair market value at the time of repricing. Additionally, a management equity ownership program was adopted that requires these executive officers and senior managers to acquire Company common stock at various levels commensurate with such manager's compensation.

LITIGATION

As a result of the aforementioned accounting irregularities, which were discovered in the former CUC business units, numerous purported class action lawsuits, a purported derivative lawsuit and an individual lawsuit have been filed against the Company and, among others, its predecessor HFS, and certain current and former officers and directors of the Company and HFS, asserting various claims under the federal securities laws and certain state statutory and common laws. In addition, the staff of the SEC and the United States Attorney for the District of New Jersey are conducting investigations relating to the accounting issues. The SEC staff has advised the Company that its inquiry should not be construed as an indication by the SEC or its staff that any violations of law have occurred.

While it is not feasible to predict or determine the final outcome of these proceedings or to estimate the amounts or potential range of loss with respect to these matters, management believes that an adverse outcome with respect to such proceedings could have a material impact on the financial condition, results of operations and cash flows of the Company. See "ITEM 3. LEGAL PROCEEEDINGS."

CAPITAL EXPENDITURES

The Company anticipates investing approximately $250 million in capital expenditures in 1998, representing approximately 6% of 1997 consolidated revenue. Such capital expenditures are primarily associated with the development of integrated corporate relocation business systems in accordance with the merger plan developed upon the PHH merger date, mortgage services office and system additions to support the rapid growth in origination volume and the consolidation of internationally-based call centers.

YEAR 2000 COMPLIANCE

The Year 2000 presents the risk that information systems will be unable to recognize and process date-sensitive information properly from and after January 1, 2000.

To minimize or eliminate the effect of the year 2000 risk on the Company's business systems and applications, the Company is continually identifying, evaluating, implementing and testing changes to its computer systems, applications and software necessary to achieve Year 2000 compliance. The Company's predecessor implemented a Year 2000 initiative in March 1996 that has now been adopted by all business units of the Company. As part of such initiative, the Company has selected a team of managers to identify, evaluate and implement a plan to bring all of the Company's critical business systems and applications into Year 2000 compliance prior to December 31, 1999. The Year 2000 initiative consists of four phases: (i) identification of all critical business systems subject to Year 2000 risk (the "Identification Phase"); (ii) assessment of such business systems and applications to determine the method of correcting any Year 2000 problems (the "Assessment Phase"); (iii) implementing the corrective measures (the "Implementation Phase"); and (iv) testing and maintaining system compliance (the "Testing Phase"). The Company has substantially completed the Identification and Assessment Phases and has identified and assessed five areas of risk: (i) internally developed business applications; (ii) third party vendor software, such as business applications, operating systems and special function software; (iii) computer hardware components; (iv) electronic data transfer systems between the Company and its customers; and (v) embedded systems, such as phone switches, check writers and alarm systems. Although no assurances can be made, the Company believes that it has identified substantially all of its systems, applications and related software that are subject to Year 2000 compliance risk and has either implemented or initiated the implementation of a plan to correct such systems that are not Year 2000 compliant. The Company has targeted December 31, 1998 for completion of the Implementation Phase. Although the Company has begun the Testing Phase, it does not anticipate completion of the Testing Phase until sometime prior to December 1999.

The Company relies on third party service providers for services such as telecommunications, internet service, utilities, components for its embedded and other systems and other key services. Interruption of those services due to Year 2000 issues could affect the Company's operations. The Company has initiated an evaluation of the status of such third party service providers' efforts and to determine alternative and contingency requirements. While approaches to reducing risks of interruption of business operations vary by business unit, options include identification of alternative service providers available to provide such services if a service provider fails to become Year 2000 compliant within an acceptable timeframe prior to December 31, 1999.

The total cost of the Company's Year 2000 compliance plan is anticipated to be $53 million. Approximately $17 million of these costs had been incurred through August 31, 1998, and the Company expects to incur the balance of such costs to complete the compliance plan. The Company has been expensing and capitalizing the costs to complete the compliance plan in accordance with appropriate accounting policies. Variations from anticipated expenditures and the effect on the Company's future results of operations are not anticipated to be material in any given year. However, if Year 2000 modifications and conversions are not made, or are not completed in time, the Year 2000 problem could have a material impact on the operations and financial condition of the Company.

THE ESTIMATES AND CONCLUSIONS HEREIN ARE FORWARD-LOOKING STATEMENTS AND ARE BASED ON MANAGEMENT'S BEST ESTIMATES OF FUTURE EVENTS. RISKS OF COMPLETING THE PLAN INCLUDE THE AVAILABILITY OF RESOURCES, THE ABILITY TO DISCOVER AND CORRECT THE POTENTIAL YEAR 2000 SENSITIVE PROBLEMS WHICH COULD HAVE A SEROUS IMPACT ON CERTAIN OPERATIONS AND THE ABILITY OF THE COMPANY'S SERVICE PROVIDERS TO BRING THEIR SYSTEMS INTO YEAR 2000 COMPLIANCE.

## IMPACT OF INFLATION AND SEASONALITY

To date, inflation has not had a material impact on Company operations. The third quarter represented 27% of annual revenue as a result of peak leisure travel and real estate sales in summer months.

## IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income" which establishes standards for reporting and display of an alternative income measurement and its components in the financial statements. This statement is effective for fiscal years beginning after December 15, 1997. The Company adopted SFAS No. 130 in 1998.

In June 1997, the FASB issued SFAS No. 131 "Disclosures About Segments of an Enterprise and Related Information" effective for periods beginning after December 15, 1997. SFAS No. 131 establishes standards for the way that public business enterprises report information about their operating segments in their annual and interim financial statements. It also requires public enterprises to disclose company-wide information regarding products and services and the geographic areas in which they operate. The Company will adopt SFAS No. 131 in 1998.

In February 1998, the FASB issued SFAS No. 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits" effective for periods beginning after December 15, 1997. The Company will adopt SFAS No. 132 effective in the 1998 calendar year end.

The aforementioned recently issued accounting pronouncements establish standards for disclosures only and therefore will have no impact on the Company's financial position or results of operations.

In June 1998, the FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" effective for fiscal years beginning after June 15, 1999. SFAS No. 133 requires the recognition of all derivatives in the consolidated balance sheet as either assets or liabilities measured at fair value. The Company will adopt SFAS No. 133 effective for the 2000 calendar year end. The Company has not yet determined the impact SFAS No. 133 will have on its financial position or results of operations when such statement is adopted.

## FORWARD LOOKING STATEMENTS

Certain statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations constitute "forward looking statements" within the meaning of the Private Securities

Litigation Reform Act of 1995. Such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company 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. Important assumptions and other factors that could cause actual results to differ materially from those in the forward looking statements, include, but are not limited to: the outcome of the pending litigation relating to the previously announced accounting irregularities, uncertainty as to the Company's future profitability, the Company's ability to develop and implement operational and financial systems to manage rapidly growing operations; competition in the Company's existing and potential future lines of business; the Company's ability to integrate and operate successfully acquired and merged businesses and the risks associated with such businesses, including the Company's ability to obtain financing on acceptable terms to finance the Company's growth strategy and for the Company to operate within the limitations imposed by financing arrangements; uncertainty as to the future profitability of acquired businesses, the ability of the Company and its vendors to complete the necessary actions to achieve a year 2000 conversion for its computer systems and applications and other factors. 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. The Company assumes no obligation to update these forward looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward looking statements.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In recurring operations, the Company must deal with effects of changes in interest rates and currency exchange rates. The following discussion presents an overview of how such changes are managed and a view of their potential effects.

The Company uses various financial instruments, particularly interest rate and currency swaps and currency forwards, to manage its respective interest rate and currency risks. The Company is exclusively an end user of these instruments, which are commonly referred to as derivatives. The Company does not engage in trading, market-making or other speculative activities in the derivatives markets. Established practices require that derivative financial instruments relate to specific asset, liability or equity transactions or to currency exposures. More detailed information about these financial instruments, as well as the strategies and policies for their use, is provided in Notes 15 and 16 to the financial statements.

The Securities and Exchange Commission requires that registrants include information about potential effects of changes in interest rates and currency exchange in their financial statements. Although the rules offer alternatives for presenting this information, none of the alternatives is without limitations. The following discussion is based on so-called "shock tests," which model effects of interest rate and currency shifts on the reporting company. Shock tests, while probably the most meaningful analysis permitted, are constrained by several factors, including the necessity to conduct the analysis based on a single point in time and by their inability to include the extraordinarily complex market reactions that normally would arise from the market shifts modeled. While the following results of shock tests for interest rate and currencies may have some limited use as benchmarks, they should not be viewed as forecasts.

- One means of assessing exposure to interest rate changes is a duration-based analysis that measures the potential loss in net earnings resulting from a hypothetical 10% change (decrease) in interest rates across all maturities (sometimes referred to as a "parallel shift in the yield curve"). Under this model, it is estimated that, all else constant, such a decrease would not adversely impact the 1998 net earnings of the Company based on year-end 1997 positions.

- One means of assessing exposure to changes in currency exchange rates is to model effects on future earnings using a sensitivity analysis. Year-end 1997 consolidated currency exposures, including financial instruments designated and effective as hedges, were analyzed to identify the

Company's assets and liabilities denominated in other than their relevant functional currency. Net unhedged exposures in each currency were then remeasured assuming a 10% change (decrease) in currency exchange rates compared with the U.S. dollar. Under this model, it is estimated that, all else constant, such a decrease would not adversely impact the 1998 net earnings of the Company based on year-end 1997 positions.

The categories of primary market risk exposure of the Company are: (i) long-term U.S. interest rates due to mortgage loan origination commitments and an investment in mortgage loans held for resale; (ii) short-term interest rates as they impact vehicle and relocation receivables; and (iii) LIBOR and commercial paper interest rates due to their impact on variable rate borrowings.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

(a) Previous independent accountants

(i) On January 20, 1998, in connection with the Company's previously announced plan to name a successor independent auditor following the Merger, the Company replaced Ernst & Young LLP, which served as the Company's independent accountants, and engaged Deloitte & Touche LLP, the independent auditor of HFS Incorporated prior to the Merger, as its new independent accountants. As of January 20, 1998, Ernst & Young LLP was to continue to audit and report on the Company's former CUC businesses as of and for the year ended December 31, 1997. However, on May 11, 1998, the Company dismissed Ernst & Young LLP.

(ii) The reports of Ernst & Young LLP on the financial statements for the past two fiscal years of the Company contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope of accounting principles.

(iii) The Audit Committee of the Company's Board of Directors participated in and approved the decision to change independent accountants.

(iv) In connection with its audit for the two most recent fiscal years and through May 11, 1998, there were no disagreements with Ernst & Young LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of Ernst & Young LLP would have caused Ernst & Young LLP to make reference thereto in their report on the financial statements for such years.

(v) During the two most recent fiscal years and through May 11, 1998, there were no reportable events as that term is defined in Item 304(a)(1)(v) of Regulation S-K. However, as previously reported, the Audit Committee of the Board of Directors of the Company conducted an investigation into accounting irregularities at former CUC business units which were audited by Ernst & Young LLP. The results of such investigation required a restatement of previously reported financial statements of the Company. Such investigation may result in disagreements by the Company with Ernst & Young LLP in the future with respect to previously reported financial statements of the Company which were audited by Ernst & Young LLP.

(vi) The Company requested that Ernst & Young LLP furnish it with letters addressed to the Commission stating whether or not it agrees with the above statements. A copy of a letter, dated January 22, 1998, is filed as Exhibit 16 to the Current Report on Form 8-K of the Company dated January 27, 1998 and a copy of a letter, dated May 11, 1998, is filed as Exhibit 16 to the Annual Report on Form 8-K of the Company dated May 18, 1998.

(b) New independent accountants

As stated above, the Company engaged Deloitte & Touche LLP as its new independent accountants as of January 20, 1998. Such engagement was approved by the Audit Committee of the Company's Board of Directors on January 20, 1998. During the two most recent fiscal years and through January 20, 1998, the Company has not consulted with Deloitte & Touche LLP regarding either:

(i) The application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on the Company's financial statements, and neither a written report was provided to the registrant nor oral advice was provided that Deloitte & Touche concluded was an important factor considered by the registrant in reaching a decision as to the accounting, auditing or financial reporting issue; or

(ii) Any matter that was either the subject of a disagreement, as that term is defined in Item 304(a)(1)(iv) of Regulation S-K, and the related instructions to Item 304 of Regulation S-K, or a reportable event, as that term is defined in Item 304(a)(1)(v) of Regulation S-K.

# PART III

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained in the Company's Proxy Statement under the sections titled "Proposal 1: Election of Directors" and "Executive Officers" is incorporated herein by reference in response to this item.

## ITEM 11. EXECUTIVE COMPENSATION

The information contained in the Company's Proxy Statement under the section titled "Executive Compensation and Other Information" is incorporated herein by reference in response to this item, except that the information contained in the Proxy Statement under the sub-headings "Pre-Merger Compensation Committee Report on Executive Compensation" and "Performance Graph" is not incorporated herein by reference and is not to be deemed "filed" as part of this filing.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information contained in the Company's 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 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 E-1 hereof.

## ITEM 14(B) REPORTS ON FORM 8-K

On October 31, 1997, the Company filed a Current Report on Form 8-K to report the execution of a Stock Purchase Agreement to sell all of the outstanding stock of Interval Holdings, Inc. and CUC Vacation Exchange. Inc.

On November 4, 1997, the Company filed a Current Report on Form 8-K to report the post-merger financial results relating to the acquisition of Hebdo Mag International Inc.

On December 18, 1997, the Company filed a Current Report on Form 8-K to report the completion of the Merger.

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

Senior Executive Vice President
and General Counsel
Date: September 28, 1998

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

| SIGNATURE | TITLE | DATE |
|---|---|---|
| /s/ Henry R. Silverman<br>(Henry R. Silverman) | Chairman of the Board, President, Chief Executive Officer and Director | September 28 , 1998 |
| /s/ Michael P. Monaco<br>(Michael P. Monaco) | Vice Chairman, Chief Financial Officer and Director (Principal Financial Officer) | September 28, 1998 |
| /s/ Scott E. Forbes<br>(Scott E. Forbes) | Executive Vice President -- Finance (Principal Accounting Officer) | September 28, 1998 |
| /s/ Stephen P. Holmes<br>(Stephen P. Holmes) | Vice Chairman and Director | September 28, 1998 |
| /s/ Robert D. Kunisch<br>(Robert D. Kunisch) | Vice Chairman and Director | September 28, 1998 |
| /s/ Christopher K. McLeod<br>(Christopher K. McLeod) | Vice Chairman and Director | September 28, 1998 |
| /s/ James E. Buckman<br>(James E. Buckman) | Senior Executive Vice President, General Counsel and Director | September 28, 1998 |
| /s/ John D. Snodgrass<br>(John D. Snodgrass) | Director | September 28, 1998 |
| /s/ Leonard S. Coleman<br>(Leonard S. Coleman) | Director | September 28, 1998 |
| /s/ Martin L. Edelman<br>(Martin L. Edelman) | Director | September 28, 1998 |
| /s/ Dr. Carole G. Hankin<br>(Dr. Carole G. Hankin) | Director | September 28, 1998 |

| SIGNATURE | TITLE | DATE |
| --- | --- | --- |
| /s/ Brian Mulroney<br>(The Rt. Hon. Brian Mulroney, P.C., LL.D) | Director | September 28, 1998 |
| /s/ Robert W. Pittman<br>(Robert W. Pittman) | Director | September 28, 1998 |
| /s/ E. John Rosenwald, Jr.<br>(E. John Rosenwald, Jr.) | Director | September 28, 1998 |
| /s/ Robert P. Rittereiser<br>(Robert P. Rittereiser) | Director | September 28, 1998 |
| /s/ Leonard Schutzman<br>(Leonard Schutzman) | Director | September 28, 1998 |
| /s/ Robert F. Smith<br>(Robert F. Smith) | Director | September 28, 1998 |
| /s/ Craig R. Stapleton<br>(Craig R. Stapleton) | Director | September 28, 1998 |
| /s/ Robert E. Nederlander<br>(Robert E. Nederlander) | Director | September 28, 1998 |

EXHIBITS:

| EXHIBIT NO. | DESCRIPTION |
| --- | --- |
| 2.1 | Agreement and Plan of Merger, dated March 23, 1998 among the Company, Season Acquisition Corp. and American Bankers Insurance Group, Inc. (incorporated by reference to Exhibit C-2 to the Schedule 14-D-1 (Amendment 31), dated March 23, 1998, filed by the Company and Season Acquisition Corp.)* |
| 3.1 | Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 4.1 to the Company's Post-Effective Amendment No. 2 on Form S-8 to the Registration Statement on Form S-4, No. 333-34517, dated December 17, 1997)* |
| 3.2 | Amended and Restated By-Laws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated August 4, 1998)* |
| 4.1 | Form of Stock Certificate (filed as Exhibit 4.1 to the Company's Registration Statement, No. 33-44453, on Form S-4 dated December 19, 1991)* |
| 4.2 | Indenture dated as of February 11, 1997, between CUC International Inc. and Marine Midland Bank, as trustee (filed as Exhibit 4(a) to the Company's Report on Form 8-K filed February 13, 1997)* |
| 4.3 | Indenture between HFS Incorporated and Continental Bank, National Association, as trustee (Incorporated by reference to HFS Incorporated's Registration Statement on Form S-1 (Registration No. 33-71736), Exhibit No. 4.1)* |
| 4.4 | Indenture dated as of February 28, 1996 between HFS Incorporated and First Trust of Illinois, National Association, as trustee (Incorporated by reference to HFS Incorporated's Current Report on Form 8-K dated March 8, 1996, Exhibit 4.01)* |
| 4.5 | Supplemental Indenture No. 1 dated as of February 28, 1996 between HFS Incorporated and First Trust of Illinois, National Association, as trustee (Incorporated by reference to HFS Incorporated's Current Report on Form 8-K dated March 8, 1996, Exhibit 4.02)* |
| 4.6 | Indenture, dated as of February 24, 1998, between the Company and The Bank of Novia Scotia Trust Company of New York, as Trustee (incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K dated March 6, 1998)* |
| 4.7 | First Supplemental Indenture dated February 24, 1998, between the Company and The Bank of Novia Scotia Trust Company of New York, as Trustee (incorporated by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K, dated March 6, 1998)* |
| 4.8 | Amended and Restated Declaration of Trust of Cendant Capital I. (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated March 6, 1998)* |
| 4.9 | Preferred Securities Guarantee Agreement dated March 2, 1998, between by Cendant Corporation and Wilmington Trust Company. (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K dated March 6, 1998)* |
| 4.10 | Purchase Contract Agreement (including as Exhibit A the form of the Income PRIDES and as Exhibit B the form of the Growth PRIDES), dated March 2, 1998, between Cendant Corporation and The First National Bank of Chicago (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K dated March 6, 1998)* |
| 10.1--10.47 | Material Contracts, Management Contracts, Compensatory Plans and Arrangements |

| EXHIBIT NO. | DESCRIPTION |
|---|---|
| 10.1 | Agreement with E. Kirk Shelton, dated as of May 27, 1997 (filed as Exhibit 10.1 to the Company's Registration Statement on Form S-4, Registration No. 333-34571, July 31, 1996)* |
| 10.2 | Agreement with Christopher K. McLeod, dated as of May 27, 1997 (filed as Exhibit 10.2 to the Company's Registration Statement on Form S-4, Registration No. 333-34571)* |
| 10.3 | Restated Employment Contract with Walter A. Forbes, dated as of May 27, 1997 (filed as Exhibit 10.3 to the Company's Registration Statement on Form S-4, Registration No. 333-34571)* |
| 10.3(a) | Agreement, dated July 28, 1998, between Cendant Corporation and Walter A. Forbes (filed as Exhibit 10.2 to the Company's Form 8-K, dated July 29, 1998)* |
| 10.4 | Agreement with Henry R. Silverman, dated May 27, 1997 (filed as Exhibit 10.6 to the Company's Registration Statement on Form S-4, Registration No. 333-34571)* |
| 10.5 | Agreement with Stephen P. Holmes, dated May 27, 1997 (filed as Exhibit 10.7 to the Company's Registration Statement on Form S-4, Registration No. 333-34571)* |
| 10.6 | Agreement with Michael P. Monaco, dated May 27, 1997 (filed as Exhibit 10.8 to the Company's Registration Statement on Form S-4, Registration No. 333-34571)* |
| 10.7 | Agreement with James E. Buckman, dated May 27, 1997 (filed as Exhibit 10.9 to the Company's Registration Statement on Form S-4, Registration No. 333-34571)* |
| 10.8 | 1987 Stock Option Plan, as amended (filed as Exhibit 10.16 to the Company's Form 10-Q for the period ended October 31, 1996)* |
| 10.9 | 1990 Directors Stock Option Plan, as amended (filed as Exhibit 10.17 to the Company's Form 10-Q for the period ended October 31, 1996)* |
| 10.10 | 1992 Directors Stock Option Plan, as amended (filed as Exhibit 10.18 to the Company's Form 10-Q for the period ended October 31, 1996)* |
| 10.11 | 1994 Directors Stock Option Plan, as amended (filed as Exhibit 10.19 to the Company's Form 10-Q for the period ended October 31, 1996)* |
| 10.12 | Restricted Stock Plan and Form of Restricted Stock Plan Agreement (filed as Exhibit 10.24 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1991, as amended December 12, 1991, and December 19, 1991.)* |
| 10.13 | 1997 Stock Option Plan (filed as Exhibit 10.23 to the Company's Form 10-Q for the period ended April 30, 1997)* |
| 10.14 | 1996 Executive Retirement Plan (filed as Exhibit 10.22 to the Company's Form 10-Q for the period ended April 30, 1997)* |
| 10.15 | 1997 Stock Incentive Plan (filed as Appendix E to the Joint Proxy Statement/ Prospectus included as part of the Company's Registration Statement, No. 333-34517, on Form S-4 dated August 28, 1997)* |
| 10.16 | HFS Incorporated's Amended and Restated 1993 Stock Option Plan (Incorporated by reference to HFS Incorporated's Registration Statement on Form S-8 (Registration No. 33-83956), Exhibit 4.1)* |
| 10.17(a) | First Amendment to the Amended and Restated 1993 Stock Option Plan dated May 5, 1995. (Incorporated by reference to HFS Incorporated's Registration Statement on Form S-8 (Registration No. 33094756), Exhibit 4.1)* |

| EXHIBIT NO. | DESCRIPTION |
| --- | --- |
| 10.17(b) | Second Amendment to the Amended and Restated 1993 Stock Option Plan dated January 22, 1996. (Incorporated by reference to the HFS Incorporated's Annual Report on Form 10-K for fiscal year ended December 31, 1995, Exhibit 10.21(b))* |
| 10.17(c) | Third Amendment to the Amended and Restated 1993 Stock Option Plan dated January 22, 1996. (Incorporated by reference to the HFS Incorporated's Annual Report on Form 10-K for fiscal year ended December 31, 1995, Exhibit 10.21(c))* |
| 10.17(d) | Fourth Amendment to the Amended and Restated 1993 Stock Option Plan dated May 20, 1996. (Incorporated by reference to HFS Incorporated's Registration Statement on Form S-8 (Registration No. 333-06733), Exhibit 4.5)* |
| 10.17(e) | Fifth Amendment to the Amended and Restated 1993 Stock Option Plan dated July 24, 1996 (Incorporated by reference to the HFS Incorporated's Annual Report on Form 10-K for fiscal year ended December 31, 1995, Exhibit 10.21(e))* |
| 10.17(f) | Sixth Amendment to the Amended and Restated 1993 Stock Option Plan dated September 24, 1996 (Incorporated by reference to the HFS Incorporated's Annual Report on Form 10-K for fiscal year ended December 31, 1995, Exhibit 10.21(e))* |
| *10.17(g) | Seventh Amendment to the Amended and Restated 1993 Stock Option Plan dated as of April 30, 1997 |
| *10.17(h) | Eighth Amendment to the Amended and Restated 1993 Stock Option Plan dated as of May 27, 1997 |
| 10.18 | Chicago Agreement and Plan of Merger, by and among HFS Incorporated, HJ Acquisition Corp. and Jackson Hewitt, Inc., dated as of November 19, 1997. (Incorporated by reference to Exhibit 10.1 to HFS Incorporated's Current Report on Form 8-K dated August 14, 1997, File No. 1-11402)* |
| 10.19 | Agreement and Plan of Merger, dated as of July 19, 1996, by and among Ideon Group, Inc., CUC International Inc. and IG Acquisition Corp. (filed as Exhibit 10.21 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1996)* |
| 10.20 | Form of U.S. Underwriting Agreement dated October 1996, among CUC International Inc., certain selling stockholders and the U.S. Underwriters (filed as Exhibit 1.1(a) to the Company's Registration Statement on Form S-3, Registration No. 333-13537, filed on October 9, 1996)* |
| 10.21 | Form of International Underwriting Agreement dated October 1996, among CUC International Inc., certain selling stockholders and the International Underwriters (filed as Exhibit 1.1 (b) to the Company's Registration Statement on Form S-3, Registration No. 333-13537, filed on October 9, 1996)* |
| 10.22 | Registration Rights Agreement dated as of February 11, 1997, between CUC International Inc. and Goldman, Sachs & Co. (for itself and on behalf of the other purchasers party thereto) (filed as Exhibit 4(b) to the Company's Report on Form 8-K filed February 13, 1997)* |
| 10.23 | Agreement and Plan of Merger between CUC International Inc. and HFS Incorporated, dated as of May 27, 1997 (filed as Exhibit 2.1 to the Company's Report on Form 8-K filed on May 29, 1997)* |
| 10.24 | Plan for Corporate Governance of CUC International Inc. following the Effective Time (filed as Exhibit 99.2 to the Company's Report on Form 8-K filed on May 29, 1997)* |

| EXHIBIT NO. | DESCRIPTION |
| --- | --- |
| 10.25 | $750,000,000 Five Year Revolving Credit and Competitive Advance Facility Agreement, dated as of October 2, 1996, among the Company, the several banks and other financial institutions from time to time parties thereto and The Chase Manhattan Bank, as Administrative Agent and CAF Agent (Incorporated by reference to Exhibit (b)(1) to the Schedule 14D-1 filed by the Company on January 27, 1998, File No. 5-31838)* |
| 10.26(a) | $1,250,000 364-Day Revolving Credit and Competitive Advance Facility Agreement, dated October 2, 1996 among the Company, the several banks and other financial institutions from time to time parties thereto, and The Chase Manhattan Bank, as Administrative Agent and CAF Advance Agent. (Incorporated by reference to Exhibit (b)(2) to the Schedule 14D-1 filed by the Company on January 27, 1998, File No. 5-31838).* |
| 10.26(b) | Amendment and Waiver, dated as of April 15, 1998, to the Five Year Competitive Advance and Revolving Credit Agreement and the 364-Day Competitive Advance and Revolving Credit Agreement, each of which is dated as of October 2, 1996, by and among the Company and the financial institutions parties thereto (Incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K, dated May 5, 1998).* |
| 10.26(c) | Amendment, dated as of May 6, 1998, to the Five Year Competitive Advance and Revolving Credit Agreement and the 364-Day Competitive Advance and the Revolving Credit Agreement, each of which is dated October 2, 1998, by and among the Company and the financial institutions parties thereto (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, dated June 4, 1998).* |
| 10.26(d) | Amendment and Waiver, dated as of August 26, 1998, to the Five Year Competitive Advance and Revolving Credit Agreement and the 364-Day Competitive Advance and Revolving Credit Agreement by and among the Company and the financial institutions parties thereto. |
| 10.26(e) | Extension Agreement, dated as of August 31, 1998, under the 364-Day Competitive Advance and Revolving Credit Agreement among the Company and the financial institutions parties thereto. |
| 10.26(f) | Amendment, dated September 28, 1998, to the Five Year Competitive Advance and Revolving Credit Agreement and the 364-Day Competitive Advance and Revolving Credit Agreement by and among the Company and the financial institutions parties thereto. |
| 10.27 | Cendant Corporation Acquisition Revolving Credit Facility Commitment Letter, dated January 23, 1998, among Chase Securities Inc., The Chase Manhattan Bank and Cendant Corporation (Incorporated by reference to exhibit (b)(3) to the Schedule 14D-1 filed by the Company on January 27, 1998, File No. 5-31838)* |
| 10.28 | Distribution Agreement, dated March 5, 1998, among the Company, Bear, Stearns & Co., Inc., Chase Securities Inc., Lehman Brothers and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to the Company's Current Report on Form 8-K, dated March 10, 1998)* |
| 10.29(a) | 364-Day Credit Agreement Among the Company, PHH Vehicle Management Services, Inc., the Lenders, the Chase Manhattan Bank, as Administrative Agent and the Chase Manhattan Bank of Canada, as Canadian Agent, Dated March 4, 1997, filed as Exhibit 10.1 to Registration Statement 333-27715* |
| 10.29(b) | Five-year Credit Agreement among the Company, the Lenders, and Chase Manhattan Bank, as Administrative Agent, dated March 4, 1997 filed as Exhibit 10.2 to Registration Statement 333-27715* |

