

CENDANT CORP
Form 10-K/A
December 19, 2002

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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, 2001
COMMISSION FILE NO. 1-10308

CENDANT CORPORATION

(Exact name of Registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

**9 WEST 57TH STREET
NEW YORK, NY**

(Address of principal executive office)

06-0918165

(I.R.S. Employer
Identification Number)

10019

(Zip Code)

212-413-1800

(Registrant's telephone number, including area code)

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

TITLE OF EACH CLASS

**NAME OF EACH EXCHANGE
ON WHICH REGISTERED**

CD Common Stock, Par Value \$.01
Upper DECS (sm)

New York Stock Exchange
New York Stock Exchange

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes /x/ No / /

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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

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

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PART I

ITEM 1. BUSINESS

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Except as expressly indicated or unless the context otherwise requires, the "Company", "Cendant", "we", "our" or "us" means Cendant Corporation, a Delaware corporation, and its subsidiaries.

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

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

Our Hospitality segment operates the Days Inn®, Ramada® (in the United States), Super 8 Motel®, Howard Johnson®, Wingate Inn®, Knights Inn®, Travelodge® (in North America), Villager Group and AmeriHost Inn® lodging franchise systems, facilitates the sale and exchange of vacation ownership intervals through Resort Condominiums International, LLC, Fairfield Resorts, Inc., Trendwest Resorts, Inc. and Equivest Finance, Inc. and markets vacation rental properties in Europe through Holiday Cottages, Cuendet, Welcome Holidays and Novasol.

Our Vehicle Services segment operates and franchises our Avis® car rental business; provides fleet management and fuel card services to corporate clients and government agencies through PHH Arval and Wright Express.

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

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

* * *

We seek organic growth augmented, on a selected basis, by the acquisition and integration of complementary businesses. As a result, from time to time we engage in preliminary discussions concerning possible acquisitions. The purchase price for any possible transaction may be paid in cash, stock, other securities, borrowings, or a combination thereof. Prior to consummating any transaction, we will need to, among other things, initiate and satisfactorily complete our due diligence investigations; negotiate the financial and other terms (including price) and conditions of such transactions; obtain appropriate board of directors, regulatory and shareholder or other necessary consents and approvals; and, if necessary, secure financing. No assurance can be given with respect to the timing, likelihood or business effect of any possible transaction. In the past, we have been involved in both relatively small and significant acquisitions.

In addition, we continually review and evaluate our portfolio of existing businesses to determine if they continue to meet our business objectives. As part of our ongoing evaluation of such businesses, we intend

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

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

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

SEGMENTS

REAL ESTATE SERVICES SEGMENT (22%, 34% and 24% of revenue for 2001, 2000 and 1999, respectively)

Real Estate Franchise Business (8%, 14% and 10% of revenue for 2001, 2000 and 1999, respectively)

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

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

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

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

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

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

Each of our brands has a consumer Web site that offers real estate listing contacts and services. century21.com, coldwellbanker.com, coldwellbankercommercial.com and era.com are the official Web sites for the CENTURY 21, Coldwell Banker, Coldwell Banker Commercial and ERA real estate franchise systems, respectively. In addition, all of the aggregated listings of our CENTURY 21, Coldwell Banker and ERA national real estate franchises are available through the Realtor.com® Web site.

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Growth. We market real estate brokerage franchises primarily to independent, unaffiliated owners of real estate brokerage companies as well as individuals who are interested in establishing real estate brokerage businesses. We believe that our existing franchisee base represents another source of potential growth, as franchisees seek to expand their existing business geographically. Therefore, our sales strategy focuses on maintaining the satisfaction of our franchisees by providing services such as training, ongoing support, volume discounts and increasing brand awareness by providing each brand with a dedicated marketing staff. Our real estate brokerage franchise systems employ a national franchise sales force, compensated primarily by commissions on sales, consisting of approximately 100 sales personnel.

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

and services offered to franchisees.

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

NRT Relationship. NRT Incorporated, the largest real estate brokerage firm in the United States, was originally organized as a joint venture between us and Apollo Management, L.P. Apollo owned 100% of the common stock of NRT and we owned all of NRT's preferred stock, a portion of which was convertible into an equal equity ownership with Apollo. The convertible preferred stock entitled us to preferred dividends at rates of 5% to 9% of our investment, rates which we negotiated with NRT and Apollo. We exercised our option to purchase the NRT common stock held by Apollo on April 17, 2002. The purchase price was approximately \$230 million which we satisfied by delivering 11.5 million shares of CD common stock. We also repaid approximately \$320 million of NRT's debt. Prior to our acquisition of the NRT common stock, NRT was the largest real estate franchisee in our brokerage system based on gross commission income and represented approximately 42% of the Real Estate Franchise Business revenue for 2001. NRT's strategy is to grow through the acquisition of independent real estate brokerages which it then converts to one of our brands. Prior to our acquisition of the NRT common stock, NRT operated its offices under two 50-year franchise agreements for our brands that were similar to those utilized by our other real estate franchisees, except for the term and lack of royalty rebate provision. These agreements were recorded as an asset on our balance sheet. During 2001, we received from NRT approximately \$220 million in royalties for the use of our real estate trademarks based on the volume of real estate commissions earned by NRT. Additionally, during 2001, we received \$16 million of other fees from NRT, which included a fee paid in connection with the termination of a franchise agreement under which NRT operated our Century 21 real estate brand. During 2001, we also received \$37 million of real estate referral fees from NRT in connection with clients referred to NRT by our relocation business. These fees are based on a standard real estate brokerage agreement, in which the franchisor receives approximately 40% of the commission. These fees are also paid to us by all other real estate brokerages (both affiliates and non-affiliates) who receive referrals from our relocation business. At December 31, 2001, NRT had \$291 million in debt, which was non-recourse to us and, as noted above, the outstanding balance of such debt was repaid at the time of our acquisition of the NRT common stock. NRT has informed us, for the twelve months ended September 30, 2001, its leverage ratio (debt/EBITDA as defined in its credit agreement)

was 2.6 to 1. Certain officers of Cendant serve on the Board of Directors of NRT. Immediately subsequent to our acquisition of NRT, NRT acquired Clearwater, Florida-based Arvida Realty Services for approximately \$160 million in cash. Arvida offices have been converted to Coldwell Banker and will be integrated with our NRT Coldwell Banker operations in Florida.

In September 2002, NRT acquired all of the outstanding common stock of The DeWolfe Companies, Inc. at a price of approximately \$146 million in cash. DeWolfe provides residential real estate brokerage, mortgage banking, insurance, moving and relocation services primarily in New England.

Relocation Business (5%, 10% and 7% of revenue for 2001, 2000 and 1999, respectively)

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

We offer corporate and government clients employee relocation services, such as the evaluation, inspection, selling or purchasing of a transferee's home, the issuance of home equity advances to employees permitting them to purchase a new home before selling their current home (these advances are generally guaranteed by the corporate client), certain home management services, assistance in locating a new home, immigration support, intercultural and language training and repatriation counseling. We also provide clients with relocation-related accounting services. Our services allow clients to outsource their relocation programs.

Clients pay a fee for the services performed and/or permit Cendant Mobility to retain referral fees collected from brokers. The majority of our clients pay interest on home equity advances and reimburse all costs associated with our services, including, if necessary, repayment of home equity advances and reimbursement of losses on the sale of homes purchased. This limits our exposure on such items to the credit risk of our corporate clients and not on the potential changes in value of residential real estate. We believe such risk is minimal due to the credit quality of

our corporate clients. In transactions where we assume the risk for losses on the sale of homes (primarily government clients), which comprise less than 3% of net revenue for our relocation business, we control all facets of the resale process, thereby limiting our exposure.

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

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

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

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

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Mortgage Business (9%, 10% and 7% of revenue for 2001, 2000 and 1999, respectively)

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

We market our mortgage products to consumers through:

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

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

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

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

Cendant Mortgage customarily sells all mortgages it originates to investors (which include a variety of institutional investors) either as individual loans, mortgage-backed securities or participation certificates issued or guaranteed by Fannie Mae Corp., the Federal Home Loan Mortgage Corporation or the Government National Mortgage Association. Cendant Mortgage earns revenue from the sale of the mortgage loans to investors, as well as on the servicing of the loans for investors. Mortgage servicing consists of collecting loan payments, remitting principal and interest payments to investors, holding escrow funds for payment of mortgage related expenses such as taxes and insurance, and administering our mortgage loan servicing portfolio.

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

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

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

Real Estate Services Seasonality

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

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Real Estate Services Trademarks and Intellectual Property

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

Real Estate Services Employees

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

HOSPITALITY SEGMENT (18%, 21% and 16% of revenue for 2001, 2000 and 1999, respectively)

Lodging Franchise Business (5%, 11% and 8% of revenue for 2001, 2000 and 1999, respectively)

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

The lodging industry can be divided into four broad sectors based on price and services: upper upscale, with room rates above \$110 per night; upscale, with room rates between \$80 and \$110 per night; middle market, with room rates generally between \$55 and \$79 per night; and economy, with room rates generally less than \$55 per night. The following is a summary description of our lodging franchise systems properties that are open and operating as of December 31, 2001, including the average occupancy rate, average room rate and total room revenue divided by total available rooms for each property. We do not own or operate hotel properties. Information regarding such properties is derived from information we receive from our franchisees.