| EXHIBIT NO. | DESCRIPTION |
| --- | --- |
| 10.29(c) | Second Amendment to PHH Credit Agreements (incorporated by reference to PHH Incorporated's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1997, Exhibit 10.1)* |
| 10.29(d) | Third Amendment to PHH Credit Agreements (incorporated by reference to PHH Incorporated's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1997, Exhibit 10.1)* |
| 10.30 | Indenture between the Company and Bank of New York, Trustee, dated as of May 1, 1992, filed as Exhibit 4(a)(iii) to Registration Statement 33-48125* |
| 10.31 | Indenture between the Company and First National Bank of Chicago, Trustee, dated as of March 1, 1993, filed as Exhibit 4(a)(i) to Registration Statement 33-59376* |
| 10.32 | Indenture between the Company and First National Bank of Chicago, Trustee, dated as of June 5, 1997, filed as Exhibit 4(a) to Registration Statement 333-27715* |
| 10.33 | Indenture between the Company and Bank of New York, Trustee dated as of June 5, 1997, filed as Exhibit 4(a)(11) to Registration Statement 333-27715* |
| 10.34 | Distribution Agreement between the Company and CS First Boston Corporation; Goldman, Sachs & Co.; Merrill Lynch & Co.; Merrill Lynch, Pierce, Fenner & Smith, Incorporated; and J.P. Morgan Securities, Inc. dated November 9, 1995, filed as Exhibit 1 to Registration Statement 33-63627* |
| 10.35 | Distribution Agreement between the Company and Credit Suisse; First Boston Corporation; Goldman Sachs & Co. and Merrill Lynch & Co., dated June 5, 1997 filed as Exhibit 1 to Registration Statement 333-27715* |
| 10.36 | Distribution Agreement, dated March 2, 1998, among PHH Corporation, Credit Suisse First Boston Corporation, Goldman Sachs & Co., Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith, Incorporated and J.P. Morgan Securities, Inc., filed as Exhibit 1 to Form 8-K dated March 3, 1998, File No. 1-07797* |
| 10.37 | Agreement and Plan of Merger dated as of May 1, 1996 among HFS Incorporated, CBC Acquisition Corp., Fremont Investors, Inc. and Coldwell Banker Corporation. (Incorporated by reference to HFS Incorporated's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1996, Exhibit 2.4)* |
| 10.38 | Agreement and Plan of Merger dated as of August 23, 1996 among HFS Incorporated, Avis Acquisition Corp., U.S. Trust Company of California, N.A. as Trustee of the Trust forming a part of the Avis, Inc. Employee Stock Ownership Plan and Avis, Inc. (Incorporated by reference to HFS Incorporated's Registration Statement on Form S-3 Registration No. 333-11029, Exhibit 2.1)* |
| 10.39 | Stock Purchase Agreement dated as of October 6, 1996 by and among HFS Incorporated, Ms. Christel DeHaan and Resort Condominiums International, Inc. (Incorporated by reference to HFS Incorporated's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1996, Exhibit 2.1)* |
| 10.40 | Registration Rights Agreement, dated as of November 12, 1996, by and between HFS Incorporated and Ms. Christel DeHaan (Incorporated by reference to HFS Incorporated's Registration Statement on Form S-3 (Registration No. 333-17371), Exhibit 2.2)* |
| 10.41 | Agreement and Plan of Merger dated as of November 10, 1996, by and among HFS Incorporated, PHH Corporation and Mercury Acquisition Corp. (Incorporated by reference to HFS Incorporated's Current Report on Form 8-K dated November 14, 1996, Exhibit 2.1)* |

| EXHIBIT NO. | DESCRIPTION |
|---|---|
| 10.42 | License Agreement dated as of September 18, 1989 amended and restated as of July 15, 1991 between Franchise System Holdings, Inc. and Ramada Franchise Systems, Inc. (Incorporated by reference to HFS Incorporated's Registration Statement on Form S-1 (Registration No. 33-51422), Exhibit No. 10.2)* |
| 10.43 | Restructuring Agreement dated as of July 15, 1991 by and among New World Development Co., Ltd., Ramada International Hotels & Resorts, Inc. Ramada Inc., Franchise System Holdings, Inc., HFS Incorporated and Ramada Franchise Systems, Inc. (Incorporated by reference to HFS Incorporated's Registration Statement on Form S-1 (Registration No. 33-51422), Exhibit No. 10.3)* |
| 10.44 | License Agreement dated as of November 1, 1991 between Franchise Systems Holdings, Inc. and Ramada Franchise Systems, Inc. (Incorporated by reference to HFS Incorporated's Registration Statement on Form S-1 (Registration No. 33-51422), Exhibit No. 10.4)* |
| 10.45 | Amendment to License Agreement, Restructuring Agreement and Certain Other Restructuring Documents dated as of November 1, 1991 by and among New World Development Co., Ltd., Ramada International Hotels & Resorts, Inc., Ramada Inc., Franchise System Holdings, Inc., HFS Incorporated and Ramada Franchise Systems, Inc. (Incorporated by reference to HFS Incorporated's Registration Statement on Form S-1 (Registration No. 33-51422), Exhibit No. 10.5)* |
| 10.46 | Master License Agreement dated July 30, 1997, among HFS Car Rental, Inc., Avis Rent A Car System, Inc. and Wizard Co. (incorporated by reference to HFS Incorporated Form 10-Q for the quarter ended June 30, 1997, Exhibit 10.1)* |
| 10.47 | HFS Incorporated's 1992 Incentive Stock Option Plan and Form of Stock Option Agreement. (Incorporated by reference to HFS Incorporated's Registration Statement on Form S-1 (Registration No. 33-51422), Exhibit No. 10.6)* |
| 10.48(a)* | Term Loan Agreement, dated as of May 29, 1998, among Cendant Corporation, as Borrower, the Lenders referred therein, Bank of America NT & SA, as Syndication Agent, Barclays Bank PLC, The Bank of Nova Scotia, Credit Lyonnais New York Branch, NationsBank, N.A., as Co-Documentation Agents, CIBC Inc., First Union National Bank, The Industrial Bank of Japan, Limited, New York Branch, as Managing Agents, Bank of Tokyo Mitsubishi Trust Company, Credit Suisse, First Boston, Fleet National Bank, The Sumitomo Bank, Limited, New York Branch, Banque Paribas, as Co-Agents and The Chase Manhattan Bank, as Administrative Agent (incorporated by reference to Cendant Corporation's Form 8-K dated June 4, 1998 (File No. 1-10308)). |
| 10.48(b) | Amendment, dated as of August 26, 1998, to the Term Loan Agreement among the Company and the financial institutions parties thereto. |
| 10.48(c) | Amendment, dated as of September 28, 1998, to the Term Loan Agreement among the Company and the financial institutions parties thereto. |
| 12 | Statement Re: Computation of Consolidated Ratio to Earnings to Combined Fixed Charges and Preferred Stock Dividends |
| 16.1 | Letter re: change in certifying accountant (Incorporated by reference to the Company's Form 8-K dated January 27, 1998)* |
| 16.2 | Letter re: change in certifying accountant of a significant subsidiary (Incorporated by reference to the Company's Form 8-K dated May 18, 1998)* |
| 18 | Letter regarding change in accounting principles |
| 21 | Subsidiaries of Registrant** |
| 23.1 | Consent of Deloitte & Touche LLP related to the financial statements of Cendant Corporation |

| EXHIBIT NO. | DESCRIPTION |
|---|---|
| 23.2 | Consent of KPMG Peat Marwick LLP relating to the financial statements of PHH Corporation |
| 23.3 | Consent of KPMG Peat Marwick LLP relating to the financial statements of Davidson & Associates, Inc. |
| 23.4 | Consent of PricewaterhouseCoopers LLP relating to the financial statements of Ideon Group, Inc. |
| 27 | Financial data schedule |

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* Incorporated by reference

** Previously filed

INDEX TO FINANCIAL STATEMENTS

# INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Cendant Corporation

We have audited the consolidated balance sheets of Cendant Corporation and subsidiaries (the "Company") as of December 31, 1997 and 1996, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. 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 did not audit the balance sheet of PHH Corporation (a consolidated subsidiary of Cendant Corporation) as of December 31, 1996, or the related statements of income, shareholders' equity, and cash flows of PHH Corporation for the years ended December 31, 1996 and January 31, 1996, which statements reflect total assets of $6.6 billion as of December 31, 1996, and net income of $87.7 million and $78.1 million for the years ended December 31, 1996 and January 31, 1996, respectively. Nor did we audit the statements of operations, stockholder's equity or cash flows of Ideon Group, Inc. (a consolidated subsidiary of Cendant Corporation) for the year ended December 31, 1995, which statements reflect a net loss of $49.4 million for the year ended December 31, 1995. Nor did we audit the statements of earnings, shareholders' equity or cash flows of Davidson & Associates, Inc. (a consolidated subsidiary of Cendant Corporation) for the year ended December 31, 1995, which statements reflect net income of $13.6 million for the year ended December 31, 1995. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for PHH Corporation, Ideon Group, Inc. and Davidson & Associates, Inc. for such periods, is based solely on the reports of such other auditors.

We conducted our audits in accordance with generally accepted auditing standards. 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 and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cendant Corporation and subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

As discussed in Note 3, the accompanying consolidated balance sheets as of December 31, 1997 and 1996, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1997 have been restated. Additionally, as discussed in Note 17 to the consolidated financial statements, the Company is involved in certain litigation related to the discovery of accounting irregularities in certain former CUC International Inc. business units.

As discussed in Notes 2 and 3, in 1997 the Company changed its method of recognizing revenue and membership solicitation costs for its membership businesses.

Deloitte & Touche LLP
Parsippany, New Jersey
September 28, 1998

# INDEPENDENT AUDITORS' REPORT

The Board of Directors
PHH Corporation

We have audited the consolidated balance sheet of PHH Corporation and subsidiaries as of December 31, 1996, and the related consolidated statements of income, shareholders' equity, and cash flows for the years ended December 31, 1996 and January 31, 1996, before the restatement related to the merger of Cendant Corporation's relocation business with the Company and reclassifications to conform to the presentation used by Cendant Corporation, not presented separately herein. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 (before restatement and reclassifications) referred to above present fairly, in all material respects, the financial position of PHH Corporation and subsidiaries as of December 31, 1996, and the results of their operations and their cash flows for the years ended December 31, 1996 and January 31, 1996, in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP
Baltimore, Maryland
April 30, 1997

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Davidson & Associates, Inc.

We have audited the consolidated statements of earnings, shareholders' equity and cash flows of Davidson & Associates, Inc. and subsidiaries for the year ended December 31, 1995 not presented seperately herein. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and the cash flows of Davidson & Associates, Inc. and subsidiaries for the year ended December 31, 1995, in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP
Long Beach, California
February 21, 1996

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and
Stockholders of Ideon Group, Inc.

In our opinion, the consolidated statements of operations, of cash flows and of changes in stockholders' equity of Ideon Group, Inc. (formerly known as SafeCard Services, Incorporated), and its subsidiaries (not presented separately herein), present fairly, in all material respects, the results of operations and cash flows of Ideon Group, Inc. and its subsidiaries for the year ended December 31, 1995, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above. We have not audited the consolidated financial statements of Ideon Group, Inc. for any period subsequent to December 31, 1995.

/s/ Price Waterhouse LLP
Tampa, Florida
February 2, 1996

CENDANT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN MILLIONS, EXCEPT PER SHARE DATA)

| | AS RESTATED (NOTE 3) | | |
|---|---|---|---|
| | YEAR ENDED DECEMBER 31, | | |
| | 1997 | 1996 | 1995 |
| REVENUES | | | |
| Membership and service fees -- net | $ 3,988.7 | $ 3,138.0 | $ 2,522.1 |
| Fleet leasing (net of depreciation and interest costs of $1,205.2, $1,132.4 and $1,089.0) | 59.5 | 56.7 | 52.1 |
| Other | 191.8 | 43.0 | 41.9 |
| Net revenues | 4,240.0 | 3,237.7 | 2,616.1 |
| EXPENSES | | | |
| Operating | 1,322.3 | 1,183.2 | 1,024.9 |
| Marketing and reservation | 1,031.8 | 910.8 | 743.6 |
| General and administrative | 636.2 | 341.0 | 283.3 |
| Depreciation and amortization | 237.7 | 145.5 | 100.4 |
| Interest -- net | 50.6 | 14.3 | 16.6 |
| Merger-related costs and other unusual charges | 704.1 | 109.4 | 97.0 |
| Total expenses | 3,982.7 | 2,704.2 | 2,265.8 |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, EXTRAORDINARY GAIN AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE | 257.3 | 533.5 | 350.3 |
| Provision for income taxes | 191.0 | 220.2 | 143.2 |
| INCOME FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY GAIN AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE | 66.3 | 313.3 | 207.1 |
| Income (loss) from discontinued operations, net of taxes (Note 6) | (26.8) | 16.7 | 22.7 |
| INCOME BEFORE EXTRAORDINARY GAIN AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE | 39.5 | 330.0 | 229.8 |
| Extraordinary gain, net of tax (Note 22) | 26.4 | -- | -- |
| INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE | 65.9 | 330.0 | 229.8 |
| Cumulative effect of accounting change, net of tax (Note 3) | (283.1) | -- | -- |
| Net income (loss) | $ (217.2) | $ 330.0 | $ 229.8 |
| INCOME (LOSS) PER SHARE | | | |
| BASIC | | | |
| Income from continuing operations before extaordinary gain and cumulative effect of accounting change | $ 0.08 | $ 0.41 | $ 0.30 |
| Income (loss) from discontinued operations, net | (0.03) | 0.03 | 0.03 |
| Extraordinary gain, net | 0.03 | -- | -- |
| Cumulative effect of accounting change, net | (0.35) | -- | -- |
| NET INCOME (LOSS) | $ (0.27) | $ 0.44 | $ 0.33 |
| DILUTED | | | |
| Income from continuing operations before extraordinary gain and cumulative effect of accounting change | $ 0.08 | $ 0.39 | $ 0.28 |
| Income (loss) from discontinued operations, net | (0.03) | 0.02 | 0.03 |
| Extraordinary gain, net | 0.03 | -- | -- |
| Cumulative effect of accounting change, net | (0.35) | -- | -- |
| NET INCOME (LOSS) | $ (0.27) | $ 0.41 | $ 0.31 |

See accompanying notes to consolidated financial statements.

CENDANT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN MILLIONS, EXCEPT SHARE DATA)

| | AS RESTATED (NOTE 3) | |
|---|---|---|
| | DECEMBER 31, | |
| | 1997 | 1996 |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 67.0 | $ 448.1 |
| Receivables, (net of allowance for doubtful accounts of $61.5 and $61.0) | 1,170.7 | 994.1 |
| Deferred membership acquisition costs | -- | 269.9 |
| Deferred income taxes | 311.9 | 136.9 |
| Other current assets | 767.2 | 525.0 |
| Net assets of discontinued operations | 273.3 | 120.1 |
| Total current assets | 2,590.1 | 2,494.1 |
| Franchise agreements -- net | 890.3 | 995.9 |
| Goodwill -- net | 2,148.2 | 2,080.3 |
| Other intangibles -- net | 897.5 | 634.5 |
| Other assets | 1,103.6 | 828.5 |
| Total assets exclusive of assets under programs | 7,629.7 | 7,033.3 |
| Assets under management and mortgage programs | | |
| Net investment in leases and leased vehicles | 3,659.1 | 3,418.7 |
| Relocation receivables | 775.3 | 773.3 |
| Mortgage loans held for sale | 1,636.3 | 1,248.3 |
| Mortgage servicing rights | 373.0 | 288.9 |
| | 6,443.7 | 5,729.2 |
| TOTAL ASSETS | $ 14,073.4 | $ 12,762.5 |

See accompanying notes to consolidated financial statements.

CENDANT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN MILLIONS, EXCEPT SHARE DATA)

| | AS RESTATED (NOTE 3) | |
|---|---|---|
| | DECEMBER 31, | |
| | 1997 | 1996 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable and other current liabilities | $ 1,492.4 | $ 1,602.9 |
| Deferred income | 1,042.0 | 573.0 |
| Total current liabilities | 2,534.4 | 2,175.9 |
| Deferred income | 292.1 | 327.9 |
| Long-term debt | 1,246.0 | 780.8 |
| Deferred income taxes | 70.9 | 62.4 |
| Other noncurrent liabilities | 110.3 | 88.0 |
| Total liabilities exclusive of liabilities under programs | 4,253.7 | 3,435.0 |
| Liabilities under management and mortgage programs | | |
| Debt | 5,602.6 | 5,089.9 |
| Deferred income taxes | 295.7 | 281.9 |
| Commitments and contingencies (Note 17) | | |
| Shareholders' equity | | |
| Preferred stock, $.01 par value -- authorized 10 million shares; none issued and outstanding | -- | -- |
| Common stock, $.01 par value -- authorized 2 billion shares; issued 838,333,800 and 807,654,321 shares | 8.4 | 8.1 |
| Additional paid-in capital | 3,088.4 | 2,871.2 |
| Retained earnings | 940.6 | 1,186.7 |
| Net unrealized gain on marketable securities | 0.2 | 4.4 |
| Currency translation adjustment | (38.4) | (10.8) |
| Restricted stock, deferred compensation | (3.4) | (28.2) |
| Treasury stock, at cost, 6,545,362 and 6,911,757 shares | (74.4) | (75.7) |
| Total shareholders' equity | 3,921.4 | 3,955.7 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ 14,073.4 | $ 12,762.5 |

See accompanying notes to consolidated financial statements.

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

| | AS RESTATED (NOTE 3) | | | |
|---|---|---|---|---|
| | COMMON STOCK | | ADDITIONAL PAID-IN | RETAINED |
| | SHARES | AMOUNT | CAPITAL | EARNINGS |
| BALANCE, JANUARY 1, 1995 | 687.7 | $ 6.9 | $ 711.5 | $ 718.7 |
| Issuance of common stock | 21.1 | .3 | 186.8 | -- |
| Exercise of stock options by payment of cash and common stock | 12.5 | .1 | 67.1 | -- |
| Tax benefit from exercise of stock options | -- | -- | 54.8 | -- |
| Amortization of ESOP obligation | -- | -- | 3.0 | -- |
| Exercise of stock warrants | 2.4 | -- | 14.9 | -- |
| Cash dividends declared and other equity distributions | -- | -- | .2 | (43.4) |
| Conversion of convertible notes | 2.1 | -- | 13.7 | -- |
| Net unrealized loss on marketable securities | -- | -- | -- | -- |
| Purchase of common stock | -- | -- | -- | -- |
| Retirement of treasury stock | (.6) | -- | (10.1) | -- |
| Currency translation adjustment | -- | -- | -- | -- |
| Net income | -- | -- | -- | 229.8 |
| BALANCE, DECEMBER 31, 1995 | 725.2 | $ 7.3 | $ 1,041.9 | $ 905.1 |

| | AS RESTATED (NOTE 3) | | | |
|---|---|---|---|---|
| | NET UNREALIZED LOSS ON MARKETABLE SECURITIES | CURRENCY TRANSLATION ADJUSTMENT | RESTRICTED STOCK, DEFERRED COMPENSATION | TREASURY STOCK |
| BALANCE, JANUARY 1, 1995 | $ (.7) | $ (20.8) | $ -- | $ (10.5) |
| Issuance of common stock | -- | -- | -- | -- |
| Exercise of stock options by payment of cash and common stock | -- | -- | -- | (20.5) |
| Tax benefit from exercise of stock options | -- | -- | -- | -- |
| Amortization of ESOP obligation | -- | -- | -- | -- |
| Exercise of stock warrants | -- | -- | -- | -- |
| Cash dividends declared and other equity distributions | -- | -- | -- | -- |
| Conversion of convertible notes | -- | -- | -- | -- |
| Net unrealized loss on marketable securities | (1.4) | -- | -- | -- |
| Purchase of common stock | -- | -- | -- | (10.1) |
| Retirement of treasury stock | -- | -- | -- | 10.1 |
| Currency translation adjustment | -- | (2.2) | -- | -- |
| Net income | -- | -- | -- | -- |
| BALANCE, DECEMBER 31, 1995 | $ (2.1) | $ (23.0) | $ -- | $ (31.0) |

See accompanying notes to consolidated financial statements.

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

| | AS RESTATED (NOTE 3) | | | |
|---|---|---|---|---|
| | COMMON STOCK | | ADDITIONAL PAID-IN | RETAINED |
| | SHARES | AMOUNT | CAPITAL | EARNINGS |
| BALANCE, JANUARY 1, 1996 | 725.2 | $ 7.3 | $ 1,041.9 | $ 905.1 |
| Issuance of common stock | 63.3 | .6 | 1,627.9 | -- |
| Exercise of stock options by payment of cash and common stock | 14.0 | .1 | 74.6 | -- |
| Restricted stock issuance | 1.4 | -- | 30.5 | -- |
| Amortization of restricted stock | -- | -- | -- | -- |
| Tax benefit from exercise of stock options | -- | -- | 78.9 | -- |
| Cash dividends declared and other equity distributions | -- | -- | -- | (41.3) |
| Adjustment to reflect change in fiscal years pooled entities | -- | -- | (.6) | (7.1) |
| Conversion of convertible notes | 3.8 | .1 | 18.0 | -- |
| Net unrealized gain on marketable securities | -- | -- | -- | -- |
| Purchase of common stock | -- | -- | -- | -- |
| Currency translation adjustment | -- | -- | -- | -- |
| Net income | -- | -- | -- | 330.0 |
| BALANCE, DECEMBER 31, 1996 | 807.7 | $ 8.1 | $ 2,871.2 | $ 1,186.7 |

| | AS RESTATED (NOTE 3) | | | |
|---|---|---|---|---|
| | NET UNREALIZED GAIN (LOSS) ON MARKETABLE SECURITIES | CURRENCY TRANSLATION ADJUSTMENT | RESTRICTED STOCK, DEFERRED COMPENSATION | TREASURY STOCK |
| BALANCE, JANUARY 1, 1996 | $ (2.1) | $ (23.0) | $ -- | $ (31.0) |
| Issuance of common stock | -- | -- | -- | -- |
| Exercise of stock options by payment of cash and common stock | -- | -- | -- | (25.5) |
| Restricted stock issuance | -- | -- | (30.5) | -- |
| Amortization of restricted stock | -- | -- | 2.3 | -- |
| Tax benefit from exercise of stock options | -- | -- | -- | -- |
| Cash dividends declared and other equity distributions | -- | -- | -- | -- |
| Adjustment to reflect change in fiscal years pooled entities | -- | 2.4 | -- | -- |
| Conversion of convertible notes | -- | -- | -- | -- |
| Net unrealized gain on marketable securities | 6.5 | -- | -- | -- |
| Purchase of common stock | -- | -- | -- | (19.2) |
| Currency translation adjustment | -- | 9.8 | -- | -- |
| Net income | -- | -- | -- | -- |
| BALANCE, DECEMBER 31, 1996 | $ 4.4 | $ (10.8) | $ (28.2) | $ (75.7) |

See accompanying notes to consolidated financial statements.

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

| | AS RESTATED (NOTE 3) | | | |
|---|---|---|---|---|
| | COMMON STOCK | | ADDITIONAL PAID-IN | RETAINED |
| | SHARES | AMOUNT | CAPITAL | EARNINGS |
| BALANCE, JANUARY 1, 1997 | 807.7 | $ 8.1 | $ 2,871.2 | $ 1,186.7 |
| Issuance of common stock | 6.2 | -- | 46.3 | -- |
| Exercise of stock options by payment of cash and common stock | 11.4 | .1 | 132.8 | -- |
| Restricted stock issuance | .2 | -- | 3.7 | -- |
| Amortization of restricted stock | -- | -- | -- | -- |
| Tax benefit from exercise of stock options | -- | -- | 93.5 | -- |
| Cash dividends declared | -- | -- | -- | (6.6) |
| Adjustment to reflect taxable poolings | -- | -- | 41.2 | -- |
| Adjustment to reflect change in CUC fiscal year | -- | -- | -- | (22.3) |
| Post-closing payment made in connection with shares issued to acquire Avis Inc. | -- | -- | (60.8) | -- |
| Conversion of convertible notes | 20.2 | .2 | 150.9 | -- |
| Net unrealized loss on marketable securities | -- | -- | -- | -- |
| Purchase of common stock | -- | -- | -- | -- |
| Retirement of treasury stock | (7.4) | -- | (190.4) | -- |
| Currency translation adjustment | -- | -- | -- | -- |
| Net loss | -- | -- | -- | (217.2) |
| BALANCE, DECEMBER 31, 1997 | 838.3 | $ 8.4 | $ 3,088.4 | $ 940.6 |

| | AS RESTATED (NOTE 3) | | | |
|---|---|---|---|---|
| | NET UNREALIZED GAIN (LOSS) ON MARKETABLE SECURITIES | CURRENCY TRANSLATION ADJUSTMENT | RESTRICTED STOCK, DEFERRED COMPENSATION | TREASURY STOCK |
| BALANCE, JANUARY 1, 1997 | $ 4.4 | $ (10.8) | $ (28.2) | $ (75.7) |
| Issuance of common stock | -- | -- | -- | -- |
| Exercise of stock options by payment of cash and common stock | -- | -- | -- | (17.8) |
| Restricted stock issuance | -- | -- | (3.7) | -- |
| Amortization of restricted stock | -- | -- | 28.5 | -- |
| Tax benefit from exercise of stock options | -- | -- | -- | -- |
| Cash dividends declared | -- | -- | -- | -- |
| Adjustment to reflect taxable poolings | -- | -- | -- | -- |
| Adjustment to reflect change in CUC fiscal year | -- | -- | -- | -- |
| Post-closing payment made in connection with shares issued to acquire Avis Inc. | -- | -- | -- | -- |
| Conversion of convertible notes | -- | -- | -- | -- |
| Net unrealized loss on marketable securities | (4.2) | -- | -- | -- |
| Purchase of common stock | -- | -- | -- | (171.3) |
| Retirement of treasury stock | -- | -- | -- | 190.4 |
| Currency translation adjustment | -- | (27.6) | -- | -- |
| Net loss | -- | -- | -- | -- |
| BALANCE, DECEMBER 31, 1997 | $ 0.2 | $ (38.4) | $ (3.4) | $ (74.4) |

See accompanying notes to consolidated financial statements.

CENDANT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN MILLIONS)

| | AS RESTATED (NOTE 3) | | |
|---|---|---|---|
| | YEAR ENDED DECEMBER 31, | | |
| | 1997 | 1996 | 1995 |
| OPERATING ACTIVITIES | | | |
| Net income (loss) | $ (217.2) | $ 330.0 | $ 229.8 |
| (Income) loss from discontinued operations, net of taxes | 26.8 | (16.7) | (22.7) |
| Extraordinary gain on sale of subsidiary, net of tax | (26.4) | -- | -- |
| Cumulative effect of accounting change, net of tax | 283.1 | -- | -- |
| Merger-related costs and other unusual charges | 704.1 | 109.4 | 97.0 |
| Merger-related payments | (317.7) | (61.3) | (36.2) |
| Adjustments to reconcile net income to net cash provided by continuing operations | | | |
| Depreciation and amortization | 237.7 | 145.5 | 100.4 |
| Membership acquisition costs | (26.0) | (512.1) | (442.9) |
| Amortization of membership costs | -- | 492.3 | 390.2 |
| Effect of changes in fiscal years of pooled entities | (22.3) | (7.1) | -- |
| Deferred income taxes | (23.8) | 68.8 | 54.2 |
| Change in operating assets and liabilities from continuing operations: | | | |
| Receivables | (95.6) | (122.1) | (82.6) |
| Accounts payable and other current liabilities | (87.0) | 47.7 | 122.4 |
| Deferred income | 134.0 | 43.9 | 12.0 |
| Other | (90.6) | 58.8 | (98.7) |
| NET CASH PROVIDED BY CONTINUING OPERATIONS EXCLUSIVE OF MANAGEMENT AND MORTGAGE PROGRAMS | 479.1 | 577.1 | 322.9 |
| Management and mortgage programs: | | | |
| Depreciation and amortization | 1,121.9 | 1,021.8 | 960.9 |
| Mortgage loans held for sale | (388.0) | (73.3) | (139.5) |
| | 733.9 | 948.5 | 821.4 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES OF CONTINUING OPERATIONS | 1,213.0 | 1,525.6 | 1,144.3 |
| INVESTING ACTIVITIES | | | |
| Property and equipment additions | (154.5) | (101.2) | (100.4) |
| Proceeds from sales of marketable securities | 506.1 | 72.4 | 164.2 |
| Purchases of marketable securities | (458.1) | (125.6) | (51.3) |
| Loans and investments | (272.5) | (12.7) | (33.8) |
| Net assets acquired, exclusive of cash acquired and acquisition-related payments | (568.2) | (1,608.6) | (145.8) |
| Net proceeds from sale of subsidiary | 224.0 | -- | -- |
| Funding of grantor trusts | -- | (89.9) | -- |
| Other | (108.7) | 33.7 | (23.4) |
| NET CASH USED IN INVESTING ACTIVITIES OF CONTINUING OPERATIONS EXCLUSIVE OF MANAGEMENT AND MORTGAGE PROGRAMS | (831.9) | (1,831.9) | (190.5) |
| Management and mortgage programs: | | | |
| Investment in leases and leased vehicles | (2,068.8) | (1,901.2) | (2,008.5) |
| Payments received on investment in leases and leased vehicles | 589.0 | 595.9 | 576.6 |
| Proceeds from sales and transfers of leases and leased vehicles to third parties | 186.4 | 162.8 | 109.8 |
| Equity advances on homes under management | (6,844.5) | (4,308.0) | (6,238.5) |
| Repayment of advances on homes under management | 6,862.6 | 4,348.9 | 6,070.5 |
| Additions to originated mortgage servicing rights | (270.4) | (164.4) | (130.1) |
| Proceeds from sales of mortgage servicing rights | 49.0 | 7.1 | 21.7 |
| | (1,496.7) | (1,258.9) | (1,598.5) |
| NET CASH USED IN INVESTING ACTIVITIES OF CONTINUING OPERATIONS | (2,328.6) | (3,090.8) | (1,789.0) |

See accompanying notes to consolidated financial statements.

CENDANT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(IN MILLIONS)

| | AS RESTATED (NOTE 3) | | |
|---|---|---|---|
| | YEAR ENDED DECEMBER 31, | | |
| | 1997 | 1996 | 1995 |
| FINANCING ACTIVITIES | | | |
| Proceeds from borrowings | $ 66.7 | $ 459.1 | $ 6.0 |
| Principal payments on borrowings | (174.0) | (3.5) | (50.0) |
| Issuance of convertible debt | 543.2 | -- | -- |
| Issuance of common stock | 132.2 | 1,223.8 | 100.2 |
| Purchases of common stock | (171.3) | (19.2) | (10.1) |
| Payments of dividends and other equity distributions by pooled entities | (6.6) | (41.3) | (39.1) |
| Other | -- | (80.0) | 15.0 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES OF CONTINUING OPERATIONS EXCLUSIVE OF MANAGEMENT AND MORTGAGE PROGRAM | 390.2 | 1,538.9 | 22.0 |
| Management and mortgage programs: | | | |
| Proceeds from debt issuance or borrowings | 2,816.3 | 1,656.0 | 1,858.8 |
| Principal payments on borrowings | (1,692.9) | (1,645.9) | (1,237.0) |
| Net change in short-term borrowings | (613.5) | 231.8 | 17.4 |
| | 509.9 | 241.9 | 639.2 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES OF CONTINUING OPERATIONS | 900.1 | 1,780.8 | 661.2 |
| Effect of changes in exchange rates on cash and cash equivalents | 15.4 | (46.2) | 6.5 |
| Cash provided by (used in) discontinued operations | (181.0) | 53.6 | (1.8) |
| Net increase (decrease) in cash and cash equivalents | (381.1) | 223.0 | 21.2 |
| Cash and cash equivalents, beginning of period | 448.1 | 225.1 | 203.9 |
| Cash and cash equivalents, end of period | $ 67.0 | $ 448.1 | $ 225.1 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | | |
| Cash paid during the year for: | | | |
| Interest | $ 374.9 | $ 291.7 | $ 284.9 |
| Taxes | $ 264.5 | $ 89.4 | $ 90.7 |

See accompanying notes to consolidated financial statements.