Brand	Primary Domestic Sector Served	Avg. Rooms Per Property	# of Properties	# of Rooms	Location*	Average Occupancy Rate	Average Room Rate	Total Room Revenue/Available Rooms
AmeriHost	Middle Market	68	86	5,827	U.S. Only	55.50%	\$ 58.91	\$ 32.70
Days Inn	Upper Economy	84	1,946	164,092	U.S. and International ⁽¹⁾	50.50%	\$ 50.47	\$ 25.49
Howard Johnson	Middle Market	99	503	49,831	U.S. and International ⁽²⁾	50.30%	\$ 59.89	\$ 30.12
Knights Inn	Lower Economy	80	227	18,145	U.S. and International ⁽³⁾	45.50%	\$ 37.70	\$ 17.15
Ramada	Middle Market	123	978	120,515	U.S. Only ⁽⁴⁾	47.50%	\$ 61.00	\$ 28.98
Super 8 Motel	Economy	61	2,054	125,016		57.20%	\$ 46.97	\$ 26.87

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Brand	Primary Domestic Sector Served	Avg. Rooms Per Property	# of Properties	# of Rooms	Location*	Average Occupancy Rate	Average Room Rate	Total Room Revenue/Available Rooms
Travelodge	Upper Economy	80	598	47,688	U.S. and International ⁽⁵⁾	46.80%	\$ 53.53	\$ 25.05
Villager	Lower Economy	101	120	12,177	U.S. and International ⁽⁶⁾	47.80%	\$ 29.80	\$ 14.24
Wingate Inn	Upper Middle Market	94	112	10,480	U.S. and International ⁽⁸⁾	55.70%	\$ 71.85	\$ 40.02
Total			6,624	553,771	Total Average:		\$	27.11

* Description of rights owned or licensed.

(1) 73 properties located in Canada and 49 properties located in China, Colombia, Czech Republic, Egypt, England, Hungary, India, Jordan, Mexico, Philippines, South Africa, Scotland and Uruguay.

(2) 38 properties located in Canada, and 33 properties located in Argentina, China, Dominican Republic, Ecuador, England, Israel, Jordan, Lebanon, Malta, Mexico, Oman, Venezuela and United Arab Emirates.

(3) Five properties located in Canada.

(4) Limited to the Continental U.S., Alaska and Hawaii.

(5) 88 properties located in Canada.

(6) 105 properties located in Canada and two properties located in Mexico.

(7) Two properties located in Canada and one property located in Mexico.

(8) One property located in Canada.

Our Lodging Franchise business derives substantially all of its revenue from initial franchise fees and continuing franchise fees, which are comprised of royalty and marketing/reservation fees and are normally charged as a percentage of the franchisee's gross room revenue. The royalty fee is intended to cover our operating expenses and the cost of the trademark, such as expenses incurred for franchise services, including group purchasing, administrative support and design and construction advice, and to provide the franchisor with operating profits. The marketing/reservation fee is intended to reimburse the franchisor for expenses associated with providing such franchise services as a central reservation system, national advertising and marketing programs and certain training programs. Since we do not own or operate hotel properties (we derive our revenue for this business from franchise fees), we do not incur renovation expenditures. Renovation costs are the obligation of each franchisee.

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

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

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

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

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

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

Central Reservation Systems. The lodging business is characterized by remote purchasing through travel agencies and through the use by consumers of toll-free telephone numbers and the Internet. We maintain five reservation centers that are located in: Knoxville and Elizabethton, Tennessee; Aberdeen, South Dakota; Saint John, New Brunswick, Canada; and Cork, Ireland. In 2001, our brand Web sites had approximately 222 million page views and booked an aggregate of approximately 2.0 million roomnights

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from Internet booking sources, compared with approximately 134 million page views and 1.3 million roomnights booked in 2000, increases of 66% and 54%, respectively.

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

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

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

Timeshare Exchange Business (6%, 10% and 8% of revenue for 2001, 2000 and 1999, respectively)

Our Resort Condominiums International LLC ("RCI") subsidiary is the world's largest provider of timeshare vacation exchange opportunities and services for approximately 2.9 million timeshare members from more than 3,700 resorts in nearly 100 countries around the world. Our RCI® business consists primarily of the operation of two exchange programs for owners of condominium timeshares or whole units at affiliated resorts both in and outside the U.S., the publication of magazines and other periodicals related to the vacation and timeshare industry, travel-related services, resort management, and consulting services. RCI has significant operations in North America, Europe, the Middle East, Latin America, Africa, Australia and the Pacific Rim. RCI charges its members an annual membership fee and an exchange fee for each exchange resulting in fees totaling approximately \$390 million during 2001.

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

Competition. The global timeshare exchange industry is comprised of a number of entities, including resort developers and owners. RCI's competitors include Interval International Inc., formerly our wholly owned subsidiary, as well as vacation club products and internal exchange programs offered by the Walt

Disney Co., Marriott, Starwood, Hilton and Hyatt. RCI also competes with regional and local time share exchange companies and developers.

Timeshare Sales and Marketing Business (6% of revenue for 2001)

We acquired Fairfield Resorts, Inc. (formerly known as Fairfield Communities, Inc.) in April 2001. Fairfield Resorts is one of the largest vacation ownership companies in the United States in terms of property owners, vacation units constructed and revenue from sales of vacation ownership interests. Fairfield sells and markets vacation products that provide quality recreational experiences to its more than 365,000 property owners. As of December 31, 2001, our portfolio of resorts consisted of 35 resorts located in 12 states. Of those resorts which are in various stages of development, 25 are located in destination areas with popular vacation attractions and 10 are located in scenic locations. We also provide consumer financing to individuals purchasing vacation ownership interests.

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

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

On April 30, 2002, we acquired approximately 90% of the outstanding common stock of Trendwest Resorts, Inc. for approximately \$849 million, including \$20 million of estimated transaction costs and expenses and \$25 million related to the conversion of Trendwest employee stock options into CD common stock options. The acquisition consideration was funded through a tax-free exchange of approximately 42.6 million shares of CD common stock then valued at approximately \$804 million. We purchased the remaining 10% of the outstanding Trendwest shares through a short form merger on June 3, 2002 for approximately \$87 million, which was funded through a tax-free exchange of approximately 4.8 million shares of CD common stock then valued at approximately \$87 million. Trendwest, through its WorldMark Club, markets, sells, and finances vacation ownership interests and will provide significant geographic diversification to our company, as our existing timeshare operations, Fairfield Resorts and Equivest, are principally located in the eastern United States. Trendwest's 48 properties are located primarily in the western United States, British Columbia, Mexico, Hawaii and the South Pacific.

Growth. The growth strategy for our timeshare sales and marketing business is driven primarily by acquisitions and further development. We also continually explore strategic corporate alliances and other transactions that would complement our timeshare sales and marketing business. We also plan to continue to further develop our existing destination resorts as well as develop additional resort locations.

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

Relationship with FFD Development Company, LLC. Prior to our acquisition of Fairfield Resorts, Fairfield's internal development function, consisting of property, acquisition, planning design and construction, and much of its inventory were contributed to a new, separate company, FFD Development Company, LLC ("FFD"). Fairfield received convertible preferred interests in FFD that may be converted into FFD's common equity interest and a warrant to purchase additional common equity interests in exchange for approximately \$60 million of vacation ownership units and \$4 million of cash. In connection with our acquisition of Fairfield in April 2001, through our Fairfield subsidiary,

we now own the preferred equity interest, which approximated \$59 million as of December 31, 2001, and the warrant to purchase a common equity interest in FFD. If we exercise our preferred interests and warrant, we will own approximately 75% of FFD, on a fully diluted basis. During 2001, we received \$6 million in preferred equity as a dividend on

our preferred equity interest in FFD. FFD's common equity is held by an independent trust. FFD is our primary acquirer and developer of timeshare inventory. Fairfield Resorts utilizes FFD to develop new resorts or expand existing units as required by Fairfield or Equest. We are only obligated to purchase the resort upon completion to the contractual specifications, upon delivery of a certificate of occupancy and when clear title is obtained. As of December 31, 2001, subject to FFD's completion of the construction of timeshare inventory in accordance with the contractual specifications and delivery of a certificate of occupancy with clear title, we would be obligated to purchase approximately \$98 million of timeshare inventory from FFD. Certain officers of Cendant serve on the Board of Directors of FFD.

FFD has its own \$125 million syndicated bank facility which is non-recourse to us. At December 31, 2001, \$4 million was outstanding under the facility. We anticipate that FFD will increase its borrowings in 2002. Subsequent to December 31, 2001, as is customary in "build to suit" agreements, when we contract with FFD for the development of a property, we will issue a letter of credit for up to 20% of our purchase price for such property. Drawing under all letters of credit will only be permitted if we fail to meet our payment obligations with respect to any such property. As of June 30, 2002, we had issued approximately \$42 million of these letters of credit.