1. BASIS OF PRESENTATION

Cendant Corporation, together with its subsidiaries and its joint ventures ("Cendant" or the "Company") is a leading global provider of consumer and business services. The Company was created through the merger (the "Cendant Merger") of HFS Incorporated ("HFS") and CUC International Inc. ("CUC") on December 17, 1997 with the merged company being renamed Cendant Corporation. The Company provides all the services formerly provided by each of HFS and CUC including travel services, real estate services and membership-based consumer services. See Note 24 for a description of the Company's industry segments and the services provided within its underlying businesses.

On April 15, 1998, as a result of the discovery of accounting irregularities in the former CUC business units, the Audit Committee of the Company's Board of Directors initiated an investigation into such matters. The Audit Committee's investigation has since been completed and, as a result of its findings, the Company has restated its previously reported financial results for 1995 through 1997. The accompanying consolidated financial statements and footnotes thereto for the years ended December 31, 1997, 1996 and 1995 set forth herein incorporates all relevant information obtained from the investigation, and reflects the correction of accounting policies which were changed as a result of the findings. Accordingly, the restated consolidated financial statements presented herein are the Company's primary historical financial statements for the periods presented. See Note 3 for a reconciliation of the Company's financial position and results of operations from financial statements previously filed prior to restatement, to the restated financial statements, as presented in this Form 10-K/A.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION
The accompanying consolidated financial statements include the accounts and transactions of the Company together with its wholly owned and majority owned subsidiaries. The accompanying consolidated financial statements have been restated for the business combinations accounted for as poolings of interests (see Note 5) as if such combined companies had operated as one entity since inception. All intercompany balances and transactions have been eliminated in consolidation.

USE OF ESTIMATES
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates.

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

PROPERTY AND EQUIPMENT
Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation is computed by the straight-line method over the estimated useful lives of the related assets.

FRANCHISE AGREEMENTS
Franchise agreements are recorded at their estimated fair values upon acquisition and are amortized on a straight-line basis over the estimated periods to be benefited, ranging from 12 to 40 years. At December 31, 1997 and 1996, accumulated amortization amounted to $125.3 million and $87.9 million, respectively.

GOODWILL

Goodwill, which represents the excess of cost over fair value of net assets acquired is being amortized on a straight-line basis over the estimated useful lives, ranging from 5 to 40 years. At December 31, 1997 and 1996, accumulated amortization amounted to $177.2 million and $141.4 million, respectively.

ASSET IMPAIRMENT

The Company periodically evaluates the recoverability of its long-lived assets, comparing the respective carrying values 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. The recoverability of goodwill and franchise agreements are evaluated on a separate basis for each acquisition and each respective franchise brand. Management believes that as of December 31, 1997, the carrying values and remaining lives of goodwill and franchise agreements are appropriate.

CORE BUSINESS OPERATIONS AND REVENUE RECOGNITION

Franchising. Franchise revenue principally consists of royalty, marketing and reservation fees, which are based on a percentage of franchisee revenue. Royalty, marketing and reservation fees are accrued as the underlying franchisee revenue is earned. Franchise revenue also includes initial franchise fees which are recorded as revenue when the lodging property, car rental location or real estate brokerage office opens as a franchised unit.

Timeshare. Timeshare exchange fees are recognized as revenue when the exchange request has been confirmed to the subscriber. Timeshare subscription revenue is deferred upon receipt and recorded as revenue as the contractual services (delivery of publications) are provided to subscribers.

Fleet management. Revenues from fleet management services other than leasing are recognized over the period in which services are provided and the related expenses are incurred. The Company records the cost of leased vehicles as an "investment in leases and leased vehicles". Amounts charged to lessees for interest on the unrecovered investment are credited to income on a level yield method which approximates the contractual terms.

Relocation. Relocation services provided by the Company include facilitating the purchase and resale of the transferee's residence, providing equity advances on the transferee's residence and home management services. The 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 of title. Transferring employees are provided equity on their home based on an appraised value determined by independent appraisers, after deducting any outstanding mortgages. 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.

While homes are held for resale, the amount funded for such homes carry an interest charge computed at a floating rate based on various indices. Direct costs of managing the home during the period the home is held for resale, including property taxes and repairs and maintenance are generally borne by the client. All such costs are generally guaranteed by the client corporation. The client normally advances funds to cover a portion of such carrying costs. When the home is sold, a settlement is made with the client corporation netting actual costs with any advanced funding.

Revenues and related costs associated with the purchase and resale of a residence are recognized over the period in which services are provided. Relocation services revenue is recorded net of costs reimbursed by client corporations and interest expenses incurred to fund the purchase of a transferee's residence. Under the terms of contracts with clients, the Company is generally protected against losses from changes in real estate market conditions. The Company also offers fee-based programs such as home marketing assistance, household goods moves, destination services, and property dispositions for financial institutions and government agencies. Revenues from these fee-based services are taken into income over the periods in which the services are provided and the related expenses are incurred.

Mortgage. Loan origination fees, commitment fees paid in connection with the sale of loans, and direct loan origination costs associated with loans held for resale, are deferred until the loan is sold. Fees received for servicing loans owned by investors are based on the difference between the weighted average yield received on the mortgages and the amount paid to the investor, or on a stipulated percentage of the outstanding monthly principal balance on such loans. Servicing fees are credited to income when received. Costs associated with loan servicing are charged to expense as incurred.

Sales of mortgage loans are generally recorded on the date a loan is delivered to an investor. Sales of mortgage securities are recorded on the settlement date. The Company acquires mortgage-servicing rights by originating or purchasing mortgage loans and selling those loans with servicing retained, or it may purchase mortgage-servicing rights separately. The carrying value of mortgage-servicing rights is amortized over the estimated life of the related loan portfolio. Such amortization is recorded as a reduction of loan servicing fees in the consolidated statements of operations. Gains or losses on the sale of mortgage servicing rights are recognized when title and all risks and rewards have irrevocably passed to the buyer and there are no significant unresolved contingencies. 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. Such gains and losses are also increased or decreased by the amount of deferred mortgage-servicing fees recorded.

Lifestyle product sales. Product sale revenue primarily represents the sale of entertainment books, gift wrapping and other products to schools, churches and other charitable organizations on a consignment basis. Revenue is recognized when the consignee generates a sale to the ultimate consumer.

Insurance. Insurance premiums received for the sale of accidental death and dismemberment insurance ("AD&D") are recognized upon execution of underlying agreements with consumers. The Company transfers the risk of insurance, administration of claims and balance of premiums to third party insurance companies. Also, the Company recognizes its percentage share of the excess of premiums transferred over claims costs and insurance company administrative retention, based on actual and actuarially determined future claims costs.

Membership. Prospective club members receive a free three month trial membership for which they are under no obligation to commit to purchase nor pay for such membership. Memberships are generally billed to credit cards upon expiration of the trial period. Memberships are cancellable for a full refund of the membership fee during the entire membership period, generally 1 year. Membership revenue is recognized upon the expiration of the membership period (See ACCOUNTING CHANGE FOR MEMBERSHIPS).

ACCOUNTING CHANGE FOR MEMBERSHIPS

Prior to 1997, the Company recorded deferred membership income, net of estimated cancellations, at the time members were billed (upon expiration of the free trial period), which was recognized as revenue ratably over the membership term and modified periodically based on actual cancellation experience. In addition, membership acquisition and renewal costs, which related primarily to membership solicitations were capitalized as direct response advertising costs due to the Company's ability to demonstrate that the direct response advertising resulted in future economic benefits. Such costs were amortized on a straight-line basis as revenues were recognized (over the average membership period). The Company believed that such accounting policies were appropriate and consistent with industry practice.

In August 1998, in connection with the Company's cooperation with the Securities and Exchange Commission ("SEC") investigation of accounting irregularities discovered in the former CUC business units, the SEC concluded that when membership fees are fully refundable during the entire membership period, membership revenue should be recognized at the end of the membership period upon the expiration of the refund offer. The SEC Staff further concluded that non-refundable solicitation costs should be expensed as incurred since such costs are not recoverable if membership fees are refunded.

The Company agreed to adopt such accounting policies effective January 1, 1997 and recorded a cumulative adjustment on such date for the cumulative impact of the accounting change (see Note 3--Restatement--Accounting Change).

ADVERTISING EXPENSES

The Company formerly expensed all advertising costs, other than direct response advertising costs, in the period incurred. As a result of the change in accounting for memberships (see Accounting change for memberships), the Company's policy is to expense all advertising costs in the period incurred. Advertising expenses for the years ended December 31, 1997, 1996 and 1995 were $898.2 million, $805.6 million and $653.9 million, respectively.

INCOME TAXES

The provision for income taxes includes deferred income taxes resulting from items reported in different periods for income tax and financial statement purposes. Deferred tax assets and liabilities represent the expected future tax consequences of the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The effects of changes in tax rates on deferred tax assets and liabilities are recognized in the period that includes the enactment date. No provision has been made for U.S. income taxes on approximately $199.6 million of cumulative undistributed earnings of foreign subsidiaries at December 31, 1997 since it is the present intention of management to reinvest the undistributed earnings indefinitely in foreign operations. The determination of unrecognized deferred U.S. tax liability for unremitted earnings is not practicable.

TRANSLATION OF FOREIGN CURRENCIES

Assets and liabilities of foreign subsidiaries are translated at the exchange rates as of the balance sheet dates, equity accounts are translated at historical exchange rates and revenues, expenses and cash flows are translated at the average exchange rates for the periods presented. Translation gains and losses are included as a component of shareholders' equity.

NEW ACCOUNTING STANDARD

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities" for fiscal years beginning after June 15, 1999. SFAS No. 133 requires the recognition of all derivatives in the consolidated balance sheet as either assets or liabilities measured at fair value. The Company will adopt SFAS No. 133 effective for the 2000 calendar year end. The Company has not yet determined the impact SFAS No. 133 will have on its financial position or results of operations when such statement is adopted.

3. RESTATEMENT

As publicly announced on April 15, 1998, the Company discovered accounting irregularities in certain business units of CUC. The Audit Committee of the Company's Board of Directors initiated an investigation into such matters (See Note 17). As a result of the findings of the Audit Committee investigation and Company investigation, the Company has restated previously reported annual results including the 1997, 1996 and 1995 financial information set forth herein. The 1997 annual results have also been restated for a change in accounting, effective January 1, 1997, related to revenue and expense recognition for memberships (see "Accounting Change").

While management has made all adjustments considered necessary as a result of the investigation into accounting irregularities and the preparation and audit of the restated financial statements for 1997, 1996 and 1995, there can be no assurances that additional adjustments will not be required as a result of the SEC investigation.

The following statements of operations and balance sheets reconcile previously reported and restated financial information.

STATEMENT OF OPERATIONS
(IN MILLIONS, EXCEPT PER SHARE DATA)

| | YEAR ENDED DECEMBER 31, 1997 | |
|---|---|---|
| | AS PREVIOUSLY REPORTED | ACCOUNTING ADJUSTMENTS FOR ERRORS, IRREGULARITIES, AND ACCOUNTING CHANGE |
| Net revenues | $ 5,314.7 | $ (432.5) |
| Expenses | | |
| Operating | 1,555.5 | 115.9 |
| Marketing and reservation | 1,266.3 | (114.2) |
| General and administrative | 727.2 | 7.4 |
| Depreciation and amortization | 256.8 | 16.3 |
| Interest-net | 66.3 | (0.2) |
| Merger-related costs and other unusual charges | 1,147.9 | (409.9) |
| Total expenses | 5,020.0 | (384.7) |
| Income from continuing operations before income taxes, extraordinary gain and cumulative effect of accounting change | 294.7 | (47.8) |
| Provision for income taxes | 239.3 | (47.1) |
| Income from continuing operations before extraordinary gain and cumulative effect of accounting change | 55.4 | (0.7) |
| Loss from discontinued operations, net of taxes | -- | -- |
| Income before extraordinary gain and cumulative effect of accounting change | 55.4 | (0.7) |
| Extraordinary gain, net of tax | -- | 11.2 |
| Income before cumulative effect of accounting change | 55.4 | 10.5 |
| Cumulative effect of accounting change, net of tax | -- | (283.1) |
| Net income (loss) | $ 55.4 | $ (272.6) |
| INCOME (LOSS) PER SHARE | | |
| BASIC | | |
| Income from continuing operations before extraordinary gain and cumulative effect of accounting change | $ 0.07 | |
| Loss from discontinued operations, net | -- | |
| Extraordinary gain, net | -- | |
| Cumulative effect of accounting change, net | -- | |
| Net income (loss) | $ 0.07 | |
| DILUTED | | |
| Income from continuing operations before extraordinary gain and cumulative effect of accounting change | $ 0.06 | |
| Loss from discontinued operations, net | -- | |
| Extraordinary gain, net | -- | |
| Cumulative effect of accounting change, net | -- | |
| Net income (loss) | $ 0.06 | |
| WEIGHTED AVERAGE SHARES | | |
| Basic | 811.2 | |
| Diluted | 851.7 | |

| | YEAR ENDED DECEMBER 31, 1997 | | |
|---|---|---|---|
| | RESTATED BEFORE DISCONTINUED OPERATIONS | RECLASSIFICATION FOR DISCONTINUED OPERATIONS | AS RESTATED |
| Net revenues | $ 4,882.2 | $ (642.2) | $ 4,240.0 |
| Expenses | | | |
| Operating | 1,671.4 | (349.1) | 1,322.3 |
| Marketing and reservation | 1,152.1 | (120.3) | 1,031.8 |
| General and administrative | 734.6 | (98.4) | 636.2 |
| Depreciation and amortization | 273.1 | (35.4) | 237.7 |
| Interest-net | 66.1 | (15.5) | 50.6 |

| | | | |
|---|---|---|---|
| Merger-related costs and other unusual charges | 738.0 | (33.9) | 704.1 |
| Total expenses | 4,635.3 | (652.6) | 3,982.7 |
| Income from continuing operations before income taxes, extraordinary gain and cumulative effect of accounting change | 246.9 | 10.4 | 257.3 |
| Provision for income taxes | 192.2 | (1.2) | 191.0 |
| Income from continuing operations before extraordinary gain and cumulative effect of accounting change | 54.7 | 11.6 | 66.3 |
| Loss from discontinued operations, net of taxes | -- | (26.8) | (26.8) |
| Income before extraordinary gain and cumulative effect of accounting change | 54.7 | (15.2) | 39.5 |
| Extraordinary gain, net of tax | 11.2 | 15.2 | 26.4 |
| Income before cumulative effect of accounting change | 65.9 | -- | 65.9 |
| Cumulative effect of accounting change, net of tax | (283.1) | -- | (283.1) |
| Net income (loss) | $ (217.2) | $ -- | $ (217.2) |
| INCOME (LOSS) PER SHARE | | | |
| BASIC | | | |
| Income from continuing operations before extraordinary gain and cumulative effect of accounting change | | | $ 0.08 |
| Loss from discontinued operations, net | | | (0.03) |
| Extraordinary gain, net | | | 0.03 |
| Cumulative effect of accounting change, net | | | (0.35) |
| Net income (loss) | | | $ (0.27) |
| DILUTED | | | |
| Income from continuing operations before extraordinary gain and cumulative effect of accounting change | | | $ 0.08 |
| Loss from discontinued operations, net | | | (0.03) |
| Extraordinary gain, net | | | 0.03 |
| Cumulative effect of accounting change, net | | | (0.35) |
| Net income (loss) | | | $ (0.27) |
| WEIGHTED AVERAGE SHARES | | | |
| Basic | | | 811.2 |
| Diluted | | | 851.7 |

BALANCE SHEET
(IN MILLIONS)

| | AT DECEMBER 31, 1997 | | | | |
|---|---|---|---|---|---|
| | AS PREVIOUSLY REPORTED | ACCOUNTING ADJUSTMENTS FOR ERRORS, IRREGULARITIES AND ACCOUNTING CHANGE | RESTATED BEFORE DISCONTINUED OPERATIONS | RECLASSIFICATION FOR DISCONTINUED OPERATIONS | AS RESTATED |
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | $ 149.5 | $ (64.0) | $ 85.5 | $ (18.5) | $ 67.0 |
| Receivables, net | 1,648.8 | (309.8) | 1,339.0 | (168.3) | 1,170.7 |
| Deferred membership acquisition costs | 424.5 | (424.5) | -- | -- | -- |
| Net assets of discontinued operations | -- | -- | -- | 273.3 | 273.3 |
| Other assets | 777.0 | 383.0 | 1,160.0 | (80.9) | 1,079.1 |
| Total current assets | 2,999.8 | (415.3) | 2,584.5 | 5.6 | 2,590.1 |
| Goodwill -- net | 2,467.0 | (95.0) | 2,372.0 | (223.8) | 2,148.2 |
| Other assets | 2,940.7 | 33.1 | 2,973.8 | (82.4) | 2,891.4 |
| Total assets exclusive of assets under programs | 8,407.5 | (477.2) | 7,930.3 | (300.6) | 7,629.7 |
| Assets under management and mortgage programs | 6,443.7 | -- | 6,443.7 | -- | 6,443.7 |
| TOTAL ASSETS | $ 14,851.2 | $ (477.2) | $ 14,374.0 | $ (300.6) | $ 14,073.4 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Accounts payable and other | $ 1,742.8 | $ (80.1) | $ 1,662.7 | $ (170.3) | $ 1,492.4 |
| Deferred income | 1,197.2 | 136.9 | 1,334.1 | -- | 1,334.1 |
| Long-term debt | 1,348.3 | 3.0 | 1,351.3 | (105.3) | 1,246.0 |
| Other liabilities | 187.1 | 19.1 | 206.2 | (25.0) | 181.2 |
| Total liabilities exclusive of liabilities under programs | 4,475.4 | 78.9 | 4,554.3 | (300.6) | 4,253.7 |
| Liabilities under management and mortgage programs | 5,898.3 | -- | 5,898.3 | -- | 5,898.3 |
| Total shareholders' equity | 4,477.5 | (556.1) | 3,921.4 | -- | 3,921.4 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ 14,851.2 | $ (477.2) | $ 14,374.0 | $ (300.6) | $ 14,073.4 |

STATEMENT OF OPERATIONS
(IN MILLIONS, EXCEPT PER SHARE DATA)

| | YEAR ENDED DECEMBER 31, 1996 | | | | |
|---|---|---|---|---|---|
| | AS PREVIOUSLY REPORTED | ACCOUNTING ERRORS AND IRREGULARITIES | RESTATED BEFORE DISCONTINUED OPERATIONS | RECLASSIFICATION FOR DISCONTINUED OPERATIONS | AS RESTATED |
| Net revenues | $ 3,908.8 | $ (160.2) | $ 3,748.6 | $ (510.9) | $ 3,237.7 |
| Expenses | | | | | |
| Operating | 1,392.8 | 35.8 | 1,428.6 | (245.4) | 1,183.2 |
| Marketing and reservation | 1,089.5 | (92.5) | 997.0 | (86.2) | 910.8 |
| General and administrative | 339.6 | 62.4 | 402.0 | (61.0) | 341.0 |
| Depreciation and amortization | 167.9 | 12.0 | 179.9 | (34.4) | 145.5 |
| Interest-net | 25.4 | 2.2 | 27.6 | (13.3) | 14.3 |
| Merger-related costs and other unusual charges | 179.9 | (45.6) | 134.3 | (24.9) | 109.4 |
| Total expenses | 3,195.1 | (25.7) | 3,169.4 | (465.2) | 2,704.2 |
| Income from continuing operations before income taxes | 713.7 | (134.5) | 579.2 | (45.7) | 533.5 |
| Provision for income taxes | 290.1 | (40.9) | 249.2 | (29.0) | 220.2 |
| Income from continuing operations | 423.6 | (93.6) | 330.0 | (16.7) | 313.3 |
| Income from discontinued operations, net of taxes | -- | -- | -- | 16.7 | 16.7 |
| Net income | $ 423.6 | $ (93.6) | $ 330.0 | $ -- | $ 330.0 |
| INCOME PER SHARE | | | | | |
| BASIC | | | | | |
| Income from continuing operations | $ 0.56 | | | | $ 0.41 |
| Income from discontinued operations, net | -- | | | | 0.03 |
| Net income | $ 0.56 | | | | $ 0.44 |
| DILUTED | | | | | |
| Income from continuing operations | $ 0.52 | | | | $ 0.39 |
| Income from discontinued operations, net | -- | | | | 0.02 |
| Net income | $ 0.52 | | | | $ 0.41 |
| WEIGHTED AVERAGE SHARES | | | | | |
| Basic | 754.4 | | | | 757.4 |
| Diluted | 818.6 | | | | 821.6 |

BALANCE SHEET
(IN MILLIONS)

| | AT DECEMBER 31, 1996 | | | | |
|---|---|---|---|---|---|
| | AS PREVIOUSLY REPORTED | ACCOUNTING ERRORS AND IRREGULARITIES | RESTATED BEFORE DISCONTINUED OPERATIONS | RECLASSIFICATION FOR DISCONTINUED OPERATIONS | AS RESTATED |
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | $ 633.9 | $ (156.1) | $ 477.8 | $ (29.7) | $ 448.1 |
| Receivables, net | 1,290.6 | (172.0) | 1,118.6 | (124.5) | 994.1 |
| Deferred membership acquisition costs | 401.6 | (131.7) | 269.9 | -- | 269.9 |
| Net assets of discontinued operations | -- | -- | -- | 120.1 | 120.1 |
| Other assets | 605.1 | 114.6 | 719.7 | (57.8) | 661.9 |
| Total current assets | 2,931.2 | (345.2) | 2,586.0 | (91.9) | 2,494.1 |
| Goodwill -- net | 2,302.2 | (29.9) | 2,272.3 | (192.0) | 2,080.3 |
| Other assets | 2,625.7 | (82.4) | 2,543.3 | (84.4) | 2,458.9 |
| Total assets exclusive of assets under programs | 7,859.1 | (457.5) | 7,401.6 | (368.3) | 7,033.3 |
| Assets under management and mortgage programs | 5,729.2 | -- | 5,729.2 | -- | 5,729.2 |
| TOTAL ASSETS | $ 13,588.3 | $ (457.5) | $ 13,130.8 | $ (368.3) | $ 12,762.5 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Accounts payable and other | $ 1,680.4 | $ 59.5 | $ 1,739.9 | $ (137.0) | $ 1,602.9 |
| Deferred income | 1,099.4 | (198.5) | 900.9 | -- | 900.9 |
| Long-term debt | 1,004.6 | (9.2) | 995.4 | (214.6) | 780.8 |
| Other liabilities | 124.9 | 42.2 | 167.1 | (16.7) | 150.4 |
| Total liabilities exclusive of liabilities under programs | 3,909.3 | (106.0) | 3,803.3 | (368.3) | 3,435.0 |
| Liabilities under management and mortgage programs | 5,371.8 | -- | 5,371.8 | -- | 5,371.8 |
| Total shareholders' equity | 4,307.2 | (351.5) | 3,955.7 | -- | 3,955.7 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ 13,588.3 | $ (457.5) | $ 13,130.8 | $ (368.3) | $ 12,762.5 |

STATEMENT OF OPERATIONS
(IN MILLIONS, EXCEPT PER SHARE DATA)

| | YEAR ENDED DECEMBER 31, 1995 | | | | |
|---|---|---|---|---|---|
| | AS PREVIOUSLY REPORTED | ACCOUNTING ERRORS AND IRREGULARITIES | RESTATED BEFORE DISCONTINUED OPERATIONS | RECLASSIFICATION FOR DISCONTINUED OPERATIONS | AS RESTATED |
| Net revenues | $ 2,992.1 | $ 34.6 | $ 3,026.7 | $ (410.6) | $ 2,616.1 |
| Expenses | | | | | |
| Operating | 1,110.9 | 137.0 | 1,247.9 | (223.0) | 1,024.9 |
| Marketing and reservation | 875.2 | (75.3) | 799.9 | (56.3) | 743.6 |
| General and administrative | 279.5 | 73.0 | 352.5 | (69.2) | 283.3 |
| Depreciation and amortization | 112.9 | 5.4 | 118.3 | (17.9) | 100.4 |
| Interest-net | 13.3 | 9.4 | 22.7 | (6.1) | 16.6 |
| Merger-related costs and other unusual charges | 97.0 | -- | 97.0 | -- | 97.0 |
| Total expenses | 2,488.8 | 149.5 | 2,638.3 | (372.5) | 2,265.8 |
| Income from continuing operations before income taxes | 503.3 | (114.9) | 388.4 | (38.1) | 350.3 |
| Provision for income taxes | 200.5 | (41.9) | 158.6 | (15.4) | 143.2 |
| Income from continuing operations | 302.8 | (73.0) | 229.8 | (22.7) | 207.1 |
| Income from discontinued operations, net of taxes | -- | -- | -- | 22.7 | 22.7 |
| Net income | $ 302.8 | $ (73.0) | $ 229.8 | $ -- | $ 229.8 |
| INCOME PER SHARE | | | | | |
| BASIC | | | | | |
| Income from continuing operations | $ 0.45 | | | | $ 0.30 |
| Income from discontinued operations, net | -- | | | | 0.03 |
| Net income | $ 0.45 | | | | $ 0.33 |
| DILUTED | | | | | |
| Income from continuing operations | $ 0.42 | | | | $ 0.28 |
| Income from discontinued operations, net | -- | | | | 0.03 |
| Net income | $ 0.42 | | | | $ 0.31 |
| WEIGHTED AVERAGE SHARES | | | | | |
| Basic | 670.5 | | | | 692.4 |
| Diluted | 741.8 | | | | 763.7 |

Following are the primary categories of adjustments to revenue which appear on the reconciliation of previously reported and restated statements of operations:

DESCRIPTION OF NET REVENUE ADJUSTMENTS

| ADJUSTMENTS TO REVENUE: (IN MILLIONS) | YEARS ENDED DECEMBER 31, 1997 | 1996 | 1995 |
|---|---|---|---|
| Net revenue: | | | |
| Improper revenue recognition .......................... | $ (91.7) | $ (110.2) | $ (31.2) |
| Improper reversal of merger liabilities .............. | (167.7) | -- | -- |
| Revenue associated with pooled entities--not previously reported .......................................... | 14.2 | 108.4 | 197.3 |
| Elimination of intercompany transactions and contra revenue ............................................ | (180.0) | (158.3) | (124.3) |
| Other errors ......................................... | (2.4) | (0.1) | (7.2) |
| Accounting change .................................... | (4.9) | -- | -- |
| Adjustment to net revenue ............................ | $ (432.5) | $ (160.2) | $ 34.6 |

IMPROPER REVENUE RECOGNITION

The Company made adjustments to correct the misapplication of generally accepted accounting principles resulting in improper revenue recognition. These errors include: the understatement of estimated membership fees to be refunded to members; the immediate recognition of revenue which should have been deferred and recognized over the membership term; the recording of fictitious revenue; other accounting errors.

IMPROPER REVERSAL OF MERGER LIABILITIES

The Company recorded adjustments to correct the reduction of liabilities previously established primarily for merger transactions and a corresponding inappropriate entry to record revenue.

REVENUE ASSOCIATED WITH POOLED ENTITIES--NOT PREVIOUSLY RECORDED

The Company recorded adjustments to consolidate the financial statements of acquired entities which were accounted for as poolings of interest as required by generally accepted accounting principles. Previous consolidated financial statements did not reflect certain acquired company financial statements for periods required.

ELIMINATION OF INTERCOMPANY TRANSACTIONS AND CONTRA-REVENUE

The Company made adjustments to eliminate intercompany revenue not previously eliminated and properly classify certain expenses as contra-revenue resulting in reductions to revenue.

ACCOUNTING CHANGE

The Company adopted a change in accounting for memberships revenue and expenses effective January 1, 1997 (See Note 2--Accounting change for memberships.) Accordingly, the Company recorded a non-cash after-tax charge on such date of $283.1 million or $.35 per diluted share, to account for the cumulative effect of the accounting change. The cumulative effect adjustment also impacted the Company's financial position which included reductions in deferred membership acquisition costs and accrued expenses of $278.4 and $47.8 million, respectively and increases in deferred income and prepaid expenses (commissions) of $363.9 million and $148.1 million, respectively. The effect of adopting the change in accounting for memberships on the Company's 1997 operating results, before the cumulative effect adjustment, was additional after-tax expense of $15.3 million or $.02 per diluted share comprised of a reduction in revenues of $4.7 million with an increase in operating expenses of $19.0 million and a tax benefit of $8.4 million.

The underlying pro forma information assumes the aforementioned accounting change has been applied retroactively. For comparative purposes, such pro forma information is presented with actual results.

| (IN MILLIONS, EXCEPT PER SHARE AMOUNTS) | YEAR ENDED DECEMBER 31, 1997 | 1996 | 1995 |
|---|---|---|---|
| Income before extraordinary gain: | | | |
| As restated | $ 39.5 | $330.0 | $229.8 |
| Pro forma | 39.5 | 322.6 | 200.7 |
| Net income: | | | |
| As restated | 65.9 | 330.0 | 229.8 |
| Pro forma | 65.9 | 322.6 | 200.7 |
| PER SHARE INFORMATION | | | |
| BASIC | | | |
| Income before extraordinary gain: | | | |
| As restated | $ .05 | $ .44 | $ .33 |
| Pro forma | .05 | .43 | .29 |
| Net income: | | | |
| As restated | .08 | .44 | .33 |
| Pro forma | .08 | .43 | .29 |
| DILUTED | | | |
| Income before extraordinary gain: | | | |
| As restated | .05 | .41 | .31 |
| Pro forma | .05 | .40 | .27 |
| Net income: | | | |
| As restated | .08 | .41 | .31 |
| Pro forma | .08 | .40 | .27 |

4. EARNINGS PER SHARE ("EPS")

Basic EPS is computed based solely on the weighted average number of common shares outstanding during the period. Diluted EPS reflects all potential dilution of common stock. Basic and Diluted EPS from continuing operations is calculated as follows:

| (IN MILLIONS, EXCEPT PER SHARE AMOUNTS) | YEAR ENDED DECEMBER 31, 1997 | 1996 | 1995 |
|---|---|---|---|
| Income from continuing operations before extraordinary gain and cumulative effect of accounting change | $ 66.3 | $ 313.3 | $ 207.1 |
| Convertible debt interest | -- | 5.8 | 6.7 |
| Income from continuing operations before extraordinary gain and cumulative effect of accounting change, as adjusted | $ 66.3 | $ 319.1 | $ 213.8 |
| Weighted average shares -- basic | 811.2 | 757.4 | 692.4 |
| Potential dilution of common stock: | | | |
| Stock options | 40.5 | 40.1 | 44.3 |
| Convertible debt | -- | 24.1 | 27.0 |
| Weighted average shares -- diluted | 851.7 | 821.6 | 763.7 |
| EPS -- CONTINUING OPERATIONS BEFORE EXTRAORDINARY GAIN AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE | | | |
| BASIC | $ .08 | $ .41 | $ .30 |
| DILUTED | $ .08 | $ .39 | $ .28 |

5. BUSINESS COMBINATIONS

In connection with the underlying pooling of interests business combinations, the accompanying consolidated financial statements have been prepared as if the Company and all such pooled companies had operated as one entity since inception.

1997 POOLINGS
Cendant. On December 17, 1997, HFS merged with CUC to form Cendant. The Cendant Merger was consummated with CUC issuing 440.0 million shares of its common stock in exchange for all of the outstanding common stock of HFS. Pursuant to the terms of the agreement and plan of merger, HFS stockholders received 2.4031 shares of CUC common stock for each share of HFS common stock. Upon consummation of the Cendant Merger, CUC changed its name to Cendant Corporation. Effective with the Cendant Merger, the Company's shareholders approved an amendment to the Company's Restated Certificate of Incorporation to increase the number of authorized shares of common stock and preferred stock to 2 billion shares and 10 million shares, respectively.

In connection with the Cendant Merger, the Company determined that it will use a calendar year end and, accordingly, CUC changed its fiscal year end from January 31 to December 31. Prior to the Cendant Merger, HFS reported on a calendar year basis. The HFS statements of income for the years ended December 31, 1996 and 1995 have been combined with the CUC statements of income for the years ended January 31, 1997, and 1996 respectively. As a result of CUC's change in fiscal year, the operating results of CUC for January 1997, were duplicated in the Company's consolidated statement of operations for the year ended December 31, 1997. Accordingly, an adjustment has been made to 1997 retained earnings for the duplication of net income of $22.3 million for such one-month period.

PHH. On April 30, 1997, the Company and PHH Corporation ("PHH") merged (the "PHH Merger") which was satisfied by the issuance of 72.8 million shares of Company common stock in exchange for all of the outstanding common stock and stock options of PHH. PHH operates the world's largest corporate relocation services business and also provides mortgage services and fleet management services. Prior to the PHH Merger, PHH reported on an April 30 fiscal year basis. To conform to a calendar year end, PHH prepared financial statements for the twelve month periods ended December 31, 1996 and January 31, 1996 which were combined with the Company's statements of income for the years ended December 31, 1996 and 1995, respectively. In combining PHH's twelve month periods, the consolidated statement of income for the year ended December 31, 1996 included one month (January 1996) of PHH's operating results which was also included in the consolidated statement of operations for the year ended December 31, 1995. Accordingly, an adjustment has been made to 1996 retained earnings for the duplication of net income of $8.3 million and cash dividends declared of $5.9 million for such one-month period.

Numa. During February 1997, the Company issued 3.0 million shares of its common stock for all the outstanding common stock of Numa Corporation ("Numa"). Numa publishes personalized heritage publications and markets and sells personalized merchandise.

1996 POOLINGS
Ideon. In August 1996, the Company issued 16.6 million shares of its common stock for all of the outstanding capital stock of Ideon Group, Inc. ("Ideon"). Ideon is principally a provider of credit card enhancement services. Ideon previously reported on a fiscal year ended December 31, for its financial reporting. To conform to CUC's former fiscal year end of January 31, Ideon's operating results for January 1996 have been excluded from the Company's year ended December 31, 1996 operating results. Accordingly, a $1.1 million credit was recorded to 1996 retained earnings for such excluded period.

Other. In 1996, the Company acquired the outstanding stock of certain other entities by issuing 4.8 million shares of its common stock.

1995 POOLINGS
Getko, NAOG and Advance Ross. In June 1995, the Company issued 5.6 million shares of its common stock for all of the outstanding capital stock of Getko Group Inc. ("Getko"). Getko distributes complimentary welcoming packages to new homeowners throughout the United States and Canada. In September 1995, the Company issued 2.3 million shares of its common stock for all of the outstanding capital stock of North American Outdoor Group, Inc. ("NAOG"). NAOG owns one of the largest for-profit hunting and general interest fishing membership organizations in the United States, and also owns various other membership organizations. In January 1996, the Company

issued 8.9 million shares of its common stock for all of the outstanding capital stock of Advance Ross Corporation ("Advance Ross"). Advance Ross is the parent company to Global Refund, a subsidiary which processes value-added tax refunds for travelers in over 20 European countries.

The following table presents the historical results of the pooled Cendant entities for the last complete interim periods prior to their respective mergers:

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| (IN MILLIONS) | 1997 | 1996 | 1995 |
| Net revenues | | | |
| Cendant (1) | $ 1,100.2 | $ -- | $ -- |
| CUC | 1,390.3 | 1,571.7 | 1,165.0 |
| HFS | 1,570.9 | 786.0 | 446.1 |
| PHH | 178.6 | 650.5 | 610.8 |
| NUMA | -- | 68.0 | 51.1 |
| 1996 Pooled Entities | -- | 161.5 | 256.0 |
| 1995 Pooled Entities | -- | -- | 87.1 |
| | $ 4,240.0 | $ 3,237.7 | $ 2,616.1 |
| Income (loss) from continuing operations before extraordinary gain and cumulative effect of accounting change | | | |
| Cendant (1) | $ (181.1) | $ -- | $ -- |
| CUC | 105.3 | 35.6 | 75.5 |
| HFS | 109.9 | 169.5 | 79.8 |
| PHH | 32.2 | 87.7 | 78.1 |
| NUMA | -- | 6.7 | 14.0 |
| 1996 Pooled Entities | -- | 13.8 | (47.4) |
| 1995 Pooled Entities | -- | -- | 7.1 |
| | $ 66.3 | $ 313.3 | $ 207.1 |

- ----------
(1) Operating results of Cendant for the fourth quarter of 1997.

PURCHASE BUSINESS COMBINATIONS

The acquisitions discussed below were accounted for using the purchase method of accounting. Accordingly, assets acquired and liabilities assumed were recorded at their estimated fair values. The operating results of such acquired companies are reflected in the Company's consolidated statements of income since the respective dates of acquisition.

The following tables reflect the fair values of assets acquired and liabilities assumed in connection with the Company's acquisitions which were consummated during the three years ended December 31, 1997.

| (IN MILLIONS) | ACQUIRED IN 1997 | ACQUIRED IN 1996 RCI | AVIS | COLDWELL BANKER | OTHER |
|---|---|---|---|---|---|
| Cash paid | $ 267.9 | $ 412.1 | $ 367.2 | $ 745.0 | $ 224.0 |
| Common stock issued (1) | 21.6 | 75.0 | 338.4 | -- | 52.5 |
| Notes issued | -- | -- | 100.9 | -- | 5.0 |
| Total consideration | 289.5 | 487.1 | 806.5 | 745.0 | 281.5 |
| Assets acquired | 230.6 | 439.1 | 783.9 | 541.7 | 91.5 |
| Liabilities assumed | 113.7 | 429.7 | 311.4 | 148.5 | 48.7 |
| Fair value of identifiable net assets acquired | 116.9 | 9.4 | 472.5 | 393.2 | 42.8 |
| Goodwill | $ 172.6 | $ 477.7 | $ 334.0 | $ 351.8 | $ 238.7 |
| (1) Number of shares issued | 0.9 | 2.4 | 11.1 | -- | 2.5 |

| (IN MILLIONS) | ACQUIRED IN 1995 CENTURY 21 | OTHER |
|---|---|---|
| Cash paid | $ 100.2 | $ 122.5 |
| Common stock issued (2) | 64.8 | 40.8 |
| Preferred stock issued | 80.0 | -- |
| Total consideration | 245.0 | 163.3 |
| Assets acquired | 120.6 | 67.2 |
| Liabilities assumed | 75.3 | 56.2 |
| Fair value of identifiable net assets acquired | 45.3 | 11.0 |
| Goodwill | $ 199.7 | $ 152.3 |
| (2) Number of shares issued | 9.6 | 6.0 |

1997 ACQUISITIONS
The Company acquired certain entities for an aggregate purchase price of $289.5 million.

1996 ACQUISITIONS
Resort Condominiums International, Inc. In November 1996, the Company completed the acquisition of all the outstanding capital stock of Resort Condominiums International, Inc. and its affiliates ("RCI") for $487.1 million. The purchase agreement provides for contingent payments of up to $200.0 million over a five year period which are based on components which measure RCI's future performance, including EBITDA, net revenues and number of members, as defined. The Company made a contingent payment of $100.0 million during the first quarter of 1998, which was accounted for as additional goodwill.

Avis. In October 1996, the Company completed the acquisition of all of the outstanding capital stock of Avis, Inc. ("Avis"), including payments under certain employee stock plans of Avis and the redemption of certain series of preferred stock of Avis for an aggregate $806.5 million. Subsequently, the Company made contingent cash payments of $26.0 million in 1996 and $60.8 million in 1997. The contingent payments made in 1997 represented the incremental amount of value attributable to Company common stock as of the stock purchase agreement date in excess of the proceeds realized upon the subsequent sale of such Company common stock.

In September 1997, the subsidiary of Avis, which controlled the car rental operations of Avis ("ARAC"), completed an Initial Public Offering ("IPO") resulting in a 72.5% dilution of the Company's investment in ARAC. Net proceeds of $359.3 million were retained by ARAC. The Company's interest was further diluted to 20.4% primarily due to a secondary offering of common stock in March 1998. See Note 21 for a discussion of the Company's executed business plan and related accounting treatment regarding Avis.

Coldwell Banker Corporation. In May 1996, the Company acquired by merger Coldwell Banker Corporation ("Coldwell Banker"), the largest gross revenue producing residential real estate company in North America and a leading provider of corporate relocation services. The Company paid $640.0 million in cash for all of the outstanding capital stock of Coldwell Banker and repaid $105.0 million of Coldwell Banker indebtedness. The aggregate purchase price for the transaction was financed through the May 1996 sale of an aggregate 46.6 million shares of Company common stock pursuant to a public offering.

Other 1996 Acquisitions. The Company acquired certain other entities for an aggregate purchase price of $281.5 million.

1995 ACQUISITIONS

Century 21. In August 1995, a majority owned (87.5%) subsidiary of the Company, C21 Holding Corp. ("Holding"), acquired Century 21 Real Estate Corporation ("Century 21"), the world's largest residential real estate brokerage franchisor. Aggregate consideration for the acquisition consisted of $245.0 million. Pursuant to an agreement, as amended, between the Company and a management group of Holding, the Company acquired the remaining 12.5% interest in Holding for $52.8 million in 1997.

Other 1995 Acquisitions. The Company acquired certain other entities for an aggregate purchase price of $163.3 million.

PRO FORMA INFORMATION (UNAUDITED)

The following information reflects pro forma statements of income data for the year ended December 31, 1996 assuming the aforementioned acquisitions accounted for using the purchase method of accounting completed during 1996 were consummated on January 1, 1996. The acquisitions completed during 1997 were immaterial to the operating results of the Company. The pro forma results are not necessarily indicative of the operating results that would have occurred had the transactions been consummated as indicated nor are they intended to indicate results that may occur in the future. The underlying pro forma information includes the amortization expense associated with the assets acquired, and reflects the Company's financing arrangements, and the related income tax effects.

| (IN MILLIONS, EXCEPT PER SHARE AMOUNTS) | YEAR ENDED DECEMBER 31, 1996 |
|---|---|
| Net revenues | $ 3,804.2 |
| Net income(1) | 379.8 |
| Net income per share:(1) | |
| Basic | $ .48 |
| Diluted | .45 |
| Weighted average shares outstanding: | |
| Basic | 784.9 |
| Diluted | 849.1 |

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(1) Includes operating results of discontinued operations for the year ended December 31, 1996 (See Note 6--Discontinued Operations)

6. DISCONTINUED OPERATIONS

Classified Advertising Acquisition. In October 1997, the Company issued 14.2 million shares of its common stock for all of the outstanding capital stock of Hebdo Mag International, Inc. ("Hebdo Mag"). The transaction was accounted for as a pooling of interests and therefore, all prior periods have been restated to include the operations of Hebdo Mag for all periods prior to the merger. Hebdo Mag is a publisher and distributor of classified advertising information.

Software Acquisitions. In July 1996, the Company issued 45.1 million shares and 38.4 million shares of Company common stock for all of the outstanding capital stock of Davidson and Associates, Inc. ("Davidson") and Sierra On-Line Inc. ("Sierra"), respectively. Davidson and Sierra develop, publish and distribute educational and entertainment software for home and school use. During 1995, prior to being merged into the Company, Davidson and Sierra acquired all of the outstanding capital stock of various companies by issuing an aggregate of 0.8 million and 3.9 million equivalent shares of Company common stock, respectively. Davidson and Sierra previously reported on fiscal years ended December 31 and March 31, respectively, for their financial reporting. To conform to CUC's former fiscal year end of January 31, Davidson and Sierra's operating results for January 1996 have been excluded from the Company's year ended December 31, 1996 operating results. Accordingly, a $5.8 million charge was recorded to 1996 retained earnings for such excluded period. In addition Sierra's operating results for the three months ended March 1995 have been duplicated in the Company's year ended December 31, 1995 operating results. Such operating results were immaterial.

In January 1997, the Company issued 3.1 million shares of its common stock for all of the outstanding capital stock of Knowledge Adventure, Inc. ("KA"). KA develops and markets children's education computer software. Davidson, Sierra and KA (collectively, the "Software Acquisitions") substantially comprise the Company's wholly-owned subsidiary, Cendant Software Corporation ("Cendant Software"). The Software Acquisitions were accounted for as poolings of interest and therefore, all prior periods have been restated to include the operations of Davidson, Sierra and KA for all periods prior to their respective mergers.

Divestitures. On August 12, 1998, the Company announced that its Executive Committee of the Board of Directors committed to discontinue the Company's classified advertising and consumer software businesses by disposing of Hebdo Mag and Cendant Software, respectively. The Company has since entered into a definitive agreement to sell Hebdo Mag to its former 50% owners for 7.1 million shares of Company common stock and approximately $410 million in cash. The transaction is subject to certain conditions, including regulatory approval and financing by the purchaser. In addition, the Company has engaged investment bankers to analyze various strategic alternatives in regard to the disposition of Cendant Software within one year of the measurement date.

Summarized financial data of discontinued operations are as follows:

STATEMENT OF OPERATIONS DATA:

| | SOFTWARE | | |
|---|---|---|---|
| | YEAR ENDED DECEMBER 31, | | |
| (IN MILLIONS) | 1997 | 1996 | 1995 |
| Net revenues | $ 433.7 | $ 384.5 | $ 308.4 |
| Income (loss) from operations before income taxes | (5.9) | 42.0 | 33.9 |
| Provision for income taxes | 2.4 | 27.3 | 13.6 |
| Net income (loss) | $ (8.3) | $ 14.7 | $ 20.3 |

| (IN MILLIONS) | CLASSIFIED ADVERTISING YEAR ENDED DECEMBER 31, 1997 | 1996 | 1995 |
|---|---|---|---|
| Net revenues | $ 208.5 | $ 126.4 | $ 102.2 |
| Income (loss) from operations before income taxes and extraordinary loss | (4.5) | 3.7 | 4.2 |
| Provision for (benefit from) income taxes | (1.2) | 1.7 | 1.8 |
| Extraordinary loss from early extinguishment of debt, net of a $4.9 million tax benefit | (15.2) | -- | -- |
| Net income (loss) | $ (18.5) | $ 2.0 | $ 2.4 |

BALANCE SHEET DATA:

| (IN MILLIONS) | SOFTWARE AT DECEMBER 31, 1997 | 1996 | CLASSIFIED ADVERTISING AT DECEMBER 31, 1997 | 1996 |
|---|---|---|---|---|
| Current assets | $ 209.1 | $ 162.0 | $ 58.6 | $ 50.0 |
| Goodwill | 42.2 | 10.7 | 181.5 | 181.3 |
| Other assets | 49.2 | 42.4 | 33.2 | 42.0 |
| Total liabilities | 127.0 | 114.2 | 173.5 | 254.1 |
| Net assets of discontinued operations | $ 173.5 | $ 100.9 | $ 99.8 | $ 19.2 |

## 7. MERGER-RELATED COSTS AND OTHER UNUSUAL CHARGES

### 1997 POOLING

In 1997, the Company incurred merger-related costs and other unusual charges ("Unusual Charges") of $738.0 million of which $704.1 million ($504.7 million after tax or $.58 per diluted share) was related to continuing operations and $33.9 million was associated with businesses which are discontinued. Charges incurred during the fourth quarter of 1997 of $454.9 million were substantially associated with and/or coincident to the Cendant Merger and the merger with Hebdo Mag (collectively, the "Fourth Quarter 1997 Charge"). Unusual Charges of $283.1 million, comprised of $295.4 million of charges incurred in the second quarter of 1997, reduced by $12.3 million for changes in estimates recorded in the fourth quarter of 1997, were substantially associated with the PHH Merger (the "Second Quarter 1997 Charge"). The collective Unusual Charges recorded during 1997 related to the aforementioned mergers and the reduction of related liabilities is summarized below by category of expenditure and by charge as follows:

| (IN MILLIONS) | ORIGINAL UNUSUAL CHARGES | ADJUSTMENTS DUE TO CHANGE IN ESTIMATES | UNUSUAL CHARGES | CASH PAYMENTS | NON-CASH | LIABILITIES AT DECEMBER 31, 1997 |
|---|---|---|---|---|---|---|
| Professional fees | $ 121.3 | $ 2.0 | $ 123.3 | $ 72.6 | $ -- | $ 50.7 |
| Personnel related | 324.9 | (0.1) | 324.8 | 111.3 | 45.0 | 168.5 |
| Business terminations | 133.9 | -- | 133.9 | 46.0 | 84.0 | 3.9 |
| Facility related and other | 170.2 | (14.2) | 156.0 | 72.5 | 33.1 | 50.4 |
| Total Unusual Charges | $ 750.3 | ($ 12.3) | $ 738.0 | $ 302.4 | $ 162.1 | $ 273.5 |
| Reclassification for discontinued operations | (33.9) | -- | (33.9) | (8.0) | (25.9) | -- |
| Total Unusual Charges related to continuing operations | $ 716.4 | ($ 12.3) | $ 704.1 | $ 294.4 | $ 136.2 | $ 273.5 |

| (IN MILLIONS) | ORIGINAL UNUSUAL CHARGES | ADJUSTMENTS DUE TO CHANGE IN ESTIMATES | UNUSUAL CHARGES | CASH PAYMENTS | NON-CASH | LIABILITIES AT DECEMBER 31, 1997 |
|---|---|---|---|---|---|---|
| Fourth Quarter 1997 Charge | $ 454.9 | $ -- | $ 454.9 | $ 152.2 | $ 105.3 | $ 197.4 |
| Second Quarter 1997 Charge | 295.4 | (12.3) | 283.1 | 150.2 | 56.8 | 76.1 |
| Total Unusual Charges | $ 750.3 | ($ 12.3) | 738.0 | $ 302.4 | $ 162.1 | $ 273.5 |
| Reclassification for discontinued operations | (33.9) | -- | (33.9) | (8.0) | (25.9) | -- |
| Total Unusual Charges related to continuing operations | $ 716.4 | ($ 12.3) | $ 704.1 | $ 294.4 | $ 136.2 | $ 273.5 |

FOURTH QUARTER 1997 CHARGE

The Company incurred Unusual Charges in the fourth quarter 1997 totaling $454.9 million substantially associated with the Cendant and Hebdo Mag mergers. In addition to $170.0 million of professional fees and executive compensation expense incurred directly as a result of the mergers, the Company incurred $284.9 million of costs resulting from reorganization plans formulated prior to and implemented as a result of the merger.

The Company determined to streamline its corporate organization functions and eliminate several office locations in overlapping markets. Management initiated a plan in 1997 to consolidate European call centers in Cork, Ireland in 1998 and upgrade the quality standards of its hotel franchise businesses, which resulted in planned terminations of franchise properties commencing in January 1998. In December 1997, the Company irrevocably contributed $70.0 million to independent technology trusts which made technology investments for the direct benefit of hotel and real estate franchisees. Management also approved a plan to terminate a contract, which may restrict the Company from maximizing opportunities afforded by the merger of HFS and CUC.

Following is a description of costs by type of expenditure and reduction of corresponding liabilities through December 31, 1997.

Unusual Charges include $93.0 million of estimated professional fees primarily consisting of investment banking, legal and accounting fees incurred in connection with the mergers. Approximately $43.4 million of invoices were paid in the fourth quarter of 1997 leaving a $49.6 million balance to be paid in 1998. The Company also incurred $170.7 million of personnel related costs including $73.3 million of retirement and employee benefit plan costs, $23.7 million of restricted stock compensation, $61.4 million of severance resulting from consolidations of corporate functions and nine European call centers and $12.3 million other personnel related costs. Total employees to be terminated, including seven corporate employees, approximated 474 with limited terminations in 1997. The $170.7 million of personnel related liabilities were reduced in 1997 by $35.2 million of non-cash reductions primarily including $23.7 and $9.5 million of costs associated with restricted stock and stock option compensation, respectively and $8.9 million of personnel related payments. Approximately $45.3 million of retirement plan costs were paid in January 1998. Unusual Charges include $78.3 million of business termination costs which consists of a $48.3 million impairment of hotel franchise agreement assets associated with a quality upgrade program and $30.0 million of contract termination costs. Of the $78.3 million of business termination liabilities, $30.0 million was paid in December 1997 and $48.3 million of non-cash reductions of intangible assets were recorded. Facility related and other unusual charges of $112.9 million include $70.0 million of irrevocable contributions to independent technology trusts for the direct benefit of lodging and real estate franchisees, $16.4 million of building lease termination costs and a $22.0 million reduction in intangible assets associated with the Company's wholesale annuity business for which impairment was determined in accordance with SFAS No-121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" in the fourth quarter of 1997. Approximately $70.0 million was paid for these obligations in December 1997 and the remaining obligations are anticipated to be paid over the earlier of lease buy-out or lease term.

SECOND QUARTER 1997 CHARGE

The Company incurred $295.4 million of Unusual Charges in the second quarter of 1997 primarily associated with the PHH Merger. During the fourth quarter, as a result of changes in estimates, the Company adjusted certain merger-related liabilities which resulted in a $12.3 million credit to Unusual Charges. In addition to $125.8 million of professional fees and executive compensation expenses incurred directly as a result of the merger, the Company incurred $157.3 million of expenses resulting from reorganization plans formulated prior to and implemented as of the merger date. The merger afforded the combined Company an opportunity to rationalize its combined corporate, real estate and travel segment businesses, and corresponding support and service functions to gain organizational efficiencies and maximize profits. Such initiatives included 500 job reductions including the virtual elimination of all PHH Corporate functions and facilities in Hunt Valley, Maryland. Management initiated a plan just prior to the merger to close hotel reservation call centers, combine travel agency operations and continue the downsizing of fleet operations by reducing headcount and eliminating unprofitable products. With respect to the real estate segment, management initiated plans to integrate its relocation, franchise and mortgage origination businesses to capture additional revenue through the referral of one business unit's customers to another. Management also formalized a plan to centralize the management and headquarters functions of the world's largest, second largest and other company owned corporate relocation business unit subsidiaries. The real estate segment initiatives resulted in approximately 380 planned job reductions, write-offs of abandoned systems and leasehold assets commencing in the second quarter 1997.

Following is a description of costs by type of expenditure and reduction of corresponding liabilities through December 31, 1997:

Unusual Charges include $154.1 million of personnel related costs associated with employee reductions necessitated by the planned and announced consolidation of the Company's several corporate relocation service businesses worldwide as well as the consolidation of corporate activities. Personnel related charges also include termination benefits such as severance, medical and other benefits. Personnel related charges also include retirement benefits pursuant to pre-existing contracts resulting from a change in control. Several grantor trusts were established and funded by the Company in November 1996 to pay such benefits in accordance with the terms of the PHH merger agreement. The Company's restructuring plan resulted in the termination of approximately 560 employees (principally corporate employees located in North America), of which approximately 364 were terminated by December 31, 1997. Approximately $102.4 million of personnel related costs were paid in 1997 and $9.8 million of non-cash stock compensation was recognized. Unusual Charges also include professional fees of $30.3 million of which $29.2 million was paid in 1997 and is primarily comprised of investment banking, accounting and legal fees incurred in connection with the PHH Merger. Unusual Charges also include business termination charges of $55.6 million, which are comprised of $38.8 million of costs to exit certain activities primarily within the Company's fleet management business, a $7.3 million termination fee associated with a joint venture that competed with PHH Mortgage Services business and $9.6 million of costs to terminate a marketing agreement with a third party in order to replace the function with internal resources. In connection with the business termination charges, approximately $16.0 million was paid in 1997 and $35.7 million of assets associated with discontinued activities were written off. Facility related and other charges totaling $43.1 million include costs associated with contract and lease terminations, asset disposals and other charges incurred in connection with the consolidation and closure of excess office space. Approximately $2.6 million was paid and $11.3 million of assets were written off in 1997. The remaining facility related obligations will be paid or are otherwise anticipated to be extinguished in 1998.

The Company had substantially completed the aforementioned restructuring activities by the second quarter of 1998. The $76.1 million of liabilities remaining at December 31, 1997 primarily consist of $41.9 million of severance and benefit plan payments and $29.2 million related to contract, leasehold and lease termination obligations.

1996 POOLINGS

1996 UNUSUAL CHARGE

In connection with and coincident to the Ideon merger in August 1996 and the Davidson and Sierra mergers in July 1996, the Company incurred Unusual Charges of approximately $134.3 million in 1996, of which $109.4 million ($70.0 million, after tax or $.09 per diluted share) was related to continuing operations (substantially Ideon) and $24.9 million was associated with businesses that are discontinued (Davidson and Sierra). The collective Unusual Charges recorded during 1996 related to the aforementioned mergers and the utilization of such liabilities is summarized below by category of expenditure as follows:

| (IN MILLIONS) | ORIGINAL UNUSUAL CHARGES | CASH PAYMENTS | NON-CASH | LIABILITIES AT DECEMBER 31, 1997 |
|---|---|---|---|---|
| Professional fees .............. | $ 27.5 | $ (27.5) | $ -- | $ -- |
| Personnel related .............. | 7.5 | (7.5) | -- | -- |
| Facility related ................ | 12.4 | (.7) | (9.7) | 2.0 |
| Litigation related ............. | 80.4 | (14.4) | -- | 66.0 |
| Other ........................... | 6.5 | (6.2) | -- | .3 |
| Total Unusual Charges ........... | 134.3 | (56.3) | (9.7) | 68.3 |
| Reclassification for discontinued operations ..................... | (24.9) | 24.9 | -- | -- |
| Total Unusual Charges related to continuing operations .......... | $ 109.4 | $ (31.4) | $ (9.7) | $ 68.3 |

Costs associated with the Davidson and Sierra mergers were comprised primarily of professional fees incurred in connection with the transactions. Costs associated with the Company's merger with Ideon (the "Ideon Merger") were non-recurring and included transaction and exit costs as well as a provision relating to certain litigation matters giving consideration to the Company's intended approach to these matters. In determining the amount of the provision related to these outstanding litigation matters, the Company estimated the cost of settling these litigation matters. In estimating such cost, the Company considered potential liabilities related to these matters and the estimated cost of prosecuting and defending them (including out-of-pocket costs, such as attorneys' fees, and the cost to the Company of having its management involved in such litigation matters). The Company has since settled all outstanding litigation matters. The remaining $66.0 million of litigation related liabilities at December 31, 1997 consists of a present value of $47.9 million representing settlement payments to be made in annual installments to Peter Halmos, the co-founder of SafeCard Services Incorporated ("SafeCard") (see Note 17 -- Commitments and Contingencies -- Ideon Settlement) and $18.1 million of settlements related to certain other class action lawsuits which were paid in the first quarter of 1998. The $2.0 million of facility-related liabilities remaining at December 31, 1997 are for lease termination payments. The Company considered litigation-related costs and liabilities, as well as exit costs and transaction costs, in determining the agreed upon exchange ratio in respect to the Ideon Merger.

In determining the amount of the provision related to the Company's consolidation efforts, the Company estimated the significant severance costs to be accrued upon the consummation of the Ideon Merger and costs relating to the expected obligations for certain third-party contracts (e.g., existing leases and vendor agreements) to which Ideon is a party and which are neither terminable at will nor automatically terminate upon a change-in-control of Ideon. As a result of the Ideon Merger, 120 employees were terminated. The Company incurred significant exit costs because Ideon's credit card registration and enhancement services are substantially similar to the Company's credit card registration and enhancement services. All of the business activities related to the operations performed by Ideon's Jacksonville, Florida office were transferred to the Company's Comp-U-Card Division in Stamford, Connecticut upon the consummation of the Ideon Merger.

COSTS RELATED TO IDEON PRODUCTS ABANDONED AND RESTRUCTURING
During the year ended December 31, 1995, Ideon incurred special charges totaling $43.8 million, net of recoveries, related to the abandonment of certain new product developmental efforts and the related impairment of certain assets and the restructuring of the SafeCard division of Ideon and the Ideon corporate infrastructure as discussed below. The original charge of $45.0 million was composed of accrued liabilities of $36.2 million and asset impairments of $8.8 million. In December 1995, Ideon recovered $1.2 million of costs in the above charges. Also included in costs related to products abandoned are marketing and operational costs incurred of $53.2 million. During the year ended December 31, 1996, all remaining amounts that had been previously accrued were paid.

During 1995, the following costs related to products abandoned and restructuring were incurred. In early 1995, Ideon launched an expanded PGA TOUR Partners program that provided various benefits to members and consumer response rates after the launch were significantly less than Ideon management's expectations. The product as configured was deemed not economically viable and a charge of $18 million was incurred. Costs associated with the abandonment of the product marketing included employee severance payments (approximately 130 employees), costs to terminate equipment and facilities leases, costs for contract impairments and write-downs taken for asset impairments. In September 1995, after a period of product redesign and test marketing, Ideon discontinued its PGA TOUR Partners credit card servicing role and recorded a charge of $3.6 million for costs associated with the abandonment of this role, including employee severance payments (approximately 60 employees), costs to terminate equipment and facilities leases and the recognition of certain commitments. In April 1995, Ideon launched a nationwide child registration and missing child search program. Consumer response rates after the launch were significantly less than Ideon management's expectations and a charge of $9.0 million was incurred to cover severance payments (approximately 100 employees), costs to terminate equipment and facilities leases and write-down taken for asset impairments. As a result of the discontinuance of these products, Ideon undertook an overall restructuring of its operations and incurred charges of $7.2 million to terminate operating leases and write-down assets to realizable value, $3.0 million for restructuring its SafeCard division and $4.2 million for restructuring its corporate infrastructure.

PURCHASE BUSINESS COMBINATION LIABILITIES
In connection with the acquisitions of Century 21, Coldwell Banker, RCI and certain other acquisitions, related business plans were developed to restructure each of the respective companies. The restructuring plans were finalized within one year of each respective acquisition based upon management's assessments of actions to be taken to complete the plans. Acquisition liabilities recorded in connection with such business plans and any subsequent adjustments thereto have been included in the respective purchase price allocations of each acquired company. Acquisition liabilities include costs associated with restructuring activities such as planned involuntary termination and relocation of employees, the consolidation and closing of certain facilities and the elimination of duplicative operating and overhead activities.