Vacation Home Rental Business

In January 2001, we acquired Holiday Cottages Group Ltd. ("Holiday Cottages"), a leading marketer of vacation rental homes in Europe, promoted under eight brands. Holiday Cottages has relationships with over 9,000 independent property owners in the United Kingdom, France and Ireland. These property owners contract annually with Holiday Cottages on an exclusive basis to market their rental properties. In 2001, Holiday Cottages sold approximately 175,000 rental weeks on behalf of vacation property owners. Holiday Cottages also markets boat rentals in the UK, the Netherlands and France. This acquisition was not material to Cendant.

In September, 2001, we acquired Cuendet Cie SpA, a leading Italian brand specializing in the marketing and renting of over 3,500 private vacation homes in Italy, France, Spain and Portugal. Our acquisition of Cuendet increased our vacation home rental portfolio to approximately 15,000 properties. Cuendet markets its properties through tour operators and travel agents in Italy, France, Germany and North America. This acquisition was not material to Cendant.

In April 2002, we acquired Novasol A.S., which specializes in the marketing of privately owned holiday properties for rent principally across Denmark, Norway, Sweden, Germany and Eastern Europe. This acquisition added 17,000 properties to our portfolio. This acquisition was not material to Cendant.

In June 2002, we acquired Welcome Holidays Limited, which markets privately owned holiday properties for rent in the U.K., France and Ireland. This acquisition added approximately 3,700 properties to our portfolio. This acquisition was not material to Cendant.

In October, 2002, we acquired The International Life Group Limited which specializes in the provision of holiday rentals of cottages, villas, apartments and mobile homes based in France to UK and Irish consumers. This acquisition was not material to Cendant.

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

Hospitality Trademarks and Intellectual Property

The service marks "Days Inn," "Ramada," "Howard Johnson," "Super 8," "Travelodge," "Wingate Inn," "Villager," "Knights Inn," "AmeriHost Inn," "RCI," "Resort Condominiums International", "Fairfield" and related trademarks and logos are material to our hospitality businesses. The subsidiaries that operate our timeshare businesses and our franchisees actively use the marks which are registered (or have applications

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

Hospitality Seasonality

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

Hospitality Employees

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

VEHICLE SERVICES SEGMENT (39%, 5% and 19% of revenue for 2001, 2000 and 1999, respectively)

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

Car Rental Operations and Franchise Businesses (24%, 5%, 4% of revenue for 2001, 2000 and 1999, respectively)

We operate and/or franchise portions of the Avis® car rental system (the "Avis System"), which represents the second largest general use car rental brand in the world, based on total revenue and volume of rental transactions. The Avis System is comprised of approximately 4,800 rental locations (of which 1,713 are operated and/or franchised by us), including locations at some of the largest airports and cities in the United States and foreign countries. We operate 867 Avis car rental locations in both airport and non-airport (downtown and suburban) locations in the United States, Canada, Puerto Rico, the U.S. Virgin Islands, Argentina, Australia and New Zealand. For the period March 1, 2001, the date we acquired Avis, through December 31, 2001, our Avis car rental operations had an average fleet of approximately 216,000 vehicles and generated total vehicle rental revenue of approximately \$2.0 billion, of which 90% (or \$1.8 billion) was derived from U.S. operations.

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

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

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

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

On November 22, 2002, we completed the purchase of substantially all of the assets of Budget Group, Inc, the third-largest general use car and truck rental company in the United States. The acquisition includes Budget operations and franchised locations in the Americas, Caribbean, Australia and New Zealand and rights to franchise and operate in Asia. The transaction does not include Budget Group's Europe, Middle East and Africa operations and franchises. The purchase price was \$110 million in cash plus the payment of certain transaction related expenses and the assumption of certain contracts and trade payables. In connection with the purchase, we also assumed approximately \$2.5 billion in non-recourse vehicle debt.

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

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

Travel agents can make Avis System reservations by telephone, via our Web site, or through all major global distribution systems and can obtain access through these systems to our rental location, vehicle availability and applicable rate structures. An automated link between these systems and the Wizard System gives them the ability to reserve and confirm rentals directly through these systems. We also maintain strong links to the travel industry. We have arrangements with frequent traveler programs of airlines such as Delta®, American®, Continental® and United®, and of hotels including the Hilton Corporation, Hyatt Corporation, Best Western, and Starwood Hotels and Resorts. These arrangements provide various incentives to all program participants and cooperative marketing opportunities for Avis and the partner. We also have an arrangement with our

lodging brands whereby lodging customers who are making reservations by telephone will be transferred to Avis if they desire to rent a vehicle.

Internationally, we utilize a multi-faceted approach to sales and marketing throughout our global network by employing teams of trained and qualified account executives to negotiate contracts with major corporate accounts and leisure and travel industry partners. In addition, we utilize centralized telemarketing and direct mail initiatives to continuously broaden our customer base. Sales efforts are designed to secure customer commitment and support customer requirements for both domestic and international car rental needs. Our international operations maintain close relationships with the travel industry including participation in several airline frequent flyer programs, such as those operated by Air Canada®, Varig® Brazilian Airlines, as well as participation in Avis Europe programs with British Airways®, Lufthansa® and other carriers.

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

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

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

Fleet Management Services Business (15% and 15% of revenue for 2001 and 1999, respectively)

Through our acquisition of Avis Group Holdings in March 2001, we acquired a portion of the fleet management business we had previously sold to Avis in June 1999. As a result, we generated no revenue in this business in 2000. PHH Vehicle Management Services LLC (d/b/a PHH Arval), a leader in the fleet management services business, and Wright Express LLC, a leading proprietary fuel card service provider in the United States comprise our fleet management services business.

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

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

Fuel and Expense Management. For the effective management and control of automotive business travel expenses, we provide charge cards permitting a client's representatives to purchase gasoline or other fleet related products through a network of company-owned, distributor and independent merchant locations. The cards operate as a universal card with centralized billing designed to

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

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

Accident Management Services. We also provide our clients with comprehensive accident management services such as (i) immediate assistance after receiving the initial accident report from the driver (e.g., facilitating emergency towing services and car rental assistance), (ii) organizing the entire vehicle appraisal and repair process through a network of preferred repair and body shops, and (iii) coordinating and negotiating potential accident claims. Customers receive significant benefits from our accident management services such as (a) convenient coordinated 24-hour assistance from our call center, (b) access to our advantageous relationships with the repair and body shops included in our preferred supplier network, which typically provides customers with extremely favorable repair terms and (c) expertise of our damage specialists, who ensure that vehicle appraisals and repairs are appropriate, cost-efficient, and in accordance with each customer's specific repair policy. On February 6, 2002, we acquired driversshield.com FS Corp. to compliment our accident management business. This acquisition was not material to Cendant.

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

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

Discontinued Operation

Parking Facility Business. On May 22, 2002, we announced that we had completed the sale of our National Car Parks subsidiary for total consideration of £820 million (approximately \$1.2 billion) in cash.

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Vehicle Services Trademarks and Intellectual Property

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

Vehicle Services Seasonality

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

The fleet management services businesses are generally not seasonal.

Vehicle Services Employees

The businesses that make up our Vehicle Services segment employed approximately 18,234 persons as of December 31, 2001.

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

With the acquisitions of Galileo International, Inc. and Cheap Tickets, Inc. in October 2001, we added a new Travel Distribution segment which is comprised of (i) our global distribution services business through Galileo International, (ii) our travel agency business, including Cheap Tickets, and (iii) our reservations processing, connectivity and information management services business through Wizcom. For 2000 and 1999, revenue included in this segment was generated from our travel agency business, which is conducted by RCI Travel and Cendant Travel, and our electronic reservations business, which is conducted by our WizCom subsidiary. The results of these businesses were previously included in our Hospitality Segment.

***Global Distribution Services Business* (4% of revenue for 2001)**

In October 2001, we acquired Galileo International, Inc. for approximately \$1.9 billion, \$1.5 billion of which was funded through the issuance of 117 million shares of Cendant common stock, and the remainder of which was funded from available cash. As part of the acquisition, we

assumed approximately \$586 million of Galileo's debt.

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

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Effective November 1, 2001, we entered into a ten-year, \$1.4 billion information technology services arrangement with IBM Global Services, pursuant to which IBM Global Services will manage information technology services for our various business units, including the Galileo GDS. Such services include managing our data center, which was relocated from Garden City, New York to Denver, Colorado, and operating our 1,400-plus computer servers. IBM has also assumed responsibility for information technology services and data operations of third-party companies that had contracted with us to provide those functions. IBM also provides help desk and desk-top support services to some of our employees. As a result of this agreement, approximately 500 of our employees were hired by IBM.

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

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

Product Distribution. We distribute our products to subscribers primarily through our internal sales and marketing organization. We also distribute our products through our relationships with independent NDCs. NDC's are third party distributors who receive a commission for the sale and servicing of Galileo and Apollo technology to travel agents. Our local sales and marketing groups distribute our products in North America, the United Kingdom, Belgium, France, Germany, Spain, Portugal, the Netherlands, Switzerland, Sweden, Finland, Norway, Russia, Australia, New Zealand, Hong Kong, Singapore, the Philippines, Brazil and Venezuela. Bookings made in these countries collectively accounted for approximately 69% of our 2001 bookings.