Acquisition liabilities recorded in connection with the Company's acquisitions accounted for under the purchase method of accounting and the employees to be terminated in connection with the respective restructuring plans are summarized as follows:

| (Dollars in millions) | CENTURY 21 | COLDWELL BANKER | RCI | OTHER |
|---|---|---|---|---|
| Personnel related | $ 12.6 | $ 5.8 | $ 14.6 | $ 6.5 |
| Facility related | 16.5 | 0.1 | 12.4 | 3.1 |
| Other costs | 1.0 | 3.8 | 1.7 | 1.4 |
| Total | $ 30.1 | $ 9.7 | $ 28.7 | $ 11.0 |
| Terminated employees | 319 | 87 | 252 | 275 |

Personnel related charges include termination benefits such as severance, wage continuation, medical and other benefits. Facility related costs include contract and lease terminations, temporary storage and relocation costs associated with assets to be disposed of, and other charges incurred in the consolidation and closure of excess space.

Payments charged against the acquisition liabilities are as follows:

| (In millions) | CENTURY 21 | COLDWELL BANKER | RCI | OTHER |
|---|---|---|---|---|
| 1997 | $ 1.5 | $ 1.8 | $ 18.8 | $ 2.5 |
| 1996 | 11.3 | 3.9 | 0.5 | 7.7 |
| 1995 | 14.3 | -- | -- | -- |
| | $ 27.1 | $ 5.7 | $ 19.3 | $ 10.2 |

The Company's business plans to restructure the aforementioned acquisitions have been fully executed. Acquisition liabilities of $17.2 million remaining at December 31, 1997 pertain primarily to contractual obligations that existed at the respective acquisition dates, contract terminations and future lease commitments.

8. OTHER INTANGIBLES -- NET

Other intangibles -- net consisted of:

| (In millions) | BENEFIT PERIODS IN YEARS | YEAR ENDED DECEMBER 31, 1997 | 1996 |
|---|---|---|---|
| Avis trademarks | 40 | $ 402.0 | $ 400.0 |
| Other trademarks | 40 | 262.9 | -- |
| Customer lists | 6.5 - 10 | 116.8 | 114.0 |
| Reservation systems | 10 | 95.0 | 95.0 |
| Other | 2 - 16 | 123.6 | 89.0 |
| | | 1,000.3 | 698.0 |
| Less accumulated amortization | | 102.8 | 63.5 |
| Other intangibles -- net | | $ 897.5 | $ 634.5 |

Other intangibles are recorded at their estimated fair values at the dates acquired and are amortized on a straight-line basis over the periods to be benefited.

9. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

Accounts payable and other current liabilities consisted of:

| (In millions) | YEAR ENDED DECEMBER 31, 1997 | 1996 |
|---|---|---|
| Accounts payable | $ 479.5 | $ 473.0 |
| Short-term debt | -- | 250.9 |
| Merger and acquisition obligations | 359.0 | 147.4 |
| Accrued payroll and related | 187.3 | 159.4 |
| Advances from relocation clients | 57.2 | 78.8 |
| Other | 409.4 | 493.4 |
| Accounts payable and other current liabilities | $ 1,492.4 | $ 1,602.9 |

Short-term debt at December 31, 1996 consisted of $150.0 million of acquired Avis fleet financing, borrowed on behalf of ARAC, which was repaid upon settlement of the corresponding intercompany loan due from ARAC prior to the IPO and a $100.9 million note payable issued to ARAC as partial consideration for ARAC in connection with the Company's acquisition of ARAC. The outstanding short-term debt as of December 31, 1996 had a weighted average interest rate of 6.85%.

10. NET INVESTMENT IN LEASES AND LEASED VEHICLES

Net investment in leases and leased vehicles consisted of:

| (In millions) | YEAR ENDED DECEMBER 31, 1997 | 1996 |
|---|---|---|
| Vehicles under open-end operating leases | $ 2,640.1 | $ 2,617.3 |
| Vehicles under closed-end operating leases | 577.2 | 443.9 |
| Direct financing leases | 440.8 | 356.7 |
| Accrued interest on leases | 1.0 | .8 |
| Net investment in leases and leased vehicles | $ 3,659.1 | $ 3,418.7 |

The Company records the cost of leased vehicles as a "net investment in leases and leased vehicles". The vehicles are leased primarily to corporate fleet users for initial periods of twelve months or more under either operating or direct financing lease agreements. Vehicles under operating leases are amortized using the straight-line method over the expected lease term. The Company's experience indicates that the full term of the leases may vary considerably due to extensions beyond the minimum lease term. Lessee repayments of investments in leases and leased vehicles were $1.6 billion in both 1997 and 1996, and the ratio of such repayments to the average net investment in leases and leased vehicles was 46.80% and 47.19%, in 1997 and 1996, respectively.

The Company has two types of operating leases. Under one type, open-end operating leases, resale of the vehicles upon termination of the lease is generally for the account of the lessee except for a minimum residual value which the Company has guaranteed. The Company's experience has been that vehicles under this type of lease agreement have consistently been sold for amounts exceeding the residual value guarantees. Maintenance and repairs of vehicles under these agreements are the responsibility of the lessee. The original cost and accumulated depreciation of vehicles under this type of operating lease was $5.0 billion and $2.4 billion, respectively, at December 31, 1997 and $4.6 billion and $2.0 billion, respectively, at December 31, 1996.

Under the other type of operating lease, closed-end operating leases, resale of the vehicles on termination of the lease is for the account of the Company. The lessee generally pays for or provides maintenance, vehicle licenses and servicing. The original cost and accumulated depreciation of vehicles under these agreements was $754.4 million and $177.2 million, respectively, at December 31, 1997 and $600.6 million and $156.7 million, respectively, at December 31, 1996. The Company believes adequate reserves are maintained in the event of loss on vehicle disposition.

Under the direct financing lease agreements, resale of the vehicles upon termination of the lease is generally for the account of the lessee. Maintenance and repairs of these vehicles are the responsibility of the lessee.

Gross leasing revenues, which are reflected in fleet leasing on the consolidated statements of income consist of:

| (In millions) | YEAR ENDED DECEMBER 31, 1997 | 1996 | 1995 |
|---|---|---|---|
| Operating leases | $ 1,222.9 | $ 1,145.8 | $ 1,098.7 |
| Direct financing leases, primarily interest | 41.8 | 43.3 | 42.4 |
| | $ 1,264.7 | $ 1,189.1 | $ 1,141.1 |

Other managed vehicles are subject to leases serviced by the Company for others, and neither the vehicles nor the leases are included as assets of the Company. The Company receives a fee under such agreements which covers or exceeds its cost of servicing.

The Company has transferred existing managed vehicles and related leases to unrelated investors and has retained servicing responsibility. Credit risk for such agreements is retained by the Company to

a maximum extent in one of two forms: excess assets transferred, which were $7.6 million and $7.1 million at December 31, 1997 and 1996, respectively; or guarantees to a maximum extent. There were no guarantees to a maximum extent at December 31, 1997 or 1996. All such credit risk has been included in the Company's consideration of related reserves. The outstanding balances under such agreements aggregated $224.6 million and $158.5 million at December 31, 1997 and 1996, respectively.

Other managed vehicles with balances aggregating $75.6 million and $93.9 million at December 31, 1997 and 1996, respectively, are included in a special purpose entity which is not owned by the Company. This entity does not require consolidation as it is not controlled by the Company and all risks and rewards rest with the owners. Additionally, managed vehicles totaling approximately $69.6 million and $47.4 million at December 31, 1997 and 1996, respectively, are owned by special purpose entities which are owned by the Company. However, such assets and related liabilities have been netted in the balance sheet since there is a two-party agreement with determinable accounts, a legal right of offset exists and the Company exercises its right of offset in settlement with client corporations.

## 11. MORTGAGE LOANS HELD FOR SALE

Mortgage loans held for sale represent mortgage loans originated by the Company and held pending sale to permanent investors. Such mortgage loans are recorded at the lower of cost or market value on an aggregate loan basis. The Company issues mortgage-backed certificates 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. As of December 31, 1997, mortgage loans sold with recourse amounted to approximately $58.5 million. The Company believes adequate reserves are maintained to cover any potential losses.

## 12. MORTGAGE SERVICING RIGHTS

Capitalized mortgage servicing rights activity was as follows:

| (In millions) | MORTGAGE SERVICING RIGHTS | IMPAIRMENT ALLOWANCE | TOTAL |
|---|---|---|---|
| BALANCE, JANUARY 1, 1995 | $ 97.2 | $ -- | $ 97.2 |
| Additions | 130.1 | -- | 130.1 |
| Amortization | (28.6) | -- | (28.6) |
| Write-down/provision | (1.6) | (1.4) | (3.0) |
| Sales | (4.3) | -- | (4.3) |
| BALANCE, DECEMBER 31, 1995 | 192.8 | (1.4) | 191.4 |
| Less: PHH activity for January 1996 to reflect change in PHH fiscal year | (14.0) | .2 | (13.8) |
| Additions | 164.4 | -- | 164.4 |
| Amortization | (51.8) | -- | (51.8) |
| Write-down/provision | -- | .6 | .6 |
| Sales | (1.9) | -- | (1.9) |
| BALANCE, DECEMBER 31, 1996 | 289.5 | (.6) | 288.9 |
| Additions | 270.4 | -- | 270.4 |
| Amortization | (95.6) | -- | (95.6) |
| Write-down/provision | -- | (4.1) | (4.1) |
| Sales | (33.1) | -- | (33.1) |
| Other | (53.5) | -- | (53.5) |
| BALANCE, DECEMBER 31, 1997 | $ 377.7 | $ (4.7) | $ 373.0 |

Effective January 1, 1997, the Company adopted Statement of Financial Accounting Standards No. 125 (SFAS No. 125), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". The statement provides criteria for: (i) recognizing the transfer of assets as sales or secured borrowings; (ii) recognizing servicing assets and other retained interests in the transferred assets and; (iii) overall guidance for amortizing servicing rights and measuring such assets for potential impairment. The servicing right and any other retained interests are recorded by allocating the previous carrying amount between assets sold and the retained interests, based on their relative fair values at the date of the transfer. SFAS No. 125 also eliminated the distinction between the various classes of servicing rights (purchased, originated, excess). Upon adoption of the statement, assets previously recognized as excess servicing rights were classified as mortgage servicing rights to the extent that the recorded value related to the contractually specified servicing fee. The remaining recorded asset represents an interest-only strip in the amount of $48.0 million which is recorded within other assets in the consolidated balance sheet at December 31, 1997. The impact of adopting SFAS No. 125 was not material to the Company's financial statements.

The Company stratifies its servicing rights according to the interest rate bands of the underlying mortgage loans for purposes of impairment evaluation. The Company measures impairment for each stratum by comparing estimated fair value to the recorded book value. The Company records amortization expense in proportion to, and over the period of the projected net servicing income. Temporary impairment is recorded through a valuation allowance and amortization expense in the period of occurrence.

## 13. LONG-TERM DEBT

Long-term debt consisted of:

| | DECEMBER 31, | |
|---|---|---|
| (In millions) | 1997 | 1996 |
| Revolving Credit Facilities | $ 276.0 | $ 205.0 |
| 5 7/8% Senior Notes | 149.9 | 149.8 |
| 4 1/2% Convertible Senior Notes | -- | 146.7 |
| 4 3/4% Convertible Senior Notes | 240.0 | 240.0 |
| 3% Convertible Subordinated Notes | 543.2 | -- |
| Other | 39.2 | 42.3 |
| | 1,248.3 | 783.8 |
| Less current portion | 2.3 | 3.0 |
| Long-term debt | $ 1,246.0 | $ 780.8 |

CREDIT FACILITIES
At December 31, 1997, the Company's primary credit facility, as amended, consisted of (i) a $750.0 million, five year unsecured revolving credit facility (the "Five Year Revolving Credit Facility") and (ii) a $1.25 billion, 364 day unsecured revolving credit facility (the "364 Day Revolving Credit Facility" and collectively with the Five Year Revolving Credit Facility, (the "Revolving Credit Facilities"). The 364-Day Revolving Credit Facility will mature on October 31, 1998 but may be renewed on an annual basis for an additional 364 days upon receiving lender approval. The Five Year Revolving Credit Facility will mature on October 1, 2001. Borrowings under the Revolving Credit Facilities, at the option of the Company, bear interest based on competitive bids of lenders participating in the facilities, at prime rates or at LIBOR, plus a margin of approximately 22 basis points. The Company is required to pay a per annum facility fee of .08% and .06% of the average daily availability of the Five Year Revolving Credit Facility and 364 Day Revolving Credit Facility, respectively. The interest rates and facility fees are subject to change based upon credit ratings on the Company's senior unsecured long-term debt by nationally recognized debt rating agencies. The Revolving Credit Facilities contain certain restrictive covenants including restrictions on indebted-

ness, mergers, liquidations and sale and leaseback transactions and requires the maintenance of certain financial ratios, including a 3:1 minimum interest coverage ratio and a 3.5:1 maximum coverage ratio, as defined. Amounts outstanding under all revolving credit facilities as of December 31, 1997 are classified as long-term, based on the Company's intent and ability to maintain these loans on a long-term basis.

5 7/8% SENIOR NOTES

The 5 7/8% Senior Notes due December 15, 1998 have been classified as long-term based upon the Company's intent and ability to refinance such indebtedness on a long-term basis. (See Note 26 -- "Subsequent Events--Financing Transactions").

4 1/2% CONVERTIBLE SENIOR NOTES

On September 22, 1997, the Company exercised its option to redeem the outstanding 4 1/2% Convertible Senior Notes (the "4 1/2% Notes"), effective on October 15, 1997, in accordance with the provisions of the indenture under which the 4 1/2% Notes were issued. Prior to the redemption date, all of the outstanding 4 1/2% Notes were converted into 19.7 million shares of Company common stock.

4 3/4% CONVERTIBLE SENIOR NOTES

In February 1996, the Company completed a public offering of $240 million unsecured 4 3/4% Convertible Senior Notes (the "4 3/4% Notes") due 2003, which are convertible at the option of the holder at any time prior to maturity into 36.030 shares of Company common stock per $1,000 principal amount of the 4 3/4% Notes, representing a conversion price of $27.76 per share. The 4 3/4% Notes were redeemable at the option of the Company, in whole or in part, at any time on or after March 3, 1998 at redemption prices decreasing from 103.393% of principal at March 3, 1998 to 100% of principal at March 3, 2003. However, on or after March 3, 1998 and prior to March 3, 2000, the 4 3/4% Notes were not redeemable at the option of the Company unless the closing price of the Company's common stock had exceeded $38.86 per share (subject to adjustment upon the occurrence of certain events) for 20 trading days within a period of 30 consecutive trading days ending within five days prior to notice of redemption. The 4 3/4% Notes were redeemed on May 4, 1998 and have been classified as long-term based on the Company's intent and ability to refinance the 4 3/4% Notes on a long-term basis. (See Note 26 -- "Subsequent Events--Financing Transactions").

3% CONVERTIBLE SUBORDINATED NOTES

On February 11, 1997, the Company completed a public offering of $550 million 3% Convertible Subordinated Notes (the "3% Notes") due 2002. Each $1,000 principal amount of 3% Notes is convertible into 32.6531 shares of Company common stock subject to adjustment in certain events. The 3% Notes may be redeemed at the option of the Company at any time on or after February 15, 2000, in whole or in part, at the appropriate redemption prices (as defined in the indenture governing the 3% Notes) plus accrued interest to the redemption date. The 3% Notes will be subordinated in right of payment to all existing and future Senior Debt (as defined in the indenture governing the 3% Notes) of the Company.

DEBT MATURITIES

Aggregate maturities of debt for each of the next five years commencing in 1998 are as follows:

(In millions)

| YEAR | AMOUNT |
|---|---|
| 1998 | $ 2.3 |
| 1999 | 4.1 |
| 2000 | 1.0 |
| 2001 | -- |
| 2002 | 543.2 |
| Thereafter | 697.7 |
| Total | $ 1,248.3 |

## 14. LIABILITIES UNDER MANAGEMENT AND MORTGAGE PROGRAMS

Borrowings to fund assets under management and mortgage programs consisted of:

| (In millions) | DECEMBER 31, 1997 | DECEMBER 31, 1996 |
|---|---|---|
| Commercial paper | $ 2,577.5 | $ 3,090.8 |
| Medium-term notes | 2,747.8 | 1,662.2 |
| Other | 277.3 | 336.9 |
| Liabilities under management and mortgage programs | $ 5,602.6 | $ 5,089.9 |

Commercial paper, all of which matures within 90 days, is supported by committed revolving credit agreements described below and short-term lines of credit. The weighted average interest rates on the Company's outstanding commercial paper was 5.9% and 5.4% at December 31, 1997 and 1996, respectively.

Medium-term notes of $2.7 billion primarily represent unsecured loans which mature in 1998. The weighted average interest rates on such medium-term notes was 5.9% and 5.7% at December 31, 1997 and 1996, respectively.

Other liabilities under management and mortgage programs are principally comprised of unsecured borrowings under uncommitted short-term lines of credit and other bank facilities, all of which matures in 1998. The weighted average interest rate on such debt was 6.7% and 5.8% at December 31, 1997 and 1996, respectively.

Interest expense is incurred on indebtedness which is used to finance fleet leasing, relocation and mortgage servicing activities. Interest incurred on borrowings used to finance fleet leasing activities was $177.0 million, $161.8 million and $159.7 million for the years ended December 31, 1997, 1996, and 1995, respectively, is included net within fleet leasing revenues in the Consolidated Statements of Income. Interest related to equity advances on homes was $32.0 million, $35.0 million and $26.0 million for the years ended December 31, 1997, 1996 and 1995, respectively. Interest related to mortgage servicing activities were $77.6 million, $63.4 million and $49.9 million for the years ended December 31, 1997, 1996 and 1995, respectively. Interest expenses incurred on borrowings used to finance both equity advances on homes and mortgage servicing activities are recorded net within membership and service fee revenue in the Consolidated Statements of Income.

To provide additional financial flexibility, the Company's current policy is to ensure that minimum committed facilities aggregate 80 percent of the average amount of outstanding commercial paper. As of December 31, 1997, the Company maintained a $2.5 billion committed and unsecured credit facility which was backed by a consortium of domestic and foreign banks. The facility was comprised of a $1.25 billion credit line maturing in 364 days and a five year $1.25 billion credit line maturing in the year 2002. Under such credit facility, the Company paid annual commitment fees of $1.7 million, $2.4 million and $2.3 million for the years ended December 31, 1997, 1996 and 1995, respectively. In addition, the Company has other uncommitted lines of credit with various banks of which $180.7 million was unused at December 31, 1997. The full amount of the Company's committed facility was undrawn and available at December 31, 1997 and 1996.

Although the period of service for a vehicle is at the lessee's option, and the period a home is held for resale varies, management estimates, by using historical information, the rate at which vehicles will be disposed and the rate at which homes will be resold. Projections of estimated liquidations of assets under management and mortgage programs and the related estimated repayment of liabilities under management and mortgage programs as of December 31, 1997, are set forth as follows:

| (In millions) YEARS | ASSETS UNDER MANAGEMENT AND MORTGAGE PROGRAMS | LIABILITIES UNDER MANAGEMENT AND MORTGAGE PROGRAMS (1) |
|---|---|---|
| 1998 | $ 3,321.3 | $ 2,746.6 |
| 1999 | 1,855.2 | 1,702.6 |
| 2000 | 838.6 | 766.3 |
| 2001 | 272.8 | 245.8 |
| 2002 | 92.9 | 84.4 |
| 2003-2007 | 62.9 | 56.9 |
| | $ 6,443.7 | $ 5,602.6 |

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(1) The projected repayments of liabilities under management and mortgage programs are different than required by contractual maturities.

15. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial 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 and anticipated mortgage loan closing arising from commitments issued. The Company performs analyses on an on-going basis to determine that a high correlation exists between the characteristics of derivative instruments and the assets or transactions being hedged. As a matter of policy, the Company does not engage in derivatives activities for trading or speculative purposes. The Company is exposed to credit-related losses in the event of non-performance by counterparties to certain derivative financial instruments. The Company manages such risk by periodically evaluating the financial position of counterparties and spreading its positions among multiple counterparties. The Company presently does not expect non-performance by any of the counterparties.

INTEREST RATE SWAPS

If the interest characteristics of the funding mechanism that the Company uses does not match the interest characteristics of the assets being funded, the Company enters into interest rate swap agreements to offset the interest rate risk associated with such funding. The swap agreements correlate the terms of the assets to the maturity and rollover of the debt by effectively matching a fixed or floating interest rate with the stipulated revenue stream generated from the portfolio of assets being funded. Amounts to be paid or received under interest rate swap agreements are accrued as interest rates change and are recognized over the life of the swap agreements as an adjustment to interest expense. For the years ended December 31, 1997 and 1996, the Company's hedging activities increased interest expense $4.0 million and $4.1 million, respectively, and had no effect on its weighted average borrowing rate. The fair value of the swap agreements is not recognized in the consolidated financial statements since they are accounted for as hedges.

The following table summarizes the maturity and weighted average rates of the Company's interest rate swaps related to liabilities under management and mortgage programs at December 31, 1997:

| (Dollars in millions) | MATURITIES | | | | | | |
|---|---|---|---|---|---|---|---|
| | TOTAL | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
| UNITED STATES | | | | | | | |
| Commercial Paper: | | | | | | | |
| Pay fixed/receive floating: | | | | | | | |
| Notional value | $ 355.7 | $ 184.3 | $ 110.1 | $ 40.6 | $ 11.8 | $ 3.4 | $ 5.5 |
| Weighted average receive rate | | 5.68% | 5.68% | 5.68% | 5.68% | 5.68% | 5.68% |
| Weighted average pay rate | | 6.25% | 6.29% | 6.19% | 6.28% | 6.40% | 6.61% |
| Medium-Term Notes: | | | | | | | |
| Pay floating/receive fixed: | | | | | | | |
| Notional value | 586.0 | 500.0 | | 86.0 | | | |
| Weighted average receive rate | | 6.12% | | 6.71% | | | |
| Weighted average pay rate | | 5.89% | | 5.89% | | | |
| Pay floating/receive floating: | | | | | | | |
| Notional value | 965.0 | 965.0 | | | | | |
| Weighted average receive rate | | 5.76% | | | | | |
| Weighted average pay rate | | 5.70% | | | | | |
| CANADA | | | | | | | |
| Commercial Paper: | | | | | | | |
| Pay fixed/receive floating: | | | | | | | |
| Notional value | 54.8 | 29.6 | 18.4 | 5.9 | .9 | | |
| Weighted average receive rate | | 4.53% | 4.53% | 4.53% | 4.53% | | |
| Weighted average pay rate | | 5.36% | 5.12% | 4.89% | 4.93% | | |
| Pay floating/receive floating: | | | | | | | |
| Notional value | 59.8 | 31.2 | 16.7 | 6.5 | 5.1 | .3 | |
| Weighted average receive rate | | 5.88% | 5.88% | 5.88% | 5.88% | 5.88% | |
| Weighted average pay rate | | 4.91% | 4.91% | 4.91% | 4.91% | 4.91% | |
| Pay floating/receive fixed: | | | | | | | |
| Notional value | 28.3 | 28.3 | | | | | |
| Weighted average receive rate | | 3.68% | | | | | |
| Weighted average pay rate | | 4.53% | | | | | |
| UK | | | | | | | |
| Commercial Paper: | | | | | | | |
| Pay floating/receive fixed: | | | | | | | |
| Notional value | 491.4 | 174.6 | 167.5 | 113.9 | 35.4 | | |
| Weighted average receive rate | | 7.22% | 7.15% | 7.24% | 7.28% | | |
| Weighted average pay rate | | 7.69% | 7.69% | 7.69% | 7.69% | | |
| GERMANY | | | | | | | |
| Commercial Paper: | | | | | | | |
| Pay fixed/receive fixed: | | | | | | | |
| Notional value | 9.1 | 2.5 | (5.6) | 3.1 | 9.1 | | |
| Weighted average receive rate | | 3.76% | 3.76% | 3.76% | 3.76% | | |
| Weighted average pay rate | | 5.34% | 5.34% | 5.34% | 5.34% | | |
| Total | $ 2,550.1 | $ 1,915.5 | $ 307.1 | $ 256.0 | $ 62.3 | $ 3.7 | $ 5.5 |

FOREIGN EXCHANGE CONTRACTS
In order to manage its exposure to fluctuations in foreign currency exchange rates on a selective basis, the Company enters into foreign exchange contracts. Such contracts are utilized as hedges of intercompany loans to foreign subsidiaries. Market value gains and losses on the Company's foreign currency transaction hedges related to intercompany loans are deferred and recognized upon maturity of the loan. Such contracts effectively offset the currency risk applicable to approximately $409.8 million and $329.1 million of obligations at December 31, 1997 and 1996, respectively.

OTHER FINANCIAL INSTRUMENTS
With respect to both mortgage loans held for sale and anticipated mortgage loan closings arising from commitments issued, the Company is exposed to the risk of adverse price fluctuations. The Company uses forward delivery contracts, financial futures and option contracts to reduce such risk. Market value gains and losses on such positions used as hedges are deferred and considered in the valuation of cost or market value of mortgage loans held for sale.

The value of the Company's mortgage servicing rights is sensitive to changes in interest rates. The Company has developed and implemented a hedge program to manage the associated financial risks of loan prepayments. The Company has acquired certain derivative financial instruments, primarily interest rate floors, futures and options to administer its hedge program. Premiums paid or received on the acquired derivative instruments are capitalized and amortized over the life of the contract. Gains and losses associated with the hedge instruments are deferred and recorded as adjustments to the basis of the mortgage servicing rights. Deferrals under the hedge programs are allocated to each applicable stratum of mortgage servicing rights based upon its original designation and included in the impairment measurement.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS AND SERVICING RIGHTS

The following methods and assumptions were used by the Company in estimating its fair value disclosures for material financial instruments. The fair values of the financial instruments presented may not be indicative of their future values.

MARKETABLE SECURITIES

The Company determines the appropriate classification of marketable securities at the time of purchase and reevaluates such designation as of each balance sheet date. All securities at December 31, 1997 and 1996 were classified as available-for-sale and were reported at fair value with the net unrealized holding gains and losses, net of tax, reported as a component of shareholders' equity until realized. Fair value was based upon quoted market prices or investment adviser estimates. Declines in the market value of available-for-sale securities deemed to be other than temporary result in charges to current earnings and the establishment of a new cost basis. Gross unrealized gains and losses on marketable securities were not material.

MORTGAGE LOANS HELD FOR SALE

Fair value is estimated using the quoted market prices for securities backed by similar types of loans and current dealer commitments to purchase loans. These loans are priced to be sold with servicing rights retained. Gains (losses) on mortgage-related positions, used to reduce the risk of adverse price fluctuations, for both mortgage loans held for sale and anticipated mortgage loan closings arising from commitments issued, are included in the carrying amount of mortgage loans held for sale.

MORTGAGE SERVICING RIGHTS

Fair value is estimated based on market quotes and discounted cash flow analyses based on current market information including market prepayment rate consensus. Such market information is subject to change as a result of changing economic conditions.

LONG-TERM DEBT

The fair values of the Company's Senior Notes, Convertible Notes and Medium-term Notes are estimated based on quoted market prices or market comparables.

INTEREST RATE SWAPS, FOREIGN EXCHANGE CONTRACTS, FUTURES CONTRACTS AND OPTIONS

The fair values of these instruments are estimated, using dealer quotes, as the amount that the Company would receive or pay to execute a new agreement with terms identical to those remaining on the current agreement, considering interest rates at the reporting date.

The carrying amounts and fair values of the Company's financial instruments at December 31, are as follows:

| | 1997 | | | 1996 | | |
|---|---|---|---|---|---|---|
| (In millions) | NOTIONAL/ CONTRACT AMOUNT | CARRYING AMOUNT | ESTIMATED FAIR VALUE | NOTIONAL/ CONTRACT AMOUNT | CARRYING AMOUNT | ESTIMATED FAIR VALUE |
| ASSETS | | | | | | |
| Marketable securities: | | | | | | |
| Debt securities | $ -- | $ 21.7 (a) | $ 21.7 | $ -- | $ 69.4 (a) | $ 69.4 |
| Equity securities | -- | -- | -- | -- | 22.5 | 22.5 |
| Investment in mortgage related securities | -- | 48.0 | 48.0 | -- | -- | -- |
| ASSETS UNDER MANAGEMENT AND MORTGAGE PROGRAMS | | | | | | |
| Relocation receivables | -- | 775.3 | 775.3 | -- | 773.3 | 773.3 |
| Mortgage loans held for sale | -- | 1,636.3 | 1,668.1 | -- | 1,248.3 | 1,248.3 |
| Mortgage servicing rights | -- | 373.0 | 394.6 | -- | 288.9 | 324.1 |
| OFF BALANCE SHEET DERIVATIVES RELATING TO LONG-TERM DEBT | | | | | | |
| Foreign exchange forwards | 5.5 | -- | -- | -- | -- | -- |
| LIABILITIES UNDER MANAGEMENT AND MORTGAGE PROGRAMS | | | | | | |
| Debt | -- | 5,602.6 | 5,604.2 | -- | 5,089.9 | 5,089.9 |
| OFF BALANCE SHEET DERIVATIVES RELATING TO LIABILITIES UNDER MANAGEMENT AND MORTGAGE PROGRAMS | | | | | | |
| Interest rate swaps | 2,550.1 | -- | -- | 1,670.2 | -- | -- |
| In a gain position | -- | -- | 5.6 | -- | -- | 2.5 |
| In a loss position | -- | -- | (3.9) | -- | -- | (10.7) |
| Foreign exchange forwards | 415.5 | -- | 2.5 | 329.1 | -- | 10.0 |
| MORTGAGE-RELATED POSITIONS | | | | | | |
| Forward delivery commitments (b) | 2,582.5 | 19.4 | (16.2) | 1,703.5 | 11.4 | 7.4 |
| Option contracts to sell (b) | 290.0 | .5 | -- | 265.0 | 1.0 | .7 |
| Option contracts to buy (b) | 705.0 | 1.1 | 4.4 | 350.0 | 1.3 | (.5) |
| Treasury options used to hedge servicing rights (c) | 331.5 | 4.8 | 4.8 | 313.9 | 1.3 | .3 |
| Constant maturity treasury floors (c) | 825.0 | 12.5 | 17.1 | -- | -- | -- |
| Interest rate swaps (c) | 175.0 | 1.3 | 1.3 | -- | -- | -- |

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

(a) All debt securities mature within one year and are classified as other current assets in the consolidated balance sheets.

(b) Carrying amounts and gains (losses) on these mortgage-related positions are already included in the determination of the respective carrying amounts and fair values of mortgage loans held for sale.