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

Growth. In order to grow our GDS business, we intend to capitalize on our competitive strengths, the key elements of which are: (i) Cendant's business to business expertise and relationships, (ii) a diversified global presence, (iii) established relationships with a diverse group of travel suppliers and subscribers, (iv) a comprehensive offering of innovative products, and (v) new product initiatives with unique appeal to travel consumers, agencies and suppliers. We believe that the distribution network established through our independent NDCs provides us with a local presence in countries throughout the world. In addition, we continue to strengthen our presence in developing and emerging economies that provide future growth opportunities, such as Eastern Europe, Africa, the Middle East and Asia. We believe that in-depth knowledge of the local travel economies in which we distribute our products is essential to developing and strengthening our ties to travel suppliers and the local travel agencies that generate significant booking volumes.

We will continue to assess opportunities to acquire distributors in mature, highly automated markets, where we can realize attractive economic returns and enhance our customer service. Consistent with this

strategy, in April 2001, prior to our acquisition of Galileo, Galileo acquired Southern Cross Distribution Systems Pty Limited, its NDC for Australia and New Zealand, from an entity owned by the Qantas Airways group, Ansett Airlines and Air New Zealand. This acquisition raised the number of wholly owned sales and marketing organizations to 19, representing approximately 69% of our distribution.

We intend to continue to pursue opportunities to further open up our computerized reservation system to distribute travel through a variety of means and to continue to develop leading technologies, integrate additional travel content into our products, further strengthen our relationships with our agency and supplier customers and maintain our position as a leading player in the integrated electronic travel distribution marketplace. In October 2001, we acquired Highwire, Inc., a developer of corporate Internet travel tools and technology, which we expect will complement our product offerings and create new opportunities in the corporate online channel. The acquisition of HighWire was not material to Cendant.

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

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

On August 12, 2002, we acquired all of the issued and outstanding equity securities of InterNETWORK Publishing Corporation and certain of its affiliates (collectively, "IPC"), which operate online hotel reservation travel sites, including Lodging.com. IPC is expected to broaden our marketing of discounted hotel rooms to consumers and travel agencies. The acquisition of IPC is not material to Cendant.

Competition. Our competitors include the three major global distribution system companies: Sabre®, Amadeus® and Worldspan®, the regional reservation systems including Abacus®, Axesssm, Infinism and Topassm, other travel infrastructure companies such as Pegasus Systems and Datalex, firms that operate in the virtual travel services sector such as Expedia®, Travelocity® and Orbitzsm and alternative channels by which travel products and services are distributed.

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

Travel Agency Services Business (1%, 2% and 2% of revenue for 2001, 2000 and 1999, respectively)

We provide travel services, through our travel agency subsidiaries RCI Travel, LLC, Cendant Travel, Inc. and Cheap Tickets, Inc. We are a full service travel agency operation providing airline, car rental, hotel and other travel reservation and fulfillment services. Such services are provided to members of Resort Condominiums International, LLC, our timeshare exchange company, as well as in connection with the travel programs offered through Trilegiant Corporation, an individual membership business, and Trip Network, Inc., an independent affiliate of Cendant and the operator of the cheaptickets.comsm and Trip.comsm travel Web sites. On October 5, 2001, we acquired Cheap Tickets, Inc. for approximately \$313 million primarily in cash.

We work directly with travel suppliers, such as airlines, car rental companies, hotel companies and tour and cruise operators to secure both non-published and regularly available fares, rates and tariffs to supply the best possible rates and discounted travel to our customers. Cheap Tickets' non-published fares are not available to consumers directly from the airlines. Rates are made available to customers through our call centers and through our branded sites, cheaptickets.com and trip.com, which are operated by Trip Network, Inc. See "Relationship with Trip Network, Inc." discussion below. Transactions are booked via

global distribution service and fulfilled through our call center network and ticketing operations. As of December 31, 2001, we maintained a total of nine call centers located in: Lakeport, California, Colorado Springs, Denver and Englewood, Colorado, Tampa, Florida, Honolulu, Hawaii, Indianapolis (Carmel) Indiana, Moore, Oklahoma and Nashville, Tennessee.

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

Relationship with Trip Network, Inc. Trip Network, Inc. ("TNI") was established in 2001 to develop and launch an Internet travel portal initiative, and is expected to significantly expand the Internet presence of our travel brands for the benefit of certain of our current and future franchisees. TNI was established with a \$20 million contribution of assets by us in return for all of the common stock and preferred stock of Trip Network. We transferred all the common shares of Trip Network to an independent technology trust that is controlled by three independent trustees who are not officers, directors or employees of Cendant or relatives of officers, directors or employees of Cendant. The preferred stock is convertible at an exercise price of \$0.01 per share into approximately 80% of TNI's common stock beginning on March 31, 2003 or earlier upon a change of control of TNI. Additionally, we also funded TNI in the first quarter of 2001 with approximately \$85 million, including \$45 million in cash and 1.5 million shares of Homestore common stock, then valued at \$34 million. Following our acquisitions of Galileo and Cheap Tickets, TNI licensed the rights for the online businesses, Trip.com and Cheaptickets.com, respectively, which combined provide access to 20 million registered users. TNI currently operates these online travel businesses and we provide TNI with call center, supplier relationship management and GDS services. TNI is developing Trip.com as its primary consumer portal and released a new version of Trip.com in December 2001 as a "soft launch." It is anticipated TNI will launch an extensive Trip.com marketing campaign later this year as TNI further develops Trip.com with improved technology, greater discounted travel inventory and personalized customer services.

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

WizCom Business

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

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

Competition. In providing electronic distribution services to hotel customers, WizCom competes with third party connectivity providers such as Pegasus Solutions, and also with supplier direct connection technology. WizCom competes with many companies to provide computerized reservation system services to hotel customers, including other hotels. Some of our competitors include Hotel Data Systems, Synix and Micros Systems.

Travel Distribution Trademarks and Intellectual Property

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

Travel Distribution Seasonality

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

Travel Distribution Employees

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

FINANCIAL SERVICES SEGMENT (16%, 32% and 26% of our revenue for 2001, 2000 and 1999, respectively)

Insurance/Wholesale Business (5%, 10% and 7% of our revenue for 2001, 2000 and 1999, respectively)

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

Enhancement Package Service. We sell enhancement packages for financial institution consumer and business checking and deposit account holders primarily through our Progeny subsidiary. Progeny's financial institution clients select a customized package of our products and services and then usually add their own services (such as unlimited check writing privileges, personalized checks, cashiers' or travelers' checks without issue charge, or discounts on safe deposit box charges or installment loan interest rates). With our marketing and promotional assistance, the financial institution then offers the complete package of enhancements to its checking account holders as a special program for a monthly fee. Most of these financial institutions choose a standard enhancement package, which generally includes \$10,000 of common carrier insurance and travel discounts. Others may include Trilegiant's shopping and credit card registration services, a travel newsletter or pharmacy, eyewear or entertainment discounts as enhancements. The common carrier coverage is underwritten under group insurance policies with two referral underwriters. We generally charge a financial institution client an initial fee to implement this program and monthly fees thereafter based on the number of customer accounts participating in that financial institution's program. In January 2001, Progeny acquired the customer lists and all contracts of MarketTrust, Inc. that were necessary to provide checking account enhancement packages to over 320 financial institutions located across the United States and other related intellectual property. The acquisition of such assets of MarketTrust was not material to the Company.

AD&D Insurance. Through our Progeny and BCI subsidiaries, we serve as an agent and third-party administrator for marketing accidental death and dismemberment insurance throughout the country to the customers of financial institutions. These products are primarily marketed through direct mail solicitations which generally offer \$1,000 of accidental death and dismemberment insurance at no cost to the customers and the opportunity to choose additional coverage of up to \$250,000. The annual premium generally ranges from \$10 to \$250. BCI also acts as an administrator for, and markets, term life and hospital accident insurance. Progeny's and BCI's insurance products and other services are offered to customers of banks, credit unions, credit card issuers and mortgage companies.

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

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

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

Competition. Our checking account enhancement services compete with similar services offered by other companies, including insurance companies and other third-party marketers. In larger financial institutions, we may also compete with a financial institution's own marketing staff. Competition for the offering of our insurance products through financial institutions is growing and intense. Our competitors include other third-party marketers and large national insurance companies with established reputations that offer products with rates, benefits and compensation similar to ours. The long term care insurance industry is highly competitive. Our competition primarily includes large national insurance companies, such as General Electric Financial Assurance Company.

Loyalty Solutions (2%, 4% and 3% of our revenue for 2001, 2000 and 1999, respectively)

Our Cims subsidiary has developed customer loyalty solutions and insurance products for the benefit of financial institutions and businesses in other industries. The primary customer loyalty solution offered to Cims clients is the loyalty package. Loyalty packages provide targeted consumers of client organizations with a "package" of benefits and services for the purpose of improving customer retention, attracting

consumers to become customers of the client organization and encouraging them to buy additional services. For example, packages include discounted travel services such as discounts on vacation rentals, car rentals, travel insurance, timeshare weeks, cruises, hotels and airlines. As of December 31, 2001, Cims has expanded its clients' membership and customer base to approximately 15.3 million individuals. Cims clients include over 50 financial institutions throughout Europe, South Africa and Asia. Cims offers travel and real estate benefits and other services within its loyalty packages for the benefit of consumers. Cims also leverages its internal insurance competencies and strategic relationships to provide insurance benefits to consumers. We also have exclusive licensing agreements covering the use of our merchandising systems in Australia, Japan and certain other Asian countries under which licensees pay initial license fees and agree to pay royalties to us based on membership fees, access fees and merchandise service fees paid to them.

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

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

Tax Preparation Business (1%, 1% and 1% of our revenue for 2001, 2000 and 1999, respectively)

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

of 22.0% from the approximately 1.8 million tax returns prepared during 2000. To complement our tax preparation services, we also offer accelerated check refunds and refund anticipation loans to our tax preparation customers through a designated bank. Franchisees pay a minimum initial fee and royalty and marketing fees.

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

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

During 1999, Jackson Hewitt, in conjunction with two of its largest franchisees, created an independent joint venture, Tax Services of America, Inc. ("TSA"), to maximize Jackson Hewitt's ability to add independent tax preparation firms to its franchise system. Jackson Hewitt initially contributed approximately 80 company-owned stores and as of December 31, 2001 had an approximate 89% interest in the form of preferred stock. The two other parties to the joint venture contributed a total of 40 stores in exchange for common stock in TSA. On January 18, 2002, Jackson Hewitt purchased all of the then outstanding common stock of TSA for approximately \$4.0 million. TSA currently has over 400 offices and is expected to prepare over 350,000 tax returns in 2002. TSA's objective is to grow by acquiring independent tax preparation firms in areas where TSA is licensed to operate and convert them to the Jackson Hewitt system.

Competition. Tax preparation businesses are highly competitive. There are a substantial number of tax preparation firms and accounting firms that offer tax preparation services. Commercial tax preparers are highly competitive with regard to price, service and reputation for quality. Our largest competitor, H&R Block, is a nationwide tax preparation service with approximately 9,000 locations.

Individual Membership Business (8%, 17% and 15% of our revenue for 2001, 2000 and 1999, respectively)

The individual membership business markets various clubs and services to individuals through client proprietary lists (such as banks, financial institutions, retailers, oil companies and internet service providers) for a membership fee. The membership period is typically on an annual basis although we do have some members that join on a monthly basis. Members have the ability to cancel their membership at any time during the membership period for a full or partial refund.

On July 2, 2001, we entered into 40-year outsourcing and licensing agreements with Trilegiant Corporation, a direct marketing company established by former management of our Cendant Membership Services and Cendant Incentives subsidiaries. All of Trilegiant's common stock is owned by the executives and senior management of Trilegiant, many of whom are former employees of our individual membership business. As of July 2, 2001, no common stockholder of Trilegiant was an officer, director or employee of Cendant. However, such former employees continue to hold vested Cendant stock options granted during their employment with Cendant. We continue to receive membership fees from, and are obligated to provide membership benefits to, existing members as of July 2, 2001, including their renewals, and Trilegiant provides fulfillment services (including cash collection, paying commissions, processing refunds, providing membership services and benefits) to these members in exchange for a servicing fee. Trilegiant collects the membership fees from, and is obligated to provide membership benefits to, those new members who join the membership based clubs and programs and all other incentive programs subsequent to July 2, 2001. Beginning in the third quarter of 2002 and throughout the remainder of the 40 year term of the licensing agreements, we will receive a royalty fee (initially 5% increasing to approximately 16% over ten years) from Trilegiant in connection with those new members. Certain of our officers serve on the Board of Directors of Trilegiant to oversee our interest in Trilegiant. Trilegiant's Board of Directors is comprised of three directors elected by the Trilegiant management (as the common shareholders) and three directors elected by us (as the sole preferred shareholder).

As of December 31, 2001, Trilegiant serviced approximately 23.8 million memberships, 18.9 million of which consist of our existing memberships. Trilegiant provides members with access to a variety of discounted products and services in such areas as retail shopping, travel, personal finance and auto and

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home improvement. Trilegiant also affiliates with business partners such as leading financial institutions, retailers, and oil companies to offer membership as an enhancement to their credit card, charge card or other customers. Participating institutions generally receive commissions on initial and renewal memberships, based on a percentage of the net membership fees. Individual membership programs offer consumers discounts on many brand categories by providing shop at home convenience in areas such as retail shopping, travel, automotive, dining and home improvement.

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

Investment in Trilegiant. We own preferred stock which is convertible at any time at our option, into approximately 20% of Trilegiant's common stock. We also advanced approximately \$100 million in cash and \$33 million of prepaid assets to support Trilegiant's marketing activities. In addition, we have provided Trilegiant with a \$35 million revolving line of credit under which advances are at our sole and unilateral discretion. At December 31, 2001, there were no advances outstanding under this line of credit. We are not obligated or contingently liable for any debt incurred by Trilegiant.

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

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

Financial Services Trademarks and Other Intellectual Property.

The service marks "Jackson Hewitt" and "Jackson Hewitt Tax Service" and related marks and logos are material to Jackson Hewitt's business. We, through our franchisees, actively use these marks. The trademarks and logos are registered (or have applications pending for registration) with the United States Patent and Trademark Office. We own the marks used in the Jackson Hewitt business. The individual membership

business trademarks and service marks listed above and related logos are material to the individual membership business. In connection with the Trilegiant outsourcing arrangement, we license the individual membership business trademarks and service marks listed above to Trilegiant in exchange for the licensing fee mentioned above. Individual membership business trademarks and logos are registered (or have applications pending for registration) with the United States Patent and Trademark Office, unless otherwise indicated above. We own the marks used in the individual membership business.

Financial Services Seasonality.

Our direct marketing and individual membership businesses are generally not seasonal. However, since most of our franchisees' customers file their tax returns during the period from January through April of

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each year, substantially all franchise royalties are received during the first and second quarters of each year. As a result, Jackson Hewitt operates at a loss for the remainder of the year. Historically, such losses primarily reflect payroll of year-round personnel, the update of tax software and other costs and expenses relating to preparation for the following tax season.

Financial Services Employees

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

GEOGRAPHIC SEGMENTS

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

REGULATION

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

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

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

Timeshare Exchange Regulation. Our timeshare exchange business is subject to foreign, federal, state and local laws and regulations including those relating to taxes, consumer credit, environmental protection and labor matters. In addition, we are subject to state statutes in those states regulating timeshare exchange services, and must prepare and file annually certain disclosure guides with regulators in states where required. While our timeshare exchange business is not subject to those state statutes governing the development of timeshare condominium units and the sale of timeshare interests, such statutes directly affect both our timeshare sales and marketing business (see below) and the other members and resorts that participate in the RCI exchange programs. Therefore, the statutes indirectly impact our timeshare exchange business.

Timeshare Sales and Marketing Regulation. Our timeshare sales and marketing business is subject to extensive regulation by the states in which our resorts are located and in which its vacation ownership interests are marketed and sold. In addition, we are subject to federal legislation, including without limitation, the Federal Trade Commission Act; the Fair Housing Act; the Truth-in-Lending Act and

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Regulation Z promulgated thereunder, which require certain disclosures to borrowers regarding the terms of their loans; the Real Estate Settlement Procedures Act and Regulation X promulgated thereunder which require certain disclosures to borrowers regarding the settlement and servicing of loans; the Equal Credit Opportunity Act and Regulation B promulgated thereunder, which prohibit discrimination in the extension of credit on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, the Telemarketing and Fraud and Abuse Prevention Act, and the Civil Rights Acts of 1964, 1968 and 1991.

Many states have laws and regulations regarding the sale of vacation ownership interests. The laws of most states require a designated state authority to approve a timeshare public report, a detailed offering statement describing the resort operator and all material aspects of the resort and the sale of vacation ownership interests. In addition, the laws of most states in which we sell vacation ownership interests grant the purchaser of such an interest the right to rescind a contract of purchase at any time within a statutory rescission period, which generally ranges from three to ten days. Furthermore, most states have other laws that regulate our timeshare sales and marketing activities, such as real estate licensing laws, travel sales licensing laws, anti-fraud laws, telemarketing laws, prize, gift and sweepstakes laws, labor laws and various regulations governing access and use of our resorts by disabled persons.

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

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

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

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

A traditional revenue source for the vehicle rental industry has been the sale of loss damage waivers, by which rental companies agree to relieve a customer from financial responsibility arising from vehicle damage incurred during the rental period. Approximately 3.2% of our vehicle operations revenue during 2001 was generated by the sale of loss damage waivers. Approximately 40 states have considered legislation affecting the loss damage waivers. To date, 24 states have enacted legislation which requires disclosure to each customer at the time of rental that damage to the rented vehicle may be covered by the customer's personal automobile insurance and that loss damage waivers may not be necessary. In addition, in the late

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1980's, New York enacted legislation which eliminated our right to offer loss damage waivers for sale and limited potential customer liability to \$100. Moreover Nevada has capped rates for loss damage waivers at \$15.00 per day. California has capped these rates at either \$9.00 per day for cars with an MSRP of \$19,000 or less, or \$15.00 per day for cars with an MSRP of \$19,000 to \$34,999, but there is no cap for cars with an MSRP of \$35,000 or more.