(c) Carrying amounts on these mortgage-related positions are capitalized and recorded as mortgage servicing rights. Gains (losses) on such positions are included in the determination of fair value of mortgage servicing rights.

17. COMMITMENTS AND CONTINGENCIES

LEASES

The Company has noncancelable operating leases covering various facilities and equipment, which expire through the year 2004. Rental expense for the years ended December 31, 1997, 1996 and 1995 was $91.3 million, $75.3 million and $62.5 million respectively. The Company has been granted rent abatements for varying periods on certain of its facilities. Deferred rent relating to those abatements is being amortized on a straight-line basis over the applicable lease terms. Commitments under capital leases are not significant.

Future minimum lease payments required under noncancelable operating leases as of December 31, 1997 are as follows:

(In millions)

| YEAR | AMOUNT |
|---|---|
| 1998 | $ 70.3 |
| 1999 | 64.4 |
| 2000 | 55.3 |
| 2001 | 41.2 |
| 2002 | 29.5 |
| Thereafter | 78.2 |
| Total minimum lease payments | $ 338.9 |

LITIGATION

Company Investigation and Litigation

On April 15, 1998, as a result of the discovery of accounting irregularities in former CUC business units and the investigation of the Audit Committee of the Company's Board of Directors into such matters, the Company has restated its previously reported financial results for 1997, 1996 and 1995.

Since the Company's announcement of the discovery of such accounting irregularities on April 15, 1998, and prior to the date hereof, seventy-one purported class action lawsuits and one individual lawsuit have been filed against the Company, and certain current and former officers and directors of the Company and HFS, asserting various claims under the federal securities laws (the "Federal Securities Actions"). Some of the actions also name as defendants Merrill Lynch & Co. and, in one case, Chase Securities, Inc., underwriters for the Company's PRIDES securities offering; two others also name Ernst & Young LLP, the Company's former independent accountants. Sixty-four of the Federal Securities Actions were filed in the United States District Court for the District of New Jersey, six were filed in the United States District Court for the District of Connecticut (including the individual action), one was filed in the United States District Court for the Eastern District of Pennsylvania, and one was filed in New Jersey Superior Court. The Federal Securities Actions filed in the District of Connecticut and Eastern District of Pennsylvania have been transferred to the District of New Jersey. On June 10, 1998, the Company moved to dismiss or stay the Federal Securities Actions filed in New Jersey Superior Court on the ground that, among other things, it is duplicative of the actions filed in federal courts. The court granted that motion on August 7, 1998, without prejudice to the plaintiff's right to re-file the case in the District of New Jersey.

Certain of these Federal Securities Actions purport to be brought on behalf of purchasers of the Company's common stock and/or options on common stock during various periods, most frequently beginning May 28, 1997 and ending April 15, 1998 (although the alleged class periods begin as early as March 21, 1995 and end as late as July 15, 1998). Others claim to be brought on behalf of persons who exchanged HFS common stock for the Company's common stock in connection with the Merger. Some plaintiffs purport to represent both of these types of investors. In addition, eight actions pending in the District of New Jersey purport to be brought, either in their entirety or in part, on behalf of purchasers of the Company's PRIDES securities. The complaints in the Federal Securities Actions allege, among other things, that as a result of accounting irregularities, the Company's previously issued financial statements were materially false and misleading and that the defendants knew or should have known that these financial statements caused the prices of the Company's securities to be inflated artificially. The Federal Securities Actions variously allege violations of Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 10b-5 promulgated thereunder, Section 14(a) of the Exchange Act and SEC 14a-9 promulgated thereunder, Section 20(a) of the Exchange Act, and Sections 11, 12 and 15 of the Securities Act of 1933, as amended (the "Securities Act"). Certain actions also allege violations of common law. The individual action also alleges violations of Section 18(a) of the Exchange Act and the Florida securities law. The class action complaints seek damages in unspecified amounts. The individual action seeks damages in the amount of approximately $9 million plus interest and expenses.

On May 29, 1998, United States Magistrate Judge Joel A. Pisano entered an Order consolidating the 50 Federal Securities Actions that had at that time been filed in the United States District Court for the District of New Jersey, under the caption In re: Cendant Corporation Litigation, Master File No. 98-1664 (WHW). Pursuant to the Order, all related actions subsequently filed in the District of New Jersey are to be consolidated under that caption. United States District Court Judge William H. Walls has selected lead plaintiffs to represent all potential class members in the consolidated action. He has also ordered that applications seeking appointment as lead counsel to represent the lead plaintiffs are to be filed with the Court by September 17, 1998. The selection of lead counsel is pending.

In addition, on April 27, 1998, a purported shareholder derivative action, Deutch v. Silverman, et al., No. 98-1998 (WHW), was filed in the District of New Jersey against certain of the Company's current and former directors and officers; The Bear Stearns Companies, Inc.; Bear Stearns & Co.; Inc. and, as a nominal party, the Company. The complaint in the Deutch action alleges that certain 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. The complaint also alleges various other breaches of fiduciary duty, mismanagement, negligence and corporate waste, and seeks damages on behalf of the Company.

Another action, entitled Corwin v. Silverman, et al., No. 16347-NC, was filed on April 29, 1998 in the Court of Chancery for the State of Delaware. The Corwin action is purportedly brought both derivatively, on behalf of the Company, and as a class action, on behalf of all shareholders of HFS who exchanged their HFS shares for the Company's shares in connection with the Merger. The Corwin action names as defendants HFS and twenty-eight individuals who are and were directors of Cendant and HFS. The complaint in the Corwin action, as amended on July 28, 1998, alleges that HFS and its directors breached their fiduciary duties of loyalty, good faith, care and candor in connection with the Merger, in that they failed to properly investigate the operations and financial statements of the Company before approving the Merger at an allegedly inadequate price. The amended complaint also alleges that the Company's directors breached their fiduciary duties by entering into an employment agreement with Cendant's former Chairman, Walter Forbes, in connection with the Merger that purportedly amounted to corporate waste. The Corwin action seeks, among other things, recission of the Merger and compensation for all losses and damages allegedly suffered in connection therewith.

The staff of the Securities and Exchange Commission (the "SEC") and the United States Attorney for the District of New Jersey are conducting investigations relating to the matters referenced above. The SEC staff has advised the Company that its inquiry should not be construed as an indication by the SEC or its staff that any violations of law have occurred.

In connection with the Merger, certain officers and directors of HFS exchanged their shares of HFS common stock and options exercisable for HFS common stock for shares of the Company's common stock and options exercisable for the Company's common stock, respectively. As a result of the aforementioned accounting irregularities, such officers and directors have advised the Company that they believe they have claims against the Company in connection with such exchange. In addition, certain current and former officers and directors of the Company would consider themselves to be members of any class ultimately certified in the Federal Securities Actions now pending in which the Company is named as a defendent by virtue of their having been HFS stockholders at the time of the Merger.

While it is not feasible to predict or determine the final outcome of these proceedings or to estimate the amounts or potential range of loss with respect to these matters, management believes that an adverse outcome with respect to such proceedings could have a material adverse impact on the financial condition, results of operations and cash flows of the Company.

Ideon settlement. On June 13, 1997, the Company entered into a settlement agreement (the "Agreement") with Peter Halmos, the co-founder of SafeCard Services, Incorporated ("SafeCard"), which was reorganized in 1995 as Ideon and then acquired by the Company in August 1996. The Agreement, which became effective in July 1997, provided for the settlement of outstanding litigation matters involving Peter Halmos, SafeCard and Ideon. The Agreement called for the dismissal with prejudice of such litigation matters and the payment of $70.5 million to Peter Halmos, over a six-year period comprised of one up-front payment of $13.5 million and six subsequent annual payments of $9.5 million. The Company had previously provided a reserve for this litigation in the charge recorded coincident with the Ideon Merger. (See Note 7 -- Merger-Related Costs and Other Unusual Charges -- 1996 Poolings -- Ideon Merger Charge.)

Acquired Company Litigation. One of the Company's subsidiaries currently faces liability to third parties for damages due to property damage allegedly caused by environmental contamination at four former manufactured gas plants and one related waterway site located in the States of Washington and Oregon. Various third parties, including governmental entities and other potentially responsible parties, have alleged that such subsidiary is legally obligated to pay damages and/or take actions to investigate or clean up property damage to surface water, ground water, land or other property resulting from the purported presence of hazardous substances allegedly generated or released during the historical operation of the manufactured gas plants for which such subsidiary allegedly is responsible. Such subsidiary is currently defending itself vigorously in these matters but concurrently is seeking to effect an out-of-court settlement that, if successful, would result in another party providing an indemnification to such subsidiary for future liabilities relating to these claims.

Messrs. Paul A. Kruger, Warren F. Kruger and Lyle Miller (collectively, the "Plaintiffs") have sued the Company and its wholly-owned subsidiary, SafeCard. The complaint alleges that the Company wrongfully controlled, influenced and dominated SafeCard's affairs and that SafeCard, under the direction and control of the Company, wrongfully impeded the Plaintiffs' ability to achieve their contingent payments due under a stock purchase agreement. The complaint contains, in addition to other counts against the Company and SafeCard, one count of tortious interference with contract (against the Company) and one count of intentional interference with economic opportunity (also against the Company). The complaint seeks actual damages in an amount of $22 million. The Plaintiffs are also currently seeking court approval to amend the complaint to claim unspecified punitive damages. The Company and SafeCard have objected to such amendment and are awaiting a court decision with respect thereto.

Other pending litigation. The Company is subject to certain other legal proceedings and claims arising in the ordinary course of its business. Management does not believe that the outcome of such matters will have a material adverse effect on the Company's financial position, liquidity or operating results.

18. INCOME TAXES

The income tax provision (benefit) consists of:

| (In millions) | FOR THE YEAR ENDED DECEMBER 31, 1997 | 1996 | 1995 |
|---|---|---|---|
| Current | | | |
| Federal | $ 155.1 | $ 101.1 | $ 38.4 |
| State | 24.4 | 13.3 | 14.4 |
| Foreign | 28.5 | 18.1 | 10.1 |
| | 208.0 | 132.5 | 62.9 |
| Deferred | | | |
| Federal | (16.8) | 70.4 | 73.7 |
| State | (3.4) | 16.5 | 2.7 |
| Foreign | 3.2 | .8 | 3.9 |
| | (17.0) | 87.7 | 80.3 |
| Provision for income taxes | $ 191.0 | $ 220.2 | $ 143.2 |

Net deferred income tax assets and liabilities are comprised of the following:

| (In millions) | DECEMBER 31, 1997 | 1996 |
|---|---|---|
| CURRENT NET DEFERRED INCOME TAXES | | |
| Merger and acquisition-related liabilities | $ 102.9 | $ 54.6 |
| Accrued liabilities and deferred income | 225.8 | 132.6 |
| Insurance retention refund | (19.3) | (13.7) |
| Provision for doubtful accounts | 4.0 | 8.1 |
| Franchise acquisition costs | (2.6) | (2.6) |
| Deferred membership acquisition costs | 8.6 | (40.0) |
| Other | (7.5) | (2.1) |
| Current net deferred tax asset | $ 311.9 | $ 136.9 |
| NON-CURRENT NET DEFERRED INCOME TAXES | | |
| Depreciation and amortization | $ (277.1) | $ (169.6) |
| Deductible goodwill -- taxable poolings | 44.2 | -- |
| Merger and acquisition-related liabilities | 35.0 | -- |
| Accrued liabilities and deferred income | 66.9 | 46.3 |
| Acquired net operating loss carryforward | 59.9 | 85.9 |
| Other | .2 | (25.0) |
| Non-current net deferred tax asset (liability) | $ (70.9) | $ (62.4) |
| MANAGEMENT AND MORTGAGE PROGRAM DEFERRED INCOME TAXES | | |
| Depreciation | $ (233.1) | $ (245.1) |
| Unamortized mortgage servicing rights | (74.6) | (51.2) |
| Accrued liabilities | 9.5 | 1.3 |
| Alternative minimum tax carryforwards | 2.5 | 13.1 |
| Net deferred tax liabilities under management and mortgage programs | $ (295.7) | $ (281.9) |

The Company has recorded deferred tax assets of $ 44.2 million primarily attributed to the difference in book and tax basis of assets acquired and accounted for using the pooling-of-interests method of accounting. The deferred tax asset recorded in connection with the above acquisitions, resulted in a corresponding $44.2 million increase to shareholders' equity.

Net operating loss carryforwards at December 31, 1997 acquired in connection with the acquisition of Avis, Inc. expire as follows: 2002, $30.2 million; 2005, $7.2 million; 2009, $17.7 million; and 2010, $116.0 million.

The Company's effective income tax rate differs from the statutory federal rate as follows:

| | FOR THE YEAR ENDING DECEMBER 31, | | |
|---|---|---|---|
| | 1997 | 1996 | 1995 |
| Federal statutory rate | 35.0% | 35.0% | 35.0% |
| State income taxes net of federal benefit | 5.3% | 3.6% | 3.2% |
| Non-deductible merger-related costs | 29.1% | -- | -- |
| Amortization of non-deductible goodwill | 4.3% | 1.5% | 1.2% |
| Foreign taxes differential | .3% | .5% | .6% |
| Other | .3% | .6% | .9% |
| Effective tax rate | 74.3% | 41.2% | 40.9% |

## 19. STOCK OPTION PLANS

In connection with the Cendant Merger, the Company adopted its 1997 Stock Incentive Plan (the "Incentive Plan"). The Incentive Plan authorizes the granting of up to 25 million shares of Company common stock through awards of stock options (which may include incentive stock options and/or nonqualified stock options), stock appreciation rights and shares of restricted Company common stock. All directors, officers and employees of the Company and its affiliates are eligible to receive awards under the Incentive Plan. Options granted under the Incentive Plan generally have a ten year term and are exercisable at 20% per year commencing one year from the date of grant. During 1997, the Company also adopted two other stock plans: the 1997 Employee Stock Plan (the "1997 Employee Plan") and the 1997 Stock Option Plan (the "1997 SOP"). The 1997 Employee Plan authorizes the granting of up to 25 million shares of Company common stock through awards of nonqualified stock options, stock appreciation rights and shares of restricted Company common stock to employees of the Company and its affiliates. The 1997 SOP provides for the granting of up to 10 million shares of Company common stock to key employees (including employees who are directors and officers) of the Company and its subsidiaries through awards of incentive and/or nonqualified stock options. Options granted under the 1997 Employee Plan and the 1997 SOP generally have ten year terms and are exercisable at 20% per year commencing one year from the date of grant.

The Company also grants options to employees pursuant to three additional stock option plans under which the Company may grant options to purchase in the aggregate up to 70.8 million shares of Company common stock. Annual vesting periods under these plans range from 20% to 33%, all commencing one year from the respective grant dates. At December 31, 1997, there were 35.5 million shares outstanding collectively under these plans.

The table below summarizes the annual activity of Cendant's pooled stock option plans:

| (Shares in millions) | OPTIONS OUTSTANDING | WEIGHTED AVG. EXERCISE PRICE |
|---|---|---|
| BALANCE AT DECEMBER 31, 1994 | 92.7 | $ 6.20 |
| Granted | 21.1 | 10.74 |
| Canceled | (2.7) | 8.48 |
| Exercised | (12.4) | 5.39 |
| BALANCE AT DECEMBER 31, 1995 | 98.7 | 7.21 |
| Granted | 36.1 | 22.14 |
| Canceled | (2.8) | 18.48 |
| Exercised | (14.0) | 5.77 |
| BALANCE AT DECEMBER 31, 1996 | 118.0 | 11.68 |
| Granted | 78.8 | 27.94 |
| Canceled | (6.4) | 27.29 |
| Exercised | (14.0) | 7.20 |
| PHH conversion (1) | (4.4) | -- |
| BALANCE AT DECEMBER 31, 1997 | 172.0 | 18.66 |

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(1) In connection with the PHH Merger, all unexercised PHH stock options were canceled and converted into 1.8 million shares of Company common stock.

The Company utilizes the disclosure-only provisions of SFAS No. 123 "Accounting for Stock-Based Compensation" and applies Accounting Principle Board Opinion ("APB") No. 25 and related interpretations in accounting for its stock option plans. Under APB No. 25, because the exercise prices of the Company's employee stock options are equal to the market prices of the underlying Company stock on the date of grant, no compensation expense is recognized.

Had the Company elected to recognize compensation cost for its stock option plans based on the calculated fair value at the grant dates for awards under such plans, consistent with the method prescribed by SFAS No. 123, net income (loss) per share would have reflected the pro forma amounts indicated below:

| | | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|---|
| (In millions, except per share data) | | 1997(1) | 1996 | 1995 |
| Net income (loss): | | | | |
| as reported | | $ (217.2) | $ 330.0 | $ 229.8 |
| pro forma | | (663.9)(3) | 245.1 | 201.8 |
| Net income (loss) per share: | | | | |
| Basic | as reported | $ (.27) | $ .44 | $ .33 |
| | pro forma (2) | (.82)(3) | .32 | .29 |
| Diluted | as reported | (.27) | .41 | .31 |
| | pro forma (2) | (.82)(3) | .31 | .27 |

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(1) Includes an after-tax charge of $283.1 million or $.35 per share, to account for the cumulative effect of a change in accounting related to revenue and expense recognition for memberships (see Notes 2 and 3).

(2) The effect of applying SFAS No. 123 on the pro forma net income per share disclosures is not indicative of future amounts because it does not take into consideration option grants made prior to 1995 or in future years.

(3) Includes incremental compensation expense of $335.4 million ($204.9 million, after tax) or $.25 per basic and diluted share as a result of the immediate vesting of HFS options upon consummation of the Cendant Merger.

The fair values of the stock options are estimated on the dates of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for options granted in 1997, 1996 and 1995:

| | CENDANT PLANS | CUC PLANS | | HFS PLANS | | PHH PLANS | |
|---|---|---|---|---|---|---|---|
| | 1997 | 1996 | 1995 | 1996 | 1995 | 1996 | 1995 |
| Dividend Yield | -- | -- | -- | -- | -- | 2.8% | 3.5% |
| Expected volatility | 32.5% | 28.0% | 26.0% | 37.5% | 37.5% | 21.5% | 19.8% |
| Risk-free interest rate | 5.6% | 6.3% | 5.3% | 6.4% | 6.4% | 6.5% | 6.9% |
| Expected holding period | 7.8 years | 5.0 years | 5.0 years | 9.1 years | 9.1 years | 7.5 years | 7.5 years |

The weighted average fair value of Cendant stock options granted during the year ended December 31, 1997 was $13.71. The weighted average fair values of stock options granted under the former CUC plans (inclusive of plans acquired) during the years ended December 31, 1996 and 1995 were $7.51 and $6.69, respectively. The weighted average fair values of stock options granted under the former HFS plans (inclusive of the PHH plans) during the years ended December 31, 1996 and 1995 were $10.96 and $4.79, respectively.

The tables below summarize information regarding Cendant stock options outstanding and exercisable as of December 31, 1997:

(Shares in millions)

| | OPTIONS OUTSTANDING | | | OPTIONS EXERCISABLE | |
|---|---|---|---|---|---|
| RANGE OF EXERCISE PRICES | SHARES | WEIGHTED AVG. REMAINING CONTRACTUAL LIFE | WEIGHTED AVERAGE EXERCISE PRICE | SHARES | WEIGHTED AVERAGE EXERCISE PRICE |
| $.01 to $ 10.00 | 48.9 | 5.4 | $ 4.16 | 47.5 | $ 4.09 |
| $10.01 to $ 20.00 | 29.2 | 7.1 | 14.60 | 21.1 | 14.99 |
| $20.01 to $ 30.00 | 46.5 | 8.9 | 23.55 | 35.1 | 23.75 |
| $30.01 to $ 40.00 | 47.4 | 9.8 | 31.35 | 18.1 | 31.40 |
| Total | 172.0 | 7.8 | 18.66 | 121.8 | 15.69 |

Shares exercisable and available for grant at December 31, 1997 and 1996 were as follows:

| | 1997 | 1996 | |
|---|---|---|---|
| (In millions) | CENDANT OPTIONS | CUC OPTIONS | HFS OPTIONS (INCLUSIVE OF PHH OPTIONS) |
| Shares exercisable | 121.8 | 11.8 | 46.2 |
| Shares available for grant | 49.3 | 8.4 | 5.1 |

The Company reserved 11.4 million shares of Company common stock for issuance in connection with its Restricted Stock Plan. As of December 31, 1997, 10.6 million shares of restricted common stock have been granted of which 10.4 million shares have vested under this plan.

The Company has reserved 1.1 million shares of Company common stock in connection with its 1994 Employee Stock Purchase Plan, which enables employees to purchase shares of common stock from the Company at 90% of the fair market value on the fifteenth day following the last day of each calendar quarter, in an amount up to 25% of the employees' year-to-date earnings.

20. EMPLOYEE BENEFIT PLANS

PENSION AND RETIREMENT PLANS

The Company sponsors several defined contribution plans that provide certain eligible employees of the Company an opportunity to accumulate funds for their retirement. The Company matches the contributions of participating employees on the basis of the percentages specified in the plans.

During 1996, a Deferred Compensation Plan (the "Plan") was implemented providing senior executives with the opportunity to participate in a funded, deferred compensation program. The assets of the Plan are held in an irrevocable rabbi trust. Under the Plan, participants may defer up to 80% of their base compensation and up to 98% of bonuses earned. The Company contributes $0.50 for each $1.00 contributed by a participant, regardless of length of service, up to a maximum of six percent of the employee's compensation. The Plan is not qualified under Section 401 of the Internal Revenue Code. The Company's matching contributions relating to the above plans were not material to the consolidated financial statements.

The Company's PHH subsidiary has a non-contributory defined benefit pension plan covering substantially all domestic employees of PHH and its subsidiaries. PHH's subsidiary located in the United Kingdom has a contributory defined benefit pension plan, with participation at the employee's 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 policy for both plans is to contribute amounts sufficient to meet the minimum requirements plus other amounts as the Company deems appropriate from time to time. The projected benefit obligations of the funded plans were $108.1 million and $97.1 million and funded assets, at fair value (primarily common stock and bond mutual funds) were $102.7 million and $88.4 million at December 31, 1997 and 1996, respectively. The net pension cost and the recorded liability were not material to the accompanying consolidated financial statements.

The Company also sponsors two unfunded retirement plans to provide certain key executives with benefits in excess of limits under the federal tax law and to include annual incentive payments in benefit calculations. The projected benefit obligation, net pension cost and recorded liability related to the unfunded plans were not material to the accompanying consolidated financial statements.

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Company's PHH subsidiary provides health care and life insurance benefits for certain retired employees up to the age of 65. The net periodic postretirement benefit costs and the recorded liability were not material to the accompanying consolidated financial statements.

## 21. INVESTMENTS

ARAC

Upon entering into a definitive merger agreement to acquire Avis in 1996, the Company announced its strategy to dilute its interest in ARAC while retaining assets associated with the franchise business, including trademarks, reservation system assets and franchise agreements with ARAC and other licensees. Since the Company's control was planned to be temporary, the Company accounted for its 100% investment in ARAC under the equity method. The Company's equity interest was diluted to 27.5% pursuant to an IPO by ARAC in September 1997 and was further diluted to 20.4% as a result of a secondary offering in March 1998.

The Company licenses the Avis trademark to ARAC pursuant to a 50-year master license agreement and receives royalty fees based upon 4% of ARAC revenue, escalating to 4.5% of ARAC revenue over a 5-year period. In addition, the Company operates the telecommunications and computer processing system which services ARAC for reservations, rental agreement processing, accounting and fleet control for which the Company charges ARAC at cost.

NRT

During the third quarter of 1997, the Company executed an agreement with NRT Incorporated ("NRT") (a corporation created to acquire residential real estate brokerage firms) and the principal stockholders' of NRT, which permitted the Company, at its discretion, to acquire up to $263.3 million of NRT preferred stock and $446.0 million of intangible assets of real estate brokerage firms acquired by NRT. During the third quarter of 1997, the Company acquired $182.0 million of NRT preferred stock and through December 31, 1997, the Company had also acquired $216.1 million of certain intangible assets including trademarks associated with real estate brokerage firms acquired by NRT which are subject to a 50 year franchise agreement.

In September 1997, NRT acquired the real estate brokerage business and operations of National Realty Trust ("the Trust"), and two other regional real estate brokerage businesses. The Trust is an independent trust to which the Company contributed the brokerage offices formerly owned by Coldwell Banker in connection with the Company's acquisition of Coldwell Banker. NRT is the largest residential brokerage firm in the United States.

## 22. DIVESTITURE

On December 17, 1997, as directed by the Federal Trade Commission in connection with the Cendant Merger, CUC sold immediately preceding the Cendant Merger all of the outstanding shares of its timeshare exchange businesses, Interval International Inc. ("Interval"), for net proceeds of $240.0 million less transaction related costs pursuant to a Stock Purchase Agreement ("Interval Agreement"). The Company is restricted in its solicitation of Interval's employees, customers or clients for a period of two years from the closing date of the transaction pursuant to the Interval Agreement. In conjunction with the sale, the Company agreed to continue to provide services to certain of Interval's customers for a specified period, guarantee performance of certain responsibilities to third parties (i.e., lease payments and certain other contracts), and absorb certain additional transitional costs related to the transaction. The estimated fair value of the services to be provided to Interval's customers of $57.6 million was recorded as a non-current liability. The value assigned will be amortized over the average life of the servicing period. After considering all these factors, the Company recognized a gain on the sale of Interval of $76.6 million ($26.4 million, after tax), which has been reflected as an extraordinary gain in the consolidated statements of operations.

## 23. FRANCHISING AND MARKETING/RESERVATION ACTIVITIES

Revenue from franchising activities includes initial franchise fees charged to lodging properties and real estate brokerage offices upon execution of a franchise contract. Initial franchise fees amounted to $26.0 million, $24.2 million and $15.7 million for the years ended December 31, 1997, 1996 and 1995, respectively.

Franchising activity for the years ended December 31, 1997, 1996 and 1995 is as follows:

| | LODGING | | | REAL ESTATE | | |
|---|---|---|---|---|---|---|
| | 1997 | 1996 | 1995 | 1997 | 1996 | 1995 |
| FRANCHISE IN OPERATION | | | | | | |
| Units at end of year | 5,566 | 5,397 | 4,603 | 11,715 | 11,349 | 5,990 |
| EXECUTED BUT NOT OPENED | | | | | | |
| Acquired | -- | 24 | 31 | -- | 110 | 104 |
| New agreements | 1,205 | 1,142 | 983 | 1,107 | 829 | 248 |

The Company receives marketing and reservation fees from several of its lodging and real estate franchisees. Marketing and reservation fees related to the Company's lodging brands' franchisees are calculated based on a specified percentage of gross room revenues. Marketing and reservation fees received from the Company's real estate brands' franchisees are based on a specified percentage of gross closed commissions earned on the sale of real estate. As provided in the franchise agreements, 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. Membership and service fee revenues included marketing and reservation fees of $170.0 million, $157.6 million and $140.1 million for the years ended December 31, 1997, 1996 and 1995, respectively.

24. INDUSTRY SEGMENT INFORMATION

The Company operates within three principal industry segments -- alliance marketing, travel and real estate. A description of the Company's segments, and the services provided within its underlying businesses, are as follows:

ALLIANCE MARKETING SEGMENT
Individual, wholesale and discount program membership services are provided to consumers and are distributed through various channels, including financial institutions, credit unions, charities, other cardholder-based organizations and retail establishments. These memberships include such components as shopping, travel, auto, dining, home improvement, lifestyle, credit card and checking account enhancement packages, financial products and discount programs. The Company also administers insurance package programs, which are generally combined with discount shopping and travel for credit union members and publishes a coupon book which is sold through schools and other not-for- profit organizations.

TRAVEL SERVICES SEGMENT
Franchising (Lodging and car rental). As a franchisor of guest lodging facilities and car rental agency locations, Cendant licenses the independent owners and operators of hotels and car rental agencies to use its brand names. Operational 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.

Fleet management. Fleet management services primarily consist of the management, purchasing, leasing, and resale of vehicles for corporate clients and government agencies. These services also include fuel, maintenance, safety and accident management programs and other fee-based services for clients' vehicle fleets.

Timeshare. Timeshare exchange programs, publications and other travel-related services are provided to the timeshare industry.

Value-added tax services. Cendant processes value-added tax refunds for travelers abroad.

REAL ESTATE SERVICES SEGMENT
Franchising (Real estate brokerage). As a franchisor of real estate brokerage offices, Cendant licenses the owners and operators of independent real estate brokerage offices 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.

Relocation. Relocation services are provided to client corporations and include the selling of transferee residences, providing equity advances on transferee residences for the purchase of new homes and home management services. Cendant also offers fee-based programs such as home marketing assistance, household goods moves, destination services and property dispositions for financial institutions and government agencies.

Mortgage. Mortgage services primarily include the origination, sale and servicing of residential first mortgage loans. Cendant markets a variety of first mortgage products to consumers through relationships with corporations, affinity groups, financial institutions, real estate brokerage firms and other mortgage banks.

New mover services. Welcoming packages are distributed to new homeowners which provides them with discounts from local merchants.

OTHER SERVICES SEGMENT
Financial services and marketing. Cendant (i) markets financial product memberships, generally annuities, mutual funds, and life insurance for financial institutions; (ii) provides marketing and other services to casino gaming facilities; and (iii) operates the telecommunications and computer system which facilitates hotel and car rental agency reservations and rental agreement processing.

The following table presents industry segment and geographic data of the Company for the years ended December 31, 1997, 1996 and 1995. Operating income consists of net revenues less operating expenses (total expenses excluding interest--net).

INDUSTRY SEGMENT DATA

| (In millions) | Travel Services | Real Estate Services | Alliance Marketing(5) | Other Services | Consolidated |
|---|---|---|---|---|---|
| 1997 | | | | | |
| Net revenues | $ 1,337.2 | $ 987.0 | $ 1,570.3 | $ 345.5 | $ 4,240.0 |
| Operating income(1) | 272.6 | 280.7 | 125.0 | (370.4) | 307.9 |
| Identifiable assets | 6,700.4 | 5,113.1 | 1,395.8 | 864.1 (4) | 14,073.4 |
| Depreciation and amortization | 102.7 | 58.4 | 42.0 | 34.6 | 237.7 |
| Capital expenditures | 51.6 | 65.4 | 23.3 | 42.4 | 182.7 |
| 1996 | | | | | |
| Net revenues | $ 802.4 | $ 782.4 | $ 1,474.3 | $ 178.6 | $ 3,237.7 |
| Operating income | 254.3 | 216.0 | 48.9 (2) | 28.6 | 547.8 |
| Identifiable assets | 6,685.3 | 4,170.0 | 1,395.9 | 511.3 (4) | 12,762.5 |
| Depreciation and amortization | 55.5 | 44.5 | 34.8 | 10.7 | 145.5 |
| Capital expenditures | 47.6 | 30.5 | 19.0 | 43.5 | 140.6 |
| 1995 | | | | | |
| Net revenues | $ 684.4 | $ 504.3 | $ 1,302.3 | $ 125.1 | $ 2,616.1 |
| Operating income | 196.2 | 114.1 | 38.8 (3) | 17.8 | 366.9 |
| Identifiable assets | 4,449.4 | 2,406.0 | 1,072.1 | 592.0 (4) | 8,519.5 |
| Depreciation and amortization | 46.9 | 18.0 | 30.5 | 5.0 | 100.4 |
| Capital expenditures | 17.3 | 14.4 | 44.2 | 32.8 | 108.7 |

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(1) Includes merger-related costs and other unusual charges which were allocated to the business segments as follows: Travel--$186.0 million, Real estate--$65.3 million, Alliance Marketing--$12.7 million, Other--(substantially Corporate-related)--$440.1 million.