We are also subject to regulation under the insurance statutes, including insurance holding company statutes, of the jurisdictions in which its insurance company subsidiaries are domiciled. These regulations vary from state to state, but generally require insurance holding companies and insurers that are subsidiaries of insurance holding companies to register and file certain reports including information concerning their capital structure, ownership, financial condition and general business operations with the state regulatory authority, and require prior regulatory agency approval of changes in control of an insurer and intercorporate transfers of assets within the holding company structure. Such insurance statutes also require that we obtain limited licenses to sell optional insurance coverage to our customers at the time of rental.

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

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

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

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

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

Both the United States and the European Union require systems to provide airline displays for travel agencies that are ordered on the basis of neutral principles and that all airlines must be charged the same

fees for the same level of participation. The EC rules go further and require that fees must be reasonably structured and reasonably related to the cost of the service provided and used. Moreover, under the EC rules, airlines have the ability to disallow certain types of bookings, unless they have already been accepted.

Both the United States and European Union regulators seek to redress the potential that a computerized reservation system used for internal reservation purposes would offer a travel agency subscriber superior access to the hosted airline and inferior access to all other airlines. The EC rules require a GDS to ensure that its distribution facilities are separated from any carrier's private inventory hosted on the system. If a connection between distribution facilities and private inventory is permitted by an application interface, any such interface must be available to all carriers on a non-discriminatory basis. While the United States rules contain several principles outlining the requirement of unbiased displays, the EC rules prescribe a specific formula that a computerized reservation system must use to order its display of flights. U.S.

regulations also require functional equivalence between the functionality offered to airlines whose internal reservation systems are hosted in the computerized reservation system and those provided to all other airlines. The EC rules require the owner airlines to provide the same data, and accept and confirm bookings with equal timeliness in all computerized reservation systems, when requested to do so. U.S. regulations contain no counterpart to the European requirement that subscribers be offered access to the computerized reservation system on a nondiscriminatory basis. Although U.S. regulations extend only to use of computerized reservation systems by travel agencies, European and Canadian rules apply to all subscriber uses of computerized reservation systems, whether by travel agencies, individuals or corporate travel departments. To the extent rules relating to computerized reservation systems are proposed or adopted by other countries, we expect they will be similar to the existing rules in other jurisdictions.

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

EMPLOYEES

As of December 31, 2001, we employed approximately 50,000 people. Management considers our employee relations to be satisfactory.

ITEM 2. PROPERTIES

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

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

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

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

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

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

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

Our vehicle services segment owns a 158,000 square foot facility in Virginia Beach, Virginia, which serves as a satellite administrative and reservations facility for WizCom and Avis rental car operations. Our Vehicle Services segment also leases space for its car reservations center in

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Tulsa, Oklahoma and Fredericton, New Brunswick, Canada pursuant to leases that expire in 2006 and 2009, respectively. In addition, there are approximately 19 leased office locations in the United States.

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

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

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

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

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

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

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

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

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ITEM 3. LEGAL PROCEEDINGS

A. CLASS ACTION AND OTHER LITIGATION AND GOVERNMENT INVESTIGATIONS

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

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

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

On January 25, 1999, the Company answered the Amended Consolidated Complaint and asserted Cross-Claims against Ernst & Young alleging that Ernst & Young failed to follow professional standards to discover, and recklessly disregarded, the accounting irregularities, and is therefore

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liable to the Company for damages in unspecified amounts. The Cross-Claims assert claims for breaches of Ernst & Young's audit agreements with the Company, negligence, breaches of fiduciary duty, fraud, and contribution.

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

On December 7, 1999, we announced that we had reached an agreement to settle the Securities Action for approximately \$2.85 billion in cash which was fully funded on May 24, 2002. (See "Litigation Settlements" below and Note 14 to the Consolidated Financial Statements).

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

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

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Semerenko v. Cendant Corp., et al., Civ. Action No. 98-5384 (D.N.J.), and *P. Schoenfield Asset Management LLC v. Cendant Corp., et al.*, Civ. Action No. 98-4734 (D.N.J.) (the "ABI Actions"), were initially commenced in October and November of 1998, respectively, on behalf of a putative class of persons who purchased securities of American Bankers Insurance Group, Inc. ("ABI") between January 27, 1998 and October 13, 1998. Named as defendants are the Company, four former CUC officers and directors and Ernst & Young. The complaints in the ABI actions, as amended on February 8, 1999, assert violations of Sections 10(b), 14(e) and 20(a) of the Exchange Act. The plaintiffs allege that they purchased shares of ABI common stock at prices artificially inflated by the accounting irregularities after we announced a cash tender offer for 51% of ABI's outstanding shares of common stock in January 1998. Plaintiffs also allege that after the disclosure of the accounting irregularities, we misstated our intention to complete the tender offer and a second step merger pursuant to which the remaining shares of ABI stock were to be acquired by us. Plaintiffs seek, among other things, unspecified compensatory damages. On April 30, 1999, the United States District Court for the District of New Jersey dismissed the complaints on motions of the defendants. In an opinion dated August 10, 2000, the United States Court of Appeals for the Third Circuit vacated the District Court's judgment and remanded the ABI Actions for further proceedings. On December 15, 2000, we filed a motion to dismiss those claims based on ABI purchases after April 15, 1998, and the District Court granted this motion on May 7, 2001. The plaintiffs subsequently moved for leave to file a Second Amended Complaint to reallege claims based on ABI purchases between April 16, 1998 and October 13, 1998. That motion was denied on August 15, 2002.

B. OTHER LITIGATION

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

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

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

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

C. LITIGATION SETTLEMENTS.

Settlement of Common Stock Class Action Litigation

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

As of December 31, 2001, we had made payments totaling \$1.41 billion to a fund established for the benefit of the plaintiffs in this lawsuit. We made an additional payment of \$250 million during March 2002 and completed making payments to the fund on May 24, 2002.

Partial Settlement of PRIDES Class Action Litigation

On March 17, 1999, we entered into an agreement to settle the claims of those Class members in the PRIDES Action who purchased their securities on or prior to April 15, 1998 ("eligible persons"). The settlement did not resolve claims based upon purchases of PRIDES after April 16, 1998 and, as of December 31, 2001, other than *Welch & Forbes, Inc. v. Cendant Corp., et al.*, which is previously discussed, no purchasers of PRIDE securities after April 16, 1998 have instituted proceedings against us. Under the settlement, each eligible person was entitled to receive a new security a Right for each PRIDES held on April 15, 1998. On June 15, 1999, the United States District Court for the District of New Jersey approved the settlement.

In April 2000, The Chase Manhattan Bank ("Chase"), acting as custodian of three mutual funds that sought a total of 2,020,000 Rights, filed a motion seeking relief from an order of the District Court that rejected the claims filed by Chase on behalf of the mutual funds. On June 7, 2000, the District Court denied Chase's motion, but on December 1, 2000 the Third Circuit vacated that order and remanded the case to the District Court for further proceedings. In August 2001, the District Court issued a decision that again rejected Chase's claims. Chase has appealed again to the Third Circuit. As the Rights expired on February 14, 2001, if Chase's claim is successful it will be satisfied with approximately 1.2 million shares of our CD Common Stock.

Pursuant to the settlement, we distributed 24,107,038 Rights to eligible persons. The Rights provided that we issue two New PRIDES to every person who delivered to us by February 14, 2001 three rights and two original PRIDES. The terms of the New PRIDES were the same as the original PRIDES, except that the conversion rate was revised so that, at the time the Rights were distributed, each of the New PRIDES had a value equal to \$17.57 more than each original PRIDES, based upon a generally accepted valuation

model. We issued approximately 15,485,000 New PRIDES upon exercise of Rights. Under the terms of the New PRIDES, each holder of a New PRIDES was required to purchase 2.3036 shares of our Common Stock on February 16, 2001. In connection with this mandatory purchase, we distributed approximately 14,745,000 more shares of our Common Stock on February 16, 2001 than we otherwise would have under the terms of the original PRIDES.

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

The settlements do not encompass all litigation asserting claims against us associated with the accounting irregularities. We do not believe that it is feasible to predict or determine the final outcome or resolution of these unresolved proceedings. An adverse outcome from such unresolved proceedings could be material with respect to earnings in any given reporting period. However, we do not believe that the impact of such unresolved proceedings should result in a material liability to us in relation to our consolidated financial position or liquidity.

Settlement of the Deutch and Resnick Actions

On July 9, 2002, we entered into a settlement agreement providing for payment to Cendant of \$54 million, less such attorneys fees and expenses as may be awarded by the Court, which are not expected to exceed \$12 million, by certain director and officer liability insurers in settlement of claims against several current and former directors and officers of Cendant who are named as defendants. The settlement is subject to approval by the District Court, and a hearing on the settlement was held on October 21, 2002.

Other Settlements

On March 6, 2002, we entered into an agreement to settle the claims under a pending arbitration proceeding filed on December 17, 1998, by Janice G. and Robert M. Davidson, former majority shareholders of a California-based computer software firm acquired by the Company in a July 1996 stock merger (the "Davidson Merger"). The Davidsons' Demand for Arbitration asserted claims against Cendant based upon allegations that the value of the Company securities they acquired in the Davidson Merger and through a May 1997 settlement agreement settling all disputes arising out of the Davidson Merger was artificially inflated due to the accounting irregularities. We entered into a Settlement Agreement dated as of March 6, 2002 with Janice G. Davidson, Robert M. Davidson and various trusts of which one or both of them are trustees (collectively, the "Davidsons"). Pursuant to the Settlement Agreement, we issued 2,986,857 shares of our common stock to the Davidsons. Pursuant to the Settlement Agreement, we also reduced the exercise price of (a) options authorizing the Davidsons to buy 1.6 million shares of our common stock from \$20.50 per share to \$9.8125 per share, which options initially were granted to the Davidsons in connection with a 1997 settlement agreement with CUC International Inc. ("CUC"); and (b) options authorizing each of Janice G. Davidson and Robert M. Davidson to buy 75,000 shares of our common stock from \$22.33 per share to \$9.8125 per share, which options were granted pursuant to employment agreements entered into in 1996 with CUC in connection with CUC's acquisition of Davidson & Associates, Inc. In the Settlement Agreement, the Davidsons agreed to remain in the class certified in the Securities Action and to pay to us an amount equal to the sum they receive in settlement of the Securities Action. We currently believe that the amount to be distributed to the Davidsons in connection with settlement of the Securities Action will be approximately \$15 million. In connection with the settlement, we recorded a charge of approximately \$48 million (\$31 million, after tax) in the fourth quarter of 2001.

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

Not Applicable.

PART II

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

Market Price on Common Stock

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

2001	High	Low
First Quarter	\$ 14.760	\$ 9.625
Second Quarter	20.370	13.890
Third Quarter	21.530	11.030
Fourth Quarter	19.810	12.040
2000	High	Low
First Quarter	\$ 24.313	\$ 16.188
Second Quarter	18.750	12.156
Third Quarter	14.875	10.626
Fourth Quarter	12.563	8.500

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

Dividend Policy

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

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ITEM 6. SELECTED FINANCIAL DATA

	At or For the Year Ended December 31,				
	2001	2000	1999	1998	1997
	(In millions, except per share data)				
Results of Operations					
Net revenues	\$ 8,613	\$ 4,320	\$ 5,755	\$ 6,364	\$ 5,429
Income (loss) from continuing operations	\$ 342	\$ 569	\$ (307)	\$ 114	\$ 66
Income (loss) from discontinued operations, net of tax	81	91	252	426	(26)
Extraordinary (loss) gain, net of tax		(2)			26
Cumulative effect of accounting changes, net of tax	(38)	(56)			(283)
Net income (loss)	\$ 385	\$ 602	\$ (55)	\$ 540	\$ (217)
Per Share Data					
<i>CD Common Stock</i>					
Income (loss) from continuing operations:					
Basic	\$ 0.37	\$ 0.79	\$ (0.41)	\$ 0.13	\$ 0.08
Diluted	0.36	0.77	(0.41)	0.13	0.08
Cumulative effect of accounting changes:					
Basic	\$ (0.05)	\$ (0.08)	\$	\$	\$ (0.35)
Diluted	(0.04)	(0.08)			(0.35)
Net income (loss):					
Basic	\$ 0.42	\$ 0.84	\$ (0.07)	\$ 0.64	\$ (0.27)
Diluted	0.41	0.81	(0.07)	0.61	(0.27)
Financial Position					

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	At or For the Year Ended December 31,									
Total assets	\$	33,544	\$	15,153	\$	15,412	\$	20,230	\$	14,073
Total long-term debt, excluding Upper DECS		6,132		1,948		2,845		3,363		1,246
Upper DECS		863								
Assets under management and mortgage programs		11,868		2,861		2,726		7,512		6,444
Debt under management and mortgage programs		9,844		2,040		2,314		6,897		5,603
Mandatorily redeemable preferred interest in a subsidiary		375		375						
Mandatorily redeemable preferred securities issued by subsidiary holding solely senior debentures issued by the Company				1,683		1,478		1,472		
Stockholders' equity		7,068		2,774		2,206		4,836		3,921

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

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

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

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

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

The following discussion should be read in conjunction with our Consolidated Financial Statements and accompanying Notes thereto included elsewhere herein. Unless otherwise noted, all dollar amounts are in millions and those relating to our results of operations are presented before taxes.

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

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

On April 30, 2002, we acquired approximately 90% of the outstanding common stock of Trendwest Resorts, Inc. for \$849 million, including \$20 million of estimated transaction costs and expenses and \$25 million related to the conversion of Trendwest employee stock options into CD common stock options. The acquisition consideration was funded through a tax-free exchange of approximately 42.6 million shares of CD common stock then-valued at \$804 million. As part of the acquisition, we assumed \$89 million of Trendwest debt, which was subsequently repaid. We purchased the remaining 10% of the outstanding Trendwest shares through a short form merger on June 3, 2002 for approximately \$87 million, which was funded through a tax-free exchange of approximately 4.8 million shares of CD common stock then-valued at \$87 million. Trendwest markets, sells and finances vacation ownership interests and is now part of our Hospitality segment. Management believes that this acquisition will provide us with significant geographic diversification and global presence in the timeshare industry.

On April 17, 2002, we acquired all of the outstanding common stock of NRT, the largest residential real estate brokerage firm in the United States, for a total purchase price of approximately \$230 million. The purchase was effected through issuing approximately 11.5 million shares of our common stock. As part of the acquisition, we also assumed approximately \$320 million of NRT debt, which was subsequently repaid. On April 17, 2002, we also acquired all of the outstanding common stock of Arvida Realty Services, the largest residential real estate brokerage firm in Florida, for approximately \$160 million in cash. Management believes that NRT and Arvida as wholly-owned subsidiaries will be a more efficient acquisition vehicle, experience greater opportunities to enhance mortgage and title penetration and achieve greater financial and operational synergies.

On March 1, 2002, we entered into a venture with Marriott International, Inc. whereby we contributed our domestic Days Inn trademark and an amended license agreement relating to such trademark and Marriott contributed the Ramada trademark and the amended master license agreements relating to such trademark. We received a 50.0001% interest in the venture and Marriott received 49.9999% interest in the venture. Pursuant to the terms of the venture, we will share income from the venture with Marriott on a substantially equal basis. We currently expect the venture to redeem Marriott's interest for approximately \$200 million, the projected fair market value, in March 2004. We expect to loan the venture such amount in March 2004 to enable the venture to meet its obligations to Marriott. Upon redemption, we will own 100% of the venture. Under the terms of the venture agreement, we control the venture and, therefore, will

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consolidate the venture into our results of operations, financial position and cash flows beginning on March 1, 2002. The venture has no third party liabilities.

On May 22, 2002, we sold our car parking facility business, NCP, a wholly-owned subsidiary within our Vehicle Services segment, for approximately \$1.2 billion in cash. We recorded an after-tax loss of \$256 million in second quarter 2002 on the sale of this business principally related to foreign currency translation, as U.S. dollar strengthened significantly against the U.K. pound since Cendant's acquisition of NCP in 1998. NCP operated off-street commercial parking facilities and managed on-street parking and related operations on behalf of town and city administration in England. The account balances and activities of NCP have been segregated and reported as a discontinued operation for all periods presented.

During 2001, we acquired several businesses, which substantially contributed to our revenue growth and overall improvement in the cash flows we generate from operations. Avis Group Holdings, Inc., one of the world's leading service and information providers for comprehensive automotive transportation and vehicle management solutions, was acquired on March 1, 2001 for approximately \$994 million primarily in cash and Fairfield Resorts, Inc. (formerly, Fairfield Communities, Inc.), one of the largest vacation ownership companies in the United States, was acquired on April 2, 2001 for approximately \$760 million primarily in cash. In addition, on October 1, 2001 and October 5, 2001, we acquired Galileo International, Inc., a leading provider of electronic global distribution services for the travel industry, for approximately \$1.9 billion (approximately \$1.5 billion of which was funded through the issuance of approximately 117 million shares of CD common stock with the remainder being funded in cash) and Cheap Tickets, Inc., a leading seller of discount leisure travel products, for approximately \$313 million primarily in cash, respectively. In connection with these acquisitions, we acquired net assets (assets acquired less liabilities assumed) of approximately \$2.1 billion (including the assumption of approximately \$11.8 billion of liabilities).

During 2001, we also completed the sale of our real estate Internet portal, move.com, along with certain ancillary businesses to Homestore.com, Inc. in exchange for approximately 21 million shares of Homestore common stock then-valued at \$718 million. As of December 31, 2001, we held 18.1 million shares of Homestore, for which the carrying amounts had been written down to zero during the fourth quarter of 2001 (see discussion in "Results of Consolidated Operations 2001 vs. 2000 Net Loss on Dispositions of Businesses and Impairment of Investments"). The sale permitted us to align the company with the market leader in on-line real estate content, as well as real estate broker technology. We also outsourced our individual membership and loyalty business to Trilegiant Corporation during 2001 (see discussion in "Liquidity and Capital Resources").