(2) Includes merger-related costs and other unusual charges of $109.4 million.

(3) Includes costs related to Ideon products abandoned and restructuring of $97.0 million.

(4) Includes net assets of discontinued operations of $273.3, $120.1 and $188.9 in 1997, 1996 and 1995, respectively.

(5) 1997 Alliance Marketing segment data has been restated for a change in accounting, effective January 1, 1997, related to revenue and expense recognition for memberships (see Notes 2 and 3).

GEOGRAPHIC DATA

| (In millions) | NORTH AMERICA | EUROPE AND OTHER | CONSOLIDATED |
|---|---|---|---|
| 1997 | | | |
| Net revenues | $ 3,731.2 | $ 508.8 | $ 4,240.0 |
| Operating income | 210.3 | 97.6 | 307.9 |
| Identifiable assets | 12,640.0 | 1,433.4 | 14,073.4 |
| 1996 | | | |
| Net revenues | $ 3,042.2 | $ 195.5 | $ 3,237.7 |
| Operating income | 508.1 | 39.7 | 547.8 |
| Identifiable assets | 11,981.2 | 781.3 | 12,762.5 |
| 1995 | | | |
| Net revenues | $ 2,435.3 | $ 180.8 | $ 2,616.1 |
| Operating income | 332.7 | 34.2 | 366.9 |
| Identifiable assets | 7,775.4 | 744.1 | 8,519.5 |

25. SELECTED QUARTERLY FINANCIAL DATA -- (UNAUDITED)

Provided below is the selected unaudited quarterly financial data for 1997 and 1996, as restated for (i) the findings from the independent investigation confirming accounting irregularities in certain CUC business units and the preparation and audit of the Company's restated financial statements (collectively classified as "Accounting errors and irregularities"); (ii) the change in accounting for memberships; and (iii) discontinued operations. See Notes 2, 3 and 6 for a description of such accounting adjustments. The underlying per share information is calculated based on weighted average shares outstanding during each quarter, and therefore, the sum of the quarters may not equal the total year amounts.

FIRST QUARTER 1997

| (in millions, except per share data) | AS PREVIOUSLY REPORTED | ADJUSTMENTS(2) | RECLASSIFICATION FOR DISCONTINUED OPERATIONS | AS RESTATED |
|---|---|---|---|---|
| Net revenues | $ 1,158.2 | $ (67.2) | $ (137.3) | $ 953.7 |
| Operating income | 297.2 | (84.7) | (11.5) | 201.0 |
| Income from continuing operations before cumulative effect of accounting change | 166.0 | (49.4) | (2.8) | 113.8 |
| Income from discontinued operations, net of taxes | -- | -- | 2.8 | 2.8 |
| Cumulative effect of accounting change, net of tax | -- | (283.1) | -- | (283.1) |
| Net income (loss) | $ 166.0 | $ (332.5) | $ -- | $ (166.5) |
| Per Share Information: | | | | |
| Income from continuing operations before cumulative effect of accounting change | | | | |
| Basic | $ 0.21 | | | $ 0.14 |
| Diluted | 0.19 | | | 0.13 |

SECOND QUARTER 1997

| (in millions, except per share data) | AS PREVIOUSLY REPORTED | ADJUSTMENTS(2) | RECLASSIFICATION FOR DISCONTINUED OPERATIONS | AS RESTATED(1) |
|---|---|---|---|---|
| Net revenues | $ 1,300.5 | $ (173.0) | $ (127.9) | $ 999.6 |
| Operating income (loss) | 70.9 | (122.0) | 18.2 | (32.9) |
| Loss from continuing operations | (13.4) | (70.6) | 14.6 | (69.4) |
| Loss from discontinued operations, net of taxes | -- | -- | (14.6) | (14.6) |
| Net loss | $ (13.4) | $ (70.6) | $ -- | $ (84.0) |
| Per Share Information: | | | | |
| Loss from continuing operations | | | | |
| Basic | $ (0.02) | | | $ (0.09) |
| Diluted | (0.02) | | | (0.09) |

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(1) Includes Unusual Charges, related to continuing operations, of $295.4 million primarily associated with the PHH Merger in April 1997. Unusual Charges of $278.9 million ($208.4 million, after-tax or $.24 per share) pertained to continuing operations and $16.5 million were associated with discontinued operations.

(2) Includes adjustments for accounting errors and irregularities and a change in accounting.

THIRD QUARTER 1997

| (in millions, except per share data) | AS PREVIOUSLY REPORTED | ADJUSTMENTS(2) | RECLASSIFICATION FOR DISCONTINUED OPERATIONS | AS RESTATED |
|---|---|---|---|---|
| Net revenues | $ 1,431.3 | $ (102.8) | $ (142.0) | $ 1,186.5 |
| Operating income | 429.8 | (74.2) | (1.5) | 354.1 |
| Income from continuing operations | 248.3 | (45.7) | 0.4 | 203.0 |
| Loss from discontinued operations, net of taxes | -- | -- | (0.4) | (0.4) |
| Net income | $ 248.3 | $ (45.7) | $ -- | $ 202.6 |
| Per Share Information: | | | | |
| Income from continuing operations | | | | |
| Basic | $ 0.31 | | | $ 0.25 |
| Diluted | 0.29 | | | 0.24 |

FOURTH QUARTER 1997

| (in millions, except per share data) | AS PREVIOUSLY REPORTED | ADJUSTMENTS(2) | RECLASSIFICATION FOR DISCONTINUED OPERATIONS | AS RESTATED(3) |
|---|---|---|---|---|
| Net revenues | $ 1,424.7 | $ (89.5) | $ (235.0) | $ 1,100.2 |
| Operating income | (436.9) | 232.9 | (10.3) | (214.3) |
| Loss from continuing operations before extraordinary gain | (345.5) | 165.0 | (0.6) | (181.1) |
| Loss from discontinued operations before extraordinary gain, net of taxes | -- | -- | (14.6) | (14.6) |
| Extraordinary gain, net of tax | -- | 11.2 | 15.2 | 26.4 (4) |
| Net loss | $ (345.5) | $ 176.2 | $ -- | $ (169.3) |
| Per Share Information: | | | | |
| Loss from continuing operations before extraordinary gain | | | | |
| Basic | $ (0.42) | | | $ (0.22) |
| Diluted | (0.42) | | | (0.22) |

- ----------

(2) Includes adjustments for accounting errors and irregularities and a change in accounting.

(3) Includes Unusual Charges in the net amount of $442.6 million substantially associated with the Cendant and Hebdo Mag mergers during the fourth quarter of 1997. Net Unusual Charges of $425.2 million ($296.3 million, after-tax or $.34 per share) pertained to continuing operations and $17.4 million were associated with discontinued operations.

(4) Represents the gain on the sale of Interval International, Inc. in December 1997, a Company subsidiary which was sold in consideration of Federal Trade Commission anti-trust concerns within the timeshare industry.

FIRST QUARTER 1996

| (in millions, except per share data) | AS PREVIOUSLY REPORTED | ACCOUNTING ERRORS AND IRREGULARITIES | RECLASSIFICATION FOR DISCONTINUED OPERATIONS | AS RESTATED |
|---|---|---|---|---|
| Net revenues | $ 821.4 | $ (65.8) | $ (94.7) | $ 660.9 |
| Operating income | 165.8 | (60.1) | (0.5) | 105.2 |
| Income from continuing operations | 96.0 | (40.8) | 1.3 | 56.5 |
| Loss from discontinued operations, net of taxes | -- | -- | (1.3) | (1.3) |
| Net income | $ 96.0 | $ (40.8) | $ -- | $ 55.2 |
| Per Share Information: | | | | |
| Income from continuing operations | | | | |
| Basic | $ 0.14 | | | $ 0.08 |
| Diluted | 0.12 | | | 0.07 |

SECOND QUARTER 1996

| (in millions, except per share data) | AS PREVIOUSLY REPORTED | ACCOUNTING ERRORS AND IRREGULARITIES | RECLASSIFICATION FOR DISCONTINUED OPERATIONS | AS RESTATED |
|---|---|---|---|---|
| Net revenues | $ 935.7 | $ (53.7) | $ (106.7) | $ 775.3 |
| Operating income | 186.7 | (54.7) | 13.8 | 145.8 |
| Income from continuing operations | 101.0 | (34.1) | 20.3 | 87.2 |
| Loss from discontinued operations, net of taxes | -- | -- | (20.3) | (20.3)(5) |
| Net income | $ 101.0 | $ (34.1) | $ -- | $ 66.9 (5) |
| Per Share Information: | | | | |
| Income from continuing operations | | | | |
| Basic | $ 0.14 | | | $ 0.12 |
| Diluted | 0.13 | | | 0.11 |

- ----------

(5) Includes Unusual Charges of $24.9 million associated with the Davidson and Sierra mergers in July 1996.

THIRD QUARTER 1996

| (in millions, except per share data) | AS PREVIOUSLY REPORTED | ACCOUNTING ERRORS AND IRREGULARITIES | RECLASSIFICATION FOR DISCONTINUED OPERATIONS | AS RESTATED |
|---|---|---|---|---|
| Net revenues | $ 1,042.9 | $ 43.1 | $ (132.4) | $ 953.6 |
| Operating income | 115.0 | 33.7 | (29.0) | 119.7 (6) |
| Income from continuing operations | 68.5 | 13.6 | (15.5) | 66.6 (6) |
| Income from discontinued operations, net of taxes | -- | -- | 15.5 | 15.5 |
| Net income | $ 68.5 | $ 13.6 | $ -- | $ 82.1 (6) |
| Per Share Information: | | | | |
| Income from continuing operations | | | | |
| Basic | $ 0.09 | | | $ 0.09 |
| Diluted | 0.08 | | | 0.08 |

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(6) Includes Unusual Charges of $109.4 million ($70.0 million, after tax or $.09 per share) associated with the Ideon Merger in August 1996.

FOURTH QUARTER 1996

| (in millions, except per share data) | AS PREVIOUSLY REPORTED | ACCOUNTING ERRORS AND IRREGULARITIES | RECLASSIFICATION FOR DISCONTINUED OPERATIONS | AS RESTATED |
|---|---|---|---|---|
| Net revenues | $ 1,108.8 | $ (83.8) | $ (177.1) | $ 847.9 |
| Operating income | 271.6 | (51.2) | (43.3) | 177.1 |
| Income from continuing operations | 158.1 | (32.3) | (22.8) | 103.0 |
| Income from discontinued operations, net of taxes | -- | -- | 22.8 | 22.8 |
| Net income | $ 158.1 | $ (32.3) | $ -- | $ 125.8 |
| Per Share Information: | | | | |
| Income from continuing operations | | | | |
| Basic | $ 0.20 | | | $ 0.13 |
| Diluted | 0.19 | | | 0.13 |

## 26. SUBSEQUENT EVENTS

### PENDING ACQUISITIONS

American Bankers. On March 23, 1998, the Company entered into a definitive agreement (the "ABI Merger Agreement") to acquire American Bankers Insurance Group, Inc. ("American Bankers") for $67 per share in cash and stock, for aggregate consideration of approximately $3.1 billion. The Company has agreed to purchase 23.5 million shares of American Bankers at $67 per share through its pending cash tender offer, to be followed by a merger in which the Company has agreed to deliver Cendant shares with a value of $67 for each remaining share of American Bankers common stock outstanding. The Company has already received anti-trust clearance to acquire American Bankers. The tender offer is subject to the receipt of tenders representing at least 51 percent of the common shares of American Bankers as well as customary closing conditions, including regulatory approvals. From time to time representatives of the Company and representatives of American Bankers have discussed possible modifications to the terms of the ABI Merger Agreement, including a change in the mix of consideration to increase the cash component and decrease the stock component and changing the transaction to a taxable transaction. No agreement regarding any such modification has been reached and there can be no assurance that such discussion will result in any agreement being reached. The transaction is expected to be completed in the fourth quarter of 1998 or the first quarter of 1999. If no agreement regarding the terms of any modification to the terms of the ABI Merger Agreement is reached, the current ABI Merger Agreement will remain in effect in accordance with its terms. American Bankers provides affordable, specialty insurance products and services through financial institutions, retailers and other entities offering consumer financing.

In connection with the Company's proposal to acquire American Bankers, the Company has a bank commitment to provide a $650 million, 364-day revolving credit facility which will bear interest, at the option of the Company, at rates based on prime rates, as defined, or LIBOR plus an applicable variable margin.

RAC Motoring Services. On May 21, 1998, the Company announced that it has reached a definitive agreement with the Board of Directors of Royal Automobile Club Limited ("RACL") to acquire their RAC Motoring Services subsidiary for approximately $735 million in cash. The sale of RAC Motoring Services has subsequently been approved by its shareholders. Closing is subject to certain conditions, including regulatory approval. Although no assurances can be made, the Company currently anticipates that the transaction will be completed in the spring of 1999. RAC Motoring Services is the second-largest roadside assistance company in the UK and also owns the UK's largest driving school company.

Providian. On December 9, 1997, the Company executed a definitive agreement to acquire Providian Auto and Home Insurance Company for approximately $219.0 million in cash. Closing is subject to receipt of required regulatory approval and accordingly, no assurance can be made that the acquisition will be completed. Providian sells automobile insurance to consumers through direct response marketing.

COMPLETED ACQUISITIONS

National Parking Corporation. On April 27, 1998, the Company completed the acquisition of National Parking Corporation ("NPC") for $1.6 billion in cash, which included the repayment of approximately $227 million of outstanding NPC debt. NPC is substantially comprised of two operating subsidiaries. National Car Parks is the largest private (non-municipal) single car park operator in the United Kingdom ("UK") with approximately 500 locations. Green Flag operates the third largest roadside assistance group in the UK and offers a wide-range of emergency support and rescue services to approximately 3.5 million members.

Harpur Group. On January 20, 1998, the Company completed the acquisition of The Harpur Group Ltd. ("Harpur"), a leading fuel card and vehicle management company in the UK, from privately held H-G Holdings, Inc. for approximately $186.0 million in cash plus future contingent payments of up to $20.0 million over the next two years.

Jackson Hewitt. On January 7, 1998, the Company completed the acquisition of Jackson Hewitt Inc. ("Jackson Hewitt"), for approximately $480.0 million in cash. Jackson Hewitt operates the second largest tax preparation service franchise system in the United States. The Jackson Hewitt franchise system specializes in computerized preparation of federal and state individual income tax returns.

Other. Subsequent to December 31, 1997, the Company acquired certain other entities for an aggregate purchase price of approximately $348.5 million in cash. Such acquisitions will be accounted for under the purchase method of accounting.

FINANCING TRANSACTIONS

Term Loan Facility. On May 29, 1998, the Company entered into a 364-day term loan agreement with a syndicate of financial institutions which provided for borrowings of $3.25 billion (the "Term Loan Facility"). The Term Loan Facility, as amended, bears interest at LIBOR plus an applicable LIBOR spread, as defined. Upon the execution of the Term Loan Facility, temporary credit agreements, which provided for $1.0 billion of borrowings, were terminated. The Term Loan Facility, as amended, contains certain restrictive covenants, which are substantially similar to and consistent with the covenants in effect for the Company's existing revolving credit agreements.

Issuance Of Mandatorily Redeemable Preferred Securities. On March 2, 1998, the Company issued 29.9 million FELINE PRIDES and 2.3 million trust preferred securities and received approximately $1.4 billion in gross proceeds therefrom. The FELINE PRIDES consist of 27.6 million Income PRIDES and 2.3 million Growth PRIDES, each with a face amount of $50 per PRIDE. The Income PRIDES consist of trust preferred securities and stock purchase contracts under which the holders will purchase common stock from the Company in February 2001. The Growth PRIDES consist of stock purchase contracts under which the holders will purchase common stock from the Company in February 2001 and zero coupon U.S. Treasury securities. The trust preferred securities will bear interest, in the form of preferred stock dividends, at the annual rate of 6.45 percent. Such preferred stock dividends are presented as minority interest, net of tax in the consolidated statements of income. The forward purchase contract forming a part of the Income PRIDES will pay 1.05 percent annually in the form of a contract adjustment payment. The forward purchase contract forming a part of the Growth PRIDES will pay 1.3 percent annually in the form of a contract adjustment payment. The forward purchase contracts call for the holder to purchase the minimum of 1.0395 shares and a maximum of 1.3514 shares of Company common stock per PRIDES security, depending upon the average of the closing price per share of Company common stock for a 20 consecutive day period ending in mid-February of 2001.

Redemption of 4 3/4% Notes. On May 4, 1998, the Company redeemed all of its outstanding ($144.5 million principal amount) 4 3/4% Convertible Senior Notes at a price of 103.393% of the principal amount together with interest accrued to the redemption date. Prior to May 4, 1998, holders of such notes exchanged $90.5 million of the 4 3/4% Notes for 2.5 million shares of Company common stock.

Redemption of 6 1/2% Notes. On April 8, 1998, the Company exercised its option to call its 6 1/2% Convertible Subordinated Notes (the "6 1/2% Notes") for redemption on May 11, 1998, in accordance with the provisions of the indenture relating to the 6 1/2% Notes. Prior to the redemption date, all of the outstanding 6 1/2% Notes were converted into 2.1 million shares of Company common stock.

## SEVERANCE AGREEMENT

On July 28, 1998, the Company announced that Walter A. Forbes resigned as Chairman of the Company and as a member of the Board of Directors. The severance agreement reached with Mr. Forbes gives him the benefits required by his employment contract relating to a termination of Mr. Forbes' employment with the Company for reasons other than for cause. Those benefits total $35 million in cash and include the granting of approximately 1.3 million stock options.

## REPRICING OF STOCK OPTIONS

On July 28, 1998, the Compensation Committee of the Board of Directors approved, in principle, a program to reprice certain Company stock options granted to employees of the Company, other than executive officers, during December 1997 and the first quarter of 1998. The new option price for such stock options is to be the market price of the Company's common stock as reported on the New York Stock Exchange shortly after the filing of the Company's Annual Report on Form 10-K/A for the year ended December 31, 1997. On September 23, 1998, the Compensation Committee extended such repricing program to certain executive officers and senior managers of the Company subject to certain conditions including revocation of a portion of existing options plus repricing of other portions at prices at and above fair market value at the time of repricing. Additionally, a management equity ownership program was adopted that requires executive officers and these senior managers to acquire Company common stock at various levels commensurate with such manager's compensation.

AMENDMENT AND WAIVER (this "Amendment"), dated as of August 26, 1998, to the FIVE YEAR COMPETITIVE ADVANCE AND REVOLVING CREDIT AGREEMENT and the 364-DAY COMPETITIVE ADVANCE AND REVOLVING CREDIT AGREEMENT, each of which is dated as of October 2, 1996 (as each of the same may be amended, supplemented or otherwise modified from time to time, the "Credit Agreements"), 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 agent for the Lenders (in such capacity, the "Administrative Agent").

W I T N E S S E T H:

WHEREAS, pursuant to the Amendment and Waiver dated as of April 15, 1998 (the "April Waiver") and the Amendment dated as of May 6, 1998 (the "May Amendment") the Lenders agreed that the Borrower's consolidated financial statements and related officer's and accountant's certificates for the fiscal year ended December 31, 1997 and the fiscal quarter ending March 31, 1998 could be delivered on or prior to August 31, 1998;

WHEREAS, the Borrower has requested the Lenders to extend the date on which such financial statements and certificates are required to be delivered from August 31, 1998 to September 30, 1998 upon the terms and conditions set forth herein;

WHEREAS, the Borrower has also requested the Lenders to extend to September 30, 1998 the date on which the Borrower's consolidated financial statements and related officer's certificate are required to be delivered pursuant to Section 5.1(b) and (c) of the Credit Agreements for the fiscal quarter ending June 30, 1998;

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein, the undersigned hereby agree as follows:

1. Defined Terms. Terms defined in the Credit Agreements and used herein shall have the meanings given to them in the Credit Agreements.

2. Amendment and Waiver. (a) The Required Lenders under each Credit Agreement hereby amend the May Amendment to waive compliance by the Borrower with the provisions of Section 5.1(a), (b), (c) and (h) of the Credit Agreements with respect to the financial statements, officer's certificates and accountant's certificate required to be delivered in respect of the fiscal year ending December 31, 1997 and fiscal quarter ending March 31, 1998 as long as such financial statements and certificates are delivered on or prior to September 30, 1998. The result of such amendment is to extend the date by which such financial statements and certificates are required to be delivered from August 31, 1998 to September 30, 1998. The Required Lenders agree that the failure to deliver such financial statements and certificates prior to September 30, 1998 shall not constitute a Default or Event of Default.

(b) The Required Lenders under each Credit Agreement hereby waive compliance by the Borrower with the provisions of Section 5.1(b) and (c) of the Credit Agreements with respect to the financial statements and officer's certificate required to be delivered in respect of the fiscal quarter ending June 30, 1998 as long as such financial statements and certificate are delivered on or prior to September 30, 1998. The Required Lenders agree that the failure to deliver such financial statements and certificate prior to September 30, 1998 shall not constitute a Default or Event of Default.

3. 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 each Credit Agreement shall have duly executed and delivered to the Administrative Agent this Amendment.

4. No Other Amendments; Confirmation. Except as expressly amended hereby, the provisions of the Credit Agreements and each of the Fundamental Documents are and shall remain in full force and effect.

5. 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.

6. 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.

7. Representations and Warranties. The Borrower hereby represents and warrants that (a) each of the representations and warranties in Section 3 of each Credit Agreement (other than those set forth in Section 3.4 and 3.5) 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.

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/ Michael P. Monaco
---------------------------------
Name: Michael P. Monaco
Title: Vice Chairman and CFO

THE CHASE MANHATTAN BANK, as
Administrative Agent and as a Lender

By: /s/ Carol Ulmer
---------------------------------
Name: /s/ Carol Ulmer
Title: Vice President

ABN-AMRO BANK N.V. NEW YORK
BRANCH

By:
------------------------------------
Name:
Title:

By:
------------------------------------
Name:
Title:

BANK OF AMERICA NT&SA

By: /s/ Steve Aronowitz
------------------------------------
Name:/s/ Steve Aronowitz
Title: Managing Director

BANK OF MONTREAL

By: /s/ Bruce Pietka
------------------------------------
Name:/s/ Bruce Pietka
Title: Director

THE BANK OF NEW YORK

By: /s/ Georgia Paiv Kita
------------------------------------
Name:/s/ Georgia Paiv Kita
Title: Vice President

THE BANK OF NOVA SCOTIA

By: /s/ Stephen Lockhart
------------------------------------
Name:/s/ Stephen Lockhart
Title: Vice President

BANK OF TOKYO-MITSUBISHI TRUST
COMPANY

By: /s/ W. A. DiNicola
------------------------------------
Name:/s/ W. A. DiNicola
Title: Vice President

BANQUE PARIBAS

By: /s/ Duane Helkowski
------------------------------------
Name:/s/ Duanne Helkowski
Title: Vice President

By: /s/ Sean Reddington
------------------------------------
Name:/s/ Sean Reddington
Title: Vice President

BAYERISCHE LANDESBANK
GIROZENTRALE
CAYMAN ISLANDS BRANCH

By: /s/ Sean O'Sullivan
------------------------------------
Name:/s/ Sean O'Sullivan
Title: Vice President

By: /s/ Peter Oberman
------------------------------------
Name:/s/ Peter Oberman
Title: Senior Vice President

BAYERISCHE VEREINSBANK AG, NEW
YORK BRANCH

By: /s/ Marianne Weinzinger
------------------------------------
Name:/s/ Marianne Weinzinger
Title: Vice President

By: /s/ Pamela Gillons
------------------------------------
Name:/s/ Pamela Gillons
Title: Asst. Treasurer

CANADIAN IMPERIAL
BANK OF COMMERCE

By: /s/ Gerald Girardi
------------------------------------
Name:/s/ Gerald Girardi
Title: Executive Director

CITIBANK, N.A.

By: /s/ James Garvin
------------------------------------
Name: /s/ James Garvin
Title: Attorney-in-Fact

COMERICA BANK

By: /s/ Kimberly Kersten
------------------------------------
Name: /s/ Kimberly Kersten
Title: Vice President

CREDIT LYONNAIS NEW YORK BRANCH

By: /s/ Rod Hurst
------------------------------------
Name: /s/ Rod Hurst
Title: Vice President

CREDIT SUISSE FIRST BOSTON

By: /s/ Chris Horgan
------------------------------------
Name: /s/ Chris Horgan
Title: Vice President

By: /s/ Kristin Lepri
------------------------------------
Name: /s/ Kristin Lepri
Title: Associate

DG BANK DEUTSCHE
GENOSSENSCHAFTSBANK, CAYMAN
ISLAND BRANCH

By: /s/ Stefanie Gaensslen
------------------------------------
Name: /s/ Stefanie Gaensslen
Title: Asst. Vice President

FIRST AMERICAN NATIONAL BANK

By: /s/ Scott Bane
------------------------------------
Name: /s/ Scott Bane
Title: Senior Vice President

FIRST HAWAIIAN BANK

By: /s/ Scott Nahme
------------------------------------
Name: /s/ Scott Nahme
Title: Vice President

THE FIRST NATIONAL BANK OF BOSTON

By: /s/ Carlton Williams
------------------------------------
Name: /s/ Carlton Williams
Title: Director

THE FIRST NATIONAL BANK OF CHICAGO

By: /s/ Cory Helfand
------------------------------------
Name: /s/ Cory Helfand
Title: Vice President

FIRST NATIONAL BANK OF MARYLAND

By: s/s Marion Knott
------------------------------------
Name: /s/ Marion Knott
Title: Senior Vice President

FIRST UNION NATIONAL BANK

By: /s/ Mark Smith
------------------------------------
Name: /s/ Mark Smith
Title: Senior Vice President

FLEET NATIONAL BANK

By: /s/ Marlene Haddad
------------------------------------
Name: /s/ Marlene Haddad
Title: Vice President

THE FUJI BANK, LIMITED
NEW YORK BRANCH

By: /s/ Toshiaki Yakura
------------------------------------
Name:/s/ Toshiaki Yakura
Title: Senior Vice President

THE INDUSTRIAL BANK OF JAPAN,
LIMITED
NEW YORK BRANCH

By: /s/ William Kennedy
------------------------------------
Name:/s/ William Kennedy
Title: Vice President

MELLON BANK, N.A.

By: /s/ Donald Cassidy
------------------------------------
Name:/s/ Donald Cassidy
Title: First Vice President

MORGAN GUARANTY TRUST COMPANY OF
NEW YORK

By: /s/ Christopher Kunhardt
------------------------------------
Name: /s/ Christopher Kunhardt
Title: Vice President

NATIONSBANK, N.A.

By: /s/ Eileen Higgins
------------------------------------
Name: /s/ Eileen Higgins
Title: Vice President

THE NORTHERN TRUST COMPANY

By: /s/ Kelly Schneck
------------------------------------
Name: /s/ Kelly Schneck
Title: Commercial Banking Officer

PNC BANK, N.A.

By: /s/ Michael Nardo
------------------------------------
Name: /s/ Michael Nardo
Title: Vice President

ROYAL BANK OF CANADA

By: /s/ Sheryl Greenberg
------------------------------------
Name: /s/ Sheryl Greenberg
Title: Senior Manager

THE SAKURA BANK, LIMITED

By: /s/ Haruhide Maeda
------------------------------------
Name: /s/ Haruhide Maeda
Title: Joint General Manager

THE SANWA BANK, LIMITED

By: /s/ Dominic Sorresso
------------------------------------
Name: /s/ Dominic Sorresso
Title: Vice President

THE SUMITOMO BANK, LIMITED,
NEW YORK BRANCH

By: /s/ Kazuyoshi Ogawa
-----------------------------------
Name: /s/ Kazuyoshi Ogawa
Title: Joint General Manager

SUMMIT BANK

By:
-----------------------------------
Name:
Title:

THE TOKAI BANK LIMITED NEW YORK
BRANCH

By: /s/ Shinichi Makatani
-----------------------------------
Name: /s/ Shinichi Makatani
Title: Assistant General Manager

UNITED STATES NATIONAL BANK OF
OREGON

By: /s/ Greg Wilson
-----------------------------------
Name:/s/ Greg Wilson
Title: Commercial Banking Officer

WESTDEUTSCHE LANDESBANK
GIROZENTRALE, NEW YORK BRANCH

By: /s/ Cynthia Nieson
------------------------------------
Name: /s/ Cynthia Nieson
Title: Managing Director

BANKERS TRUST COMPANY

By: /s/ James Reilly
------------------------------------
Name: /s/ James Reilly
Title: Vice President

EXTENSION AGREEMENT (this "Agreement"), dated as of August 31, 1998, under the 364-DAY COMPETITIVE ADVANCE AND REVOLVING CREDIT AGREEMENT, dated as of October 2, 1996 (as the same may be 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 agent for the Lenders (in such capacity, the "Administrative Agent").

W I T N E S S E T H:

WHEREAS, the current Maturity Date under the Credit Agreement is September 30, 1998 and the Borrower has requested that the Maturity Date be extended to October 31, 1998;

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein, the undersigned hereby agree as follows:

1. Defined Terms. Terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

2. Extension. Each Lender which executes this Amendment (an "Extending Lender") agrees that the Maturity Date is extended from September 30 to October 31, 1998. Each Extending Lender acknowledges and agrees that each Lender which does not agree to extend the Maturity Date as provided in the preceding sentence will be paid principal, interest and other amounts owed to it under the Credit Agreement (and the Commitment of such non-extending Lender will be terminated) on September 30, 1998.

3. Effective Date. This Agreement 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 Agreement.

4. 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.

5. Governing Law. This Agreement 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.

6. Counterparts. This Agreement 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 Agreement may be delivered by facsimile transmission of the relevant signature pages hereof.

IN WITNESS WHEREOF, the undersigned have caused this Agreement to be executed and delivered by their duly authorized officers as of the date first above written.

CENDANT CORPORATION

By: /s/ Michael P. Monaco
-----------------------------------
Name: Michael P. Monaco
Title: Vice Chairman and CFO

THE CHASE MANHATTAN BANK, as
Administrative Agent and as a Lender

By: /s/ Carol Ulmer
---------------------------------
Name: /s/ Carol Ulmer
Title: Vice President

BANK OF AMERICA NT&SA

By: /s/ Steve Aronowitz
---------------------------------
Name: /s/ Steve Aronowitz
Title: Managing Director

BANK OF MONTREAL

By: /s/ Bruce Pietka
---------------------------------
Name: /s/ Bruce Pietka
Title: Director

THE BANK OF NEW YORK

By:
---------------------------------
Name:
Title:

THE BANK OF NOVA SCOTIA

By: /s/ Stephen Lockhart
---------------------------------
Name: /s/ Stephen Lockhart
Title: Vice President

BANK OF TOKYO-MITSUBISHI TRUST
COMPANY

By: /s/ W.A. DiNicola
---------------------------------
Name: /s/ W.A. DiNicola
Title: Vice President

BANQUE PARIBAS

By: /s/ Duane Helkowski
---------------------------------
Name: /s/ Duane Helkowski
Title: Vice President

By: /s/ David Canavan
---------------------------------
Name: /s/ David Canavan
Title: Director

BAYERISCHE LANDESBANK
GIROZENTRALE
CAYMAN ISLANDS BRANCH

By: /s/ Sean O'Sullivan
---------------------------------
Name: /s/ Sean O'Sullivan
Title: Vice President

BAYERISCHE VEREINSBANK AG, NEW
YORK BRANCH

By: /s/ Marianne Weinzinger
---------------------------------
Name: /s/ Marianne Weinzinger
Title: Vice President

By: /s/ Pamela Gillons
---------------------------------
Name: /s/ Pamela Gillons
Title: Asst. Treasurer

CANADIAN IMPERIAL
BANK OF COMMERCE

By: /s/ Gerald Girardi
---------------------------------
Name: /s/ Gerald Girardi
Title: Executive Director

COMERICA BANK

By: /s/ Kimberly Kirsten
---------------------------------
Name: /s/ Kimberly Kirsten
Title: Vice President

CREDIT LYONNAIS NEW YORK BRANCH

By: /s/ Rod Hurst
---------------------------------
Name: /s/ Rod Hurst
Title: Vice President

CREDIT SUISSE FIRST BOSTON

By:
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Name:
Title:

By:
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Name:
Title:

DG BANK DEUTSCHE
GENOSSENSCHAFTSBANK, CAYMAN
ISLAND BRANCH

By: /s/ Stefanie Gaensslen
----------------------------------
Name: /s/ Stefanie Gaensslen
Title: Asst. Vice President

FIRST AMERICAN NATIONAL BANK

By: /s/ Scott Bane
----------------------------------
Name: /s/ Scott Bane
Title: Senior Vice President

THE FIRST NATIONAL BANK OF BOSTON

By:
----------------------------------
Name:
Title:

THE FIRST NATIONAL BANK OF CHICAGO

By: /s/ Cory Helfand
----------------------------------
Name: /s/ Cory Helfand
Title: Vice President

FIRST NATIONAL BANK OF MARYLAND

By: /s/ Susan Elliott Benninghoff
----------------------------------
Name: /s/ Susan Elliott Benninghoff
Title: Vice President

FIRST UNION NATIONAL BANK

By: /s/ Mark Smith
----------------------------------
Name: /s/ Mark Smith
Title: Senior Vice President

FLEET NATIONAL BANK

By: /s/ Marlene Haddad
----------------------------------
Name: /s/ Marlene Haddad
Title: Vice President

THE FUJI BANK, LIMITED
NEW YORK BRANCH

By: /s/ Raymond Ventura
----------------------------------
Name: /s/ Raymond Ventura
Title: Vice President & Manager

THE INDUSTRIAL BANK OF JAPAN,
LIMITED
NEW YORK BRANCH

By:
----------------------------------
Name:
Title:

MELLON BANK, N.A.

By: /s/ Donald Cassidy
----------------------------------
Name: /s/ Donald Cassidy
Title: First Vice President

MORGAN GUARANTY TRUST COMPANY OF
NEW YORK

By: /s/ Christopher Kunhardt
----------------------------------
Name: /s/ Christopher Kunhardt
Title: Vice President

NATIONSBANK, N.A.

By: /s/ Eileen Higgins
----------------------------------
Name: /s/ Eileen Higgins
Title: Vice President

THE NORTHERN TRUST COMPANY

By: /s/ Eric Strickland
----------------------------------
Name: /s/ Eric Strickland
Title: Vice President

ROYAL BANK OF CANADA

By: /s/ Sheryl Greenberg
----------------------------------
Name: /s/ Sheryl Greenberg
Title: Senior Manager

THE SAKURA BANK, LIMITED

By:
----------------------------------
Name:
Title:

THE SUMITOMO BANK, LIMITED,
NEW YORK BRANCH

By: /s/ Kazuyoshi Ogawa
----------------------------------
Name: /s/ Kazuyoshi Ogawa
Title: Joint General Manager

THE TOKAI BANK LIMITED NEW YORK
BRANCH

By:
----------------------------------
Name:
Title:

UNITED STATES NATIONAL BANK OF
OREGON

By:
----------------------------------
Name:
Title:

WESTDEUTSCHE LANDESBANK
GIROZENTRALE, NEW YORK BRANCH

By: /s/ Alan Bookspan
---------------------------------
Name: /s/ Alan Bookspan
Title: Vice President

---------------------------------
/s/ Walter Duffy
Associate

AMENDMENT AND WAIVER (this "Amendment"), dated as of September 25, 1998, to the FIVE YEAR COMPETITIVE ADVANCE AND REVOLVING CREDIT AGREEMENT and the 364-DAY COMPETITIVE ADVANCE AND REVOLVING CREDIT AGREEMENT, each of which is dated as of October 2, 1996 (as each of the same may be amended, supplemented or otherwise modified from time to time, the "Credit Agreements"), 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 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 the Lenders to amend certain provisions of the Credit Agreements and to consent to the extension of the date by which the Borrower's financial statements for the fiscal quarters ending March 31, 1998 and June 30, 1998 are required to be delivered to October 16, 1998;

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein, the undersigned hereby agree as follows:

1. Defined Terms. Terms defined in the Credit Agreements and used herein shall have the meanings given to them in the Credit Agreements.

2. Amendments and Waiver. (a) Section 1 of each Credit Agreement is amended by adding at the end of the definition of "Consolidated Total Indebtedness" the following:

> For purposes of this definition, the amount of Indebtedness outstanding under the Borrower's Term Loan Agreement dated as of May 29, 1998, as amended, at any time shall be deemed to be reduced (but not to less than zero) by the amount of cash and cash equivalents of the Borrower and its Consolidated Subsidiaries at such time determined on a consolidated basis in accordance with GAAP.

(b) Section 1 of each Credit Agreement is amended by deleting the definition of "Consolidated EBITDA" and substituting therefor the following:

> "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, (iv) Consolidated Interest Expense, (v) amortization expense, (vi) non-recurring cash charges or expenses in fiscal year 1998 not to exceed $363,600,000 to the extent incurred or paid in such period plus (vii) other non-cash items reducing Consolidated Net Income, 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.

(c) The Required Lenders under each Credit Agreement hereby waive compliance by the Borrower with the provisions of Section 5.1(b) and (c) of the Credit Agreements with respect to the financial statements and officer's certificates required to be delivered in respect of the fiscal quarters ending March 31, 1998 and June 30, 1998 as long as such financial statements and certificates are delivered on or prior to October 16, 1998. The Required Lenders agree that the failure to deliver such financial statements and certificates prior to October 16, 1998 shall not constitute a Default or Event of Default.

(d) The amendments set forth in paragraphs (a) and (b) above shall be effective for the fiscal quarter ending June 30, 1998 and thereafter.

3. 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 each Credit Agreement shall have duly executed and delivered to the Administrative Agent this Amendment.

4. No Other Amendments; Confirmation. Except as expressly amended hereby, the provisions of the Credit Agreements and each of the Fundamental Documents are and shall remain in full force and effect.

5. 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.

6. 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/ Michael P. Monaco
-------------------------------
Name: Michael P. Monaco
Title: Vice Chairman and CFO

THE CHASE MANHATTAN BANK, as
Administrative Agent and as a Lender

By:
-------------------------------
Name:
Title:

ABN-AMRO BANK N.V. NEW YORK
BRANCH

By:
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Name:
Title:

By:
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Name:
Title:

BANK OF AMERICA NT&SA

By:
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Name:
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BANK OF MONTREAL

By:
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Name:
Title:

THE BANK OF NEW YORK

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Name:
Title:

THE BANK OF NOVA SCOTIA

By:
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Name:
Title:

BANK OF TOKYO-MITSUBISHI TRUST
COMPANY

By:
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Name:
Title:

BANQUE PARIBAS

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Name:
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Name:
Title:

BAYERISCHE LANDESBANK
GIROZENTRALE
CAYMAN ISLANDS BRANCH

By:
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Name:
Title:

BAYERISCHE VEREINSBANK AG, NEW
YORK BRANCH

By:
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Name:
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By:
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Name:
Title:

CANADIAN IMPERIAL
BANK OF COMMERCE

By:
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Name:
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CITIBANK, N.A.

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COMERICA BANK

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CREDIT LYONNAIS NEW YORK BRANCH

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CREDIT SUISSE FIRST BOSTON

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Name:
Title:

DG BANK DEUTSCHE
GENOSSENSCHAFTSBANK, CAYMAN
ISLAND BRANCH

By:
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Name:
Title:

FIRST AMERICAN NATIONAL BANK

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FIRST HAWAIIAN BANK

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Name:
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THE FIRST NATIONAL BANK OF BOSTON

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THE FIRST NATIONAL BANK OF CHICAGO

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FIRST NATIONAL BANK OF MARYLAND

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FIRST UNION NATIONAL BANK

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FLEET NATIONAL BANK

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Name:
Title:

THE FUJI BANK, LIMITED
NEW YORK BRANCH

By:
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Name:
Title:

THE INDUSTRIAL BANK OF JAPAN,
LIMITED
NEW YORK BRANCH

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Name:
Title:

MELLON BANK, N.A.

By:
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Name:
Title:

MORGAN GUARANTY TRUST COMPANY OF
NEW YORK

By:
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Title:

NATIONSBANK, N.A.

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Name:
Title:

THE NORTHERN TRUST COMPANY

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PNC BANK, N.A.

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ROYAL BANK OF CANADA

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THE SAKURA BANK, LIMITED

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THE SANWA BANK, LIMITED

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Name:
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THE SUMITOMO BANK, LIMITED,
NEW YORK BRANCH

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SUMMIT BANK

By: -------------------------------
Name:
Title:

THE TOKAI BANK LIMITED NEW YORK BRANCH

By: -------------------------------
Name:
Title:

UNITED STATES NATIONAL BANK OF OREGON

By: -------------------------------
Name:
Title:

WESTDEUTSCHE LANDESBANK GIROZENTRALE, NEW YORK BRANCH

By: -------------------------------
Name:
Title:

BANKERS TRUST COMPANY

By: -------------------------------
Name:
Title:

AMENDMENT (this "Amendment"), dated as of August 26, 1998, to the TERM LOAN AGREEMENT dated as of May 29, 1998 (as the same may be amended, supplemented or otherwise modified from time to time, the "Term Loan Agreement"), by and among CENDANT CORPORATION, a Delaware corporation (the "Borrower"), the financial institutions parties thereto (the "Lenders"), the Syndication Agent, Co-Documentation Agents, Managing Agents and Co-Agents named therein and THE CHASE MANHATTAN BANK, a New York banking corporation, as 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 the Lenders to amend certain provisions of the Term Loan Agreement upon the terms and conditions set forth herein;

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein, the undersigned hereby agree as follows:

1. Defined Terms. Terms defined in the Term Loan Agreement and used herein shall have the meanings given to them in the Term Loan Agreement.

2. Amendments. The Required Lenders hereby agree that each reference in Sections 5.1(a) and 5.1(b) of the Term Loan Agreement to the date "August 31, 1998" shall instead be a reference to "September 30, 1998".

(b) Subsection 5.1(b) of the Term Loan Agreement is amended by deleting the phrase "fiscal quarter ending on or about March 31, 1998" and substituting therefor the phrase "fiscal quarters ending on or about March 31, 1998" and June 30, 1998".

3. Effective Date. This Amendment shall become effective on the date (the "Effective Date") on which the Borrower, the Administrative Agent and the Required Lenders shall have duly executed and delivered to the Administrative Agent this Amendment.

4. No Other Amendments; Confirmation. Except as expressly amended hereby, the provisions of the Term Loan Agreement and each of the Fundamental Documents are and shall remain in full force and effect.

5. 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.

6. 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.

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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/ Michael P. Monaco
------------------------------------
Name: Michael P. Monaco
Title: Vice Chairman and CFO

THE CHASE MANHATTAN BANK, as
Administrative Agent and as a Lender

By: /s/Carol Ulmer
----------------------------------
Name:/s/Carol Ulmer
Title: Vice President

BANK OF AMERICA NT&SA

By: /s/ Steve Aronowitz
----------------------------------
Name: /s/ Steve Aronowitz
Title: Managing Director

BARCLAYS BANK PLC

By: /s/ Eric Jaeger
----------------------------------
Name: /s/ Eric Jaeger
Title: Director

BANK BRUSSELS LAMBERT, NEW YORK
BRANCH

By: /s/ M.C. Swinnen
---------------------------------
Name: /s/ M.C. Swinnen
Title: Senior Manager

THE BANK OF NOVA SCOTIA

By: /s/ S. Lockhart
---------------------------------
Name: /s/ S. Lockhart
Title: Vice President

BANK OF TOKYO-MITSUBISHI TRUST
COMPANY

By: /s/ W. DiNicola
---------------------------------
Name: /s/ W. DiNicola
Title: Attorney-In-Fact

BANQUE NATIONALE DE PARIS, NEW
YORK BRANCH

By: /s/ Robert Taylor
---------------------------------
Name: /s/ Robert Taylor
Title: Senior Vice President

BANQUE PARIBAS, NEW YORK BRANCH

By: /s/ Duane Helkowski
----------------------------------
Name: /s/ Duane Helkowski
Title: Vice President

By: /s/ Sean Riddington
----------------------------------
Name: /s/ Sean Riddington
Title: Vice President

CANADIAN IMPERIAL BANK OF
COMMERCE

By: /s/ Gerald Girardi
----------------------------------
Name: /s/ Gerald Girardi
Title: Executive Director

COMERICA BANK

By: /s/ Kimberly Kersten
----------------------------------
Name: /s/ Kimberly Kersten
Title: Vice President

CREDIT LYONNAIS NEW YORK BRANCH

By: /s/ Rod Hurst
----------------------------------
Name: /s/ Rod Hurst
Title: Vice President

CREDIT SUISSE FIRST BOSTON

By: /s/ Chris Horgan
---------------------------------
Name: /s/ Chris Horgan
Title: Vice President

By: /s/ Kristin Lepri
---------------------------------
Name: /s/ Kristin Lepri
Title: Associate

FIRST UNION NATIONAL BANK

By: /s/ Mark Smith
---------------------------------
Name:/s/ Mark Smith
Title: Senior Vice President

FLEET NATIONAL BANK

By: /s/ Marlene Haddad
---------------------------------
Name: /s/ Marlene Haddad
Title: Vice President

THE FUJI BANK, LIMITED
NEW YORK BRANCH

By: /s/ Toshiaki Yakura
---------------------------------
Name: /s/ Toshiaki Yakura
Title: Senior Vice President

THE INDUSTRIAL BANK OF JAPAN,
LIMITED
NEW YORK BRANCH

By: /s/ William Kennedy
-----------------------------------
Name: /s/ William Kennedy
Title: Vice President

MELLON BANK, N.A.

By: /s/ Donald Cassidy
-----------------------------------
Name: /s/ Donald Cassidy
Title: First Vice President

NATIONSBANK, N.A.

By: /s/ Eileen Higgins
-----------------------------------
Name: /s/ Eileen Higgins
Title: Vice President

ROYAL BANK OF CANADA

By: /s/ Sheryl Greenberg
-----------------------------------
Name: /s/ Sheryl Greenberg
Title: Senior Manager

THE SUMITOMO BANK, LIMITED,
NEW YORK BRANCH

By: /s/ Kazoyoshi Ogawa
----------------------------------
Name: /s/ Kazoyoshi Ogawa
Title: Joint General Manager

WELLS FARGO BANK, N.A.

By: /s/ Timothy McDevitt
----------------------------------
Name:/s/ Timothy McDevitt
Title: Vice President

----------------------------------
/s/ David Hollingsworth
Vice President

AMENDMENT (this "Amendment"), dated as of September 25, 1998, to the TERM LOAN AGREEMENT dated as of May 29, 1998 (as the same may be amended, supplemented or otherwise modified from time to time, the "Term Loan Agreement"), by and among CENDANT CORPORATION, a Delaware corporation (the "Borrower"), the financial institutions parties thereto (the "Lenders"), the Syndication Agent, Co-Documentation Agents, Managing Agents and Co-Agents named therein and THE CHASE MANHATTAN BANK, a New York banking corporation, as 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 the Lenders to amend certain provisions of the Term Loan Agreement upon the terms and conditions set forth herein;

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein, the undersigned hereby agree as follows:

1. Defined Terms. Terms defined in the Term Loan Agreement and used herein shall have the meanings given to them in the Term Loan Agreement.

2. Amendments. (a) Section 1 of the Credit Agreement is amended by adding at the end of the definition of "Consolidated Total Indebtedness" the following:

> For purposes of this definition, the amount of Indebtedness outstanding under this Agreement at any time shall be deemed to be reduced (but not to less than zero) by the amount of cash and cash equivalents of the Borrower and its Consolidated Subsidiaries at such time determined on a consolidated basis in accordance with GAAP.

(b) Section 1 of the Credit Agreement is amended by deleting the definition of "Consolidated EBITDA" and substituting for therefor the following:

> "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, (iv) Consolidated Interest Expense, (v) amortization expense, (vi) non-recurring cash charges or expenses in fiscal year 1998 not to exceed $363,600,000 to the extent incurred or paid in such period plus (vii) other non-cash items reducing Consolidated Net Income, 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.

(c) Subsection 5.1(b) of the Term Loan Agreement is amended by deleting the first parenthetical clause therein and substituting therefor the phrase "(or, in the case of the fiscal quarters ending on or about March 31, 1998 and June 30, 1998, on or prior to October 16, 1998)".

(d) The amendments set forth in paragraphs (a) and (b) above shall be effective for the fiscal quarter ending June 30, 1998 and thereafter.

3. Effective Date. This Amendment shall become effective on the date (the "Effective Date") on which the Borrower, the Administrative Agent and the Required Lenders shall have duly executed and delivered to the Administrative Agent this Amendment.

4. No Other Amendments; Confirmation. Except as expressly amended hereby, the provisions of the Term Loan Agreement and each of the Fundamental Documents are and shall remain in full force and effect.

5. 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.

6. 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.

7. Representations and Warranties. The Borrower hereby represents and warrants that (a) each of the representations and warranties in Section 3 of the Term Loan Agreement (other than those set forth in Sections 3.4 and 3.5) 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.

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/ Michael P. Monaco
------------------------------
Name: Michael P. Monaco
Title: Vice President and CFO

THE CHASE MANHATTAN BANK, as
Administrative Agent and as a Lender

By: /S/ Carol A. Ulmer
------------------------------
Name: Carol A. Ulmer
Title: Vice President

BANK OF AMERICA NT&SA

By: /s/ Steve A. Aronowitz
------------------------------
Name: Steve A. Aronowitz
Title: Managing Director

BARCLAYS BANK PLC

By: /s/ Eric Jaeger
------------------------------
Name: Eric Jaeger
Title: Director

BANK BRUSSELS LAMBERT, NEW YORK
BRANCH

By:
------------------------------
Name:
Title:

THE BANK OF NOVA SCOTIA

By: /s/ J.W. Campbell
------------------------------
Name: J.W. Campbell
Title: Unit Head

BANK OF TOKYO-MITSUBISHI TRUST
COMPANY

By:
------------------------------
Name:
Title:

BANQUE NATIONALE DE PARIS, NEW
YORK BRANCH

By: /s/ Robert Taylor
------------------------------
Name: Robert Taylor
Title: Senior Vice President

By: /s/ Richard L. Sted
------------------------------
Name: Richard L. Sted
Title: Senior Vice President

BANQUE PARIBAS, NEW YORK BRANCH

By: /s/ Duane Helkowski
------------------------------
Name: Duane Helkowski
Title: Vice President

By: /s/ David I. Canavan
------------------------------
Name: David I. Canavan
Title: Director

CANADIAN IMPERIAL BANK OF COMMERCE

By: /s/ Gerald Girardi
------------------------------
Name: Gerald Girardi
Title: Executive Director

COMERICA BANK

By: /s/ Kimberly S. Kersten
------------------------------
Name: Kimberly S. Kersten
Title: Vice President

CREDIT LYONNAIS NEW YORK BRANCH

By: /s/ Rod Hurst
------------------------------
Name: Rod Hurst
Title: Vice President

CREDIT SUISSE FIRST BOSTON

By: /s/ Chris T. Horgan
------------------------------
Name: Chris T. Horgan
Title: Vice President

By: /s/ Kristin Lepri
------------------------------
Name: Kristin Lepri
Title: Associate

FIRST UNION NATIONAL BANK

By:
------------------------------
Name:
Title:

FLEET NATIONAL BANK

By: /s/ Marlene K. Haddad
------------------------------
Name: Marlene K. Haddad
Title: Vice President

THE FUJI BANK, LIMITED
NEW YORK BRANCH

By: /s/ Toshiaki Yakura
------------------------------
Name: Toshiaki Yakura
Title: Senior Vice President

THE INDUSTRIAL BANK OF JAPAN,
LIMITED
NEW YORK BRANCH

By: /s/ William Kennedy
------------------------------
Name: William Kennedy
Title: Vice President

MELLON BANK, N.A.

By: /s/ Donald G. Cassidy, Jr.
------------------------------
Name: Donald G. Cassidy, Jr.
Title: First Vice President

NATIONSBANK, N.A.

By: /s/ Eileen C. Higgins
------------------------------
Name: Eileen C. Higgins
Title: Vice President

ROYAL BANK OF CANADA

By: /s/ Sheryl L. Greenberg
------------------------------
Name: Sheryl L. Greenberg
Title: Senior Manager

THE SUMITOMO BANK, LIMITED,
NEW YORK BRANCH

By: /s/ John C. Kissinger
------------------------------
Name: John C. Kissinger
Title: General Manager

WELLS FARGO BANK, N.A.

By: /s/ Donald Hartmann
------------------------------
Name: Donald Hartmann
Title: Senior Vice President

By: /s/ Donald Hartmann
------------------------------
Name: Donald Hartmann
Title: Senior Vice President

PNC BANK, N.A.

By: /s/ Frieda Youlios
------------------------------
Name: Frieda Youlios
Title: Vice President

EXHIBIT 12

CENDANT CORPORATION AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES (1)
(DOLLARS IN MILLIONS)

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1997 | 1996 | 1995 |
| Income from continuing operations before income taxes, extraordinary gain and cumulative effect of accounting change ........... | $ 257.3 | $ 533.5 | $ 350.3 |
| Plus: Fixed charges ............................... | 409.4 | 325.6 | 291.2 |
| Less: Capitalized interest ........................ | -- | (.6) | -- |
| Earnings available to cover fixed charges ......... | $ 666.7 | $ 858.5 | $ 641.5 |
| Fixed charges (2): | | | |
| Interest, including amortization of deferred financing costs .................................. | $ 379.0 | $ 299.9 | $ 270.4 |
| Capitalized interest .............................. | -- | .6 | -- |
| Interest portion of rental payment ................ | 30.4 | 25.1 | 20.8 |
| Total fixed charges ............................ | $ 409.4 | $ 325.6 | $ 291.2 |
| Ratio of earnings to fixed charges (3) ............ | 1.63x | 2.64x | 2.20x |

- ----------

(1) Financial data prior to December 31, 1994 has not been restated and is therefore not presented herein. Previously reported information for periods prior to December 31, 1994 should not be relied upon.

(2) Fixed charges consist 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 (deemed to be one-third of operating lease rentals).

(3) For the years ended December 31, 1997, 1996 and 1995 income from continuing operations before income taxes, extraordinary gain and cumulative effect of accounting change includes non-recurring merger-related costs and other unusual charges of $704.1 million, $109.4 million and $97.0 million, respectively. Excluding such charges, the ratio of earnings to fixed charges for the years ended December 31, 1997, 1996 and 1995 is 3.35x, 2.97x and 2.54x, respectively.

EXHIBIT 18

September 28, 1998

Cendant Corporation
6 Sylvan Way
Parsippany, New Jersey 07054

Dear Sirs/Madams:

We have audited the financial statements of Cendant Corporation as of December 31, 1997 and 1996 and for each of the three years in the period ended December 31, 1997, included in your Annual Report on Form 10-K/A to the Securities and Exchange Commission and have issued our report thereon dated September 28, 1998. Note 2 to such financial statements contains a description of your adoption during the year ended December 31, 1997 of a change in revenue and expense recognition policies in accounting for your membership business activities. In our judgment, such change is to an alternative accounting principle that is preferable under the circumstances.

Yours truly,

Deloitte & Touche LLP

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Cendant Corporation's Registration Statement No. 333-46661 on Form S-4, Registration Statement Nos. 333-11035, 333-17323, 333-17411, 333-20391, 333-23063, 333-26927, 333-35709, 333-35707, 333-45155, 333-45227 and 333-49405 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 and 333-47537 on Form S-8 of our report dated September 28, 1998 (which expresses an unqualified opinion and includes explanatory paragraphs relating to the restatement as described in Note 3, certain litigation as described in Note 17, and the change in method of recognizing revenue and membership solicitation costs as described in Notes 2 and 3) appearing in this Annual Report on Form 10-K/A of Cendant Corporation for the year ended December 31, 1997.

DELOITTE & TOUCHE LLP
Parsippany, NJ
September 28, 1998

EXHIBIT 23.2

The Board of Directors
PHH Corporation:

We consent to the incorporation by reference in Registration Statement Nos. 333-11035, 333-17323, 333-17411, 333-20391, 333-26927, 333-35709, and 333-23063, 333-45227, 333-45155 and 333-49405 on Forms S-3, in Registration Statement No. 333-46661 on Form S-4 and in Registration Nos. 33-26875, 33-75682, 33-93322, 33-41823, 33-48175, 33-58896, 33-91656, 333-03241, 33-74068, 33-74066, 33-91658, 333-00475, 333-03237, 33-75684, 33-80834, 33-93372, 333-09633, 333-09637, 333-09655, 333-22003, 333-34517-2, 333-42503, 333-30649, 333-42549, 333-45183, and 333-47537 on Forms S-8 for Cendant Corporation of our report dated April 30, 1997, with respect to the consolidated balance sheet of PHH Corporation and subsidiaries (the "Company") at December 31, 1996 and the related consolidated statements of income, shareholders' equity, and cash flows for the years ended December 31, 1996 and January 31, 1996, before the restatement related to the merger of Cendant Corporation's relocation business with the Company and reclassifications to conform to the presentation used by Cendant Corporation, which report is included in the Annual Report on Form 10-K/A of Cendant Corporation for the year ended December 31, 1997.

/s/ KPMG Peat Marwick LLP

KPMG Peat Marwick LLP

Baltimore, Maryland
September 25, 1998

# INDEPENDENT AUDITORS' CONSENT

EXHIBIT 23.3

We consent to the incorporation by reference in Cendant Corporation's Registration Statement No. 333-46661 on Form S-4, Registration Statement Nos. 333-11035, 333-17323, 333-17411, 333-20391, 333-23063, 333-26927, 333-35709, 333-35707, 333-45155, 333-45227 and 333-49405 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 and 333-47537 on Form S-8 of our report dated February 21, 1996 with respect to the consolidated statements of earnings, shareholders' equity, and cash flows of Davidson & Associates, Inc. and subsidiaries for the year ended December 31, 1995 appearing in this Annual Report on Form 10-K/A of Cendant Corporation for the year ended December 31, 1997.

/s/ KPMG Peat Marwick LLP
KPMG Peat Marwick LLP

Long Beach, CA
September 28, 1998

EXHIBIT 23.4

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference of our report dated February 2, 1996, related to the consolidated financial statements of Ideon Group, Inc. which appears in the Annual Report on Form 10-K/A of Cendant Corporation for the year ended December 31, 1997 in the following registration statements:

Form S-4:

333-46661

Form S-3:

333-11035
333-17323
333-17411
333-20391
333-23063
333-26927
333-35709
333-35707
333-45155
333-45227
333-49405

Form S-8:

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
33-17249
33-17247
33-17248
333-09633
333-09655
333-09637
333-22003
333-30649

333-42503
333-34571-2
333-42549
333-45183
333-47537

/s/ PRICEWATERHOUSECOOPERS LLP

PRICEWATERHOUSECOOPERS LLP
Tampa, Florida
September 28, 1998

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE BALANCE SHEET AND STATEMENT OF OPERATIONS OF THE COMPANY AS OF AND FOR THE YEAR ENDED DECEMBER 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BE REFERENCED TO SUCH FINANCIAL STATEMENTS. AMOUNTS ARE IN MILLIONS, EXCEPT PER SHARE DATA.

1,000,000

| | | |
|---|---|---|
| YEAR | YEAR | YEAR |
| DEC-31-1997 | DEC-31-1996 | DEC-31-1995 |
| JAN-01-1997 | JAN-01-1996 | JAN-01-1995 |
| DEC-31-1997 | DEC-31-1996 | DEC-31-1995 |
| 67 | 448 | 0 |
| 0 | 0 | 0 |
| 1,232 | 1,055 | 0 |
| 61 | 61 | 0 |
| 0 | 0 | 0 |
| 2,590 | 2,494 | 0 |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| 14,073 | 12,763 | 0 |
| 2,534 | 2,176 | 0 |
| 1,246 | 781 | 0 |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| 8 | 8 | 0 |
| 3,813 | 3,948 | 0 |
| 14,073 | 12,763 | 0 |
| 0 | 0 | 0 |
| 4,240 | 3,238 | 2,616 |
| 0 | 0 | 0 |
| 3,228 | 2,582 | 2,152 |
| 704 | 109 | 97 |
| 0 | 0 | 0 |
| 51 | 14 | 17 |
| 257 | 533 | 350 |
| 191 | 220 | 143 |
| 66 | 313 | 207 |
| (27) | 17 | 23 |
| 27 | 0 | 0 |
| (283) | 0 | 0 |
| (217) | 330 | 230 |
| $(0.27) | $0.44 | $0.33 |
| $(0.27) | $0.41 | $0.31 |