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

Critical Accounting Policies

In presenting our financial statements in conformity with generally accepted accounting principles, we are required to make estimates and assumptions that affect the amounts reported therein. Certain of the estimates and assumptions we are required to make relate to matters that are inherently uncertain as they pertain to future events. We continue to evaluate these estimates and assumptions. However, events that are outside of our control cannot be predicted and, as such, they cannot be contemplated in evaluating such estimates and assumptions. If there is a significantly unfavorable change to current conditions, there will likely be a material adverse impact to our financial statements. We believe that the estimates and assumptions we used when preparing our financial statements were the most appropriate at that time. We have reviewed the

accounting policies of all our businesses to identify those policies where we are required to make particularly subjective and complex judgments that affect these estimates and assumptions.

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

accounting policies which we believe require subjective and complex judgments and could potentially affect reported results.

Mortgage Servicing Rights. A mortgage servicing right is the right to receive a portion of the interest coupon and fees collected from the mortgagor for performing specified servicing activities. The value of mortgage servicing rights is estimated based on expected future cash flows considering market prepayment estimates, historical prepayment rates, portfolio characteristics, interest rates and other economic factors. We estimate future prepayment rates based on current interest rate levels, other economic conditions and market forecasts, as well as relevant characteristics of the servicing portfolio, such as loan types, interest rate stratification and recent prepayment experience. To the extent that fair value is less than carrying value, we would consider the portfolio to have been impaired and record a related charge. During 2001, we determined that impairment had occurred due to interest rate reductions, which results in a greater level of mortgage prepayments than expected. Accordingly, we recorded net aggregate write-downs of \$144 million. Approximately \$50 million of this write-down was related to changes in estimates of interest rates in the ordinary course of business, which were the direct result of the continued lowering of interest rates that occurred during 2001 prior to the September 11th terrorist attacks. These rate reductions caused a decline in the value of our mortgage servicing rights portfolio, hence requiring the write-down. The remaining \$94 million of aggregate write-down was directly related to interest rate reductions subsequent to the September 11th terrorist attacks, whereby the Federal Reserve reduced the Federal Funds rate by 50 basis points twice within a 14-day period following the terrorist attacks and the U.S. Treasury Department announced thereafter the discontinuance of new sales of the 30-year treasury bond. The reductions in the Federal Funds rate which occurred between September 17th and December 11th of 2001, resulted in a 50% reduction to such rate, which has never occurred over such a short period in the history of the Federal Funds rate. The series of these actions resulted in a reduction of mortgage rates to a 30-year low during fourth quarter 2001, according to the Freddie Mac Home Loan Index. Such reductions resulted in increases to our forecasted loan prepayment rates, which negatively impacted the carrying value of the mortgage servicing rights asset, hence requiring a write-down of \$94 million. Further reductions in interest rates would have caused us to use different assumptions in the valuation of our mortgage servicing rights resulting in additional corresponding write-downs through a valuation allowance. We use derivatives to mitigate the prepayment risk associated with mortgage servicing rights. Such derivatives tend to increase in value as interest rates decline and conversely decline in value as interest rates increase. Additionally, as interest rates are reduced, we have historically experienced a greater level of refinancings, which partially mitigates the impact of the decline in the valuation of our mortgage servicing rights portfolio.

We continue to evaluate these estimates and assumptions and believe that these assumptions, which included estimates of future interest rate levels and prepayment rates, were appropriate. Changes in fair value of the mortgage servicing rights based upon variations in the assumptions (e.g. future interest rate levels, prepayment speeds) cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Changes in one assumption may result in changes in another, which may magnify or counteract the sensitivities. The carrying value of our Mortgage Servicing rights was approximately \$2.0 billion at December 31, 2001 after recording the net aggregate write-down of \$144 million.

Securitizations. We sell a significant portion of our residential mortgage loans, relocation receivables and timeshare receivables into securitization entities as part of our financing strategy. We retain the servicing rights and, in some instances, subordinated residual interests in the mortgage loans and relocation and timeshare receivables. The investors have no recourse to our other assets for failure of debtors to pay when due. Gains or losses relating to the assets sold are allocated between such assets and the retained interests based on their relative fair values at the date of transfer. We estimate fair value of retained interests based upon the present value of expected future cash flows. The value of the retained interests is subject to the prepayment risks, expected credit losses and interest rate risks of the transferred financial assets. The effects of any adverse changes in the fair value of our retained interests are detailed in Note 24 Transfers and Servicing of Financial Assets to the Consolidated Financial Statements.

We continue to evaluate these estimates and assumptions and believe that these assumptions, which included estimates of future cash flows and expected credit losses were appropriate. Changes in fair value

of the retained interests based upon variations in the assumptions (e.g. prepayment risks, expected credit losses and interest rate risks) cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Changes in one assumption may result in changes in another, which may magnify or counteract the sensitivities. The fair value of the retained interest was approximately \$400 million at December 31, 2001. (Refer to Note 24 Transfers and Servicing of Financial Assets)

Financial Instruments. We use derivative instruments as part of our overall strategy to manage and reduce the interest rate risk primarily related to our mortgage-related assets. Effective January 1, 2001, we account for our derivatives at fair value on the balance sheet in accordance with SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." The application of SFAS No. 133 is complex, as evidenced by amendments and significant interpretations to the original standard, which continue to evolve. When applying SFAS No. 133, we must make an estimate of fair value for each of our derivatives and other financial instruments. Most of the derivatives and other financial instruments we use are not exchange traded. Therefore, we estimate fair values using dealer quotes, present value cash flow models, options-pricing models or other conventional valuation methods, as appropriate. These estimates involve significant judgments and estimates in the absence of quoted market prices. The amounts of such estimates are disclosed in Note 23 Financial Instruments to the Consolidated Financial Statements. The key assumptions used in these valuations are estimates of future interest rate levels based on interest rate yield curves, prepayment and volatility factors, and an estimation around the timing of future cash flows. The use of different assumptions may have a material effect on the estimated fair value amounts recorded in the financial statements. In addition, hedge accounting requires that at the beginning of each hedge period, we justify an expectation that the relationship between the changes in fair value of derivatives designated as hedges compared to changes in the fair value of the underlying hedged items be highly effective. This effectiveness assessment involves estimation of changes in fair value resulting from changes in interest rates and corresponding changes in prepayment levels, as well as the probability of the occurrence of transactions for cash flow hedges. Use of different assumptions and changing market conditions may impact the results of the effectiveness assessment and ultimately the timing of when changes in derivative fair values and the underlying hedged items are recorded in earnings.

We continue to evaluate these estimates and assumptions and believe that these assumptions, which included an estimate of fair value (including estimates of future interest rate levels, prepayment and volatility factors and an estimate around the timing of future cash flows) were appropriate. See Item 7a. "Quantitative and Qualitative Disclosures about Market Risk" for a discussion of the effect of hypothetical changes to the assumptions.

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

We continue to evaluate these estimates and assumptions and believe that these assumptions, which included an estimate of future cash flows based upon the anticipated performance of the underlying business units, were appropriate. We provide a wide range of consumer and business services and, as a result, our goodwill and other intangible assets are reflected among many diverse reporting units. Accordingly, it is difficult to quantify the impact of an adverse change in financial results and related cash flows as such change may be isolated to a small number of our reporting units or spread across our entire organization. In either case, the magnitude of an impairment to our goodwill such other intangibles, if any, cannot be extrapolated. However, our businesses are concentrated in a few industries (e.g. Travel, Real Estate) and, as such, an adverse change to any of these industries will impact our consolidated results and

may result in impairment of our goodwill and other intangibles. The carrying value of our goodwill and other intangibles (including franchise agreements) was approximately \$10 billion at December 31, 2001.

RESULTS OF CONSOLIDATED OPERATIONS 2001 vs. 2000

Our consolidated results from continuing operations comprised the following:

	<u>2001</u>	<u>2000</u>	<u>Change</u>
Net revenues	\$ 8,613	\$ 4,320	\$ 4,293
Expenses, excluding other charges and non-vehicle interest, net	7,003	3,056	3,947

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	<u>2001</u>	<u>2000</u>	<u>Change</u>
Other charges	671	111	560
Non-vehicle interest, net	252	152	100
	<u>7,926</u>	<u>3,319</u>	<u>4,607</u>
Gains on disposition of businesses	(443)	(37)	(406)
Losses on disposition of businesses	26	45	(19)
Impairment of investments	441		441
	<u>663</u>	<u>993</u>	<u>(330)</u>
Income before income taxes, minority interest and equity in Homestore.com	663	993	(330)
Provision for income taxes	220	341	(121)
Minority interest, net of tax	24	83	(59)
Losses related to equity in Homestore.com, net of tax	77		77
	<u>\$ 342</u>	<u>\$ 569</u>	<u>\$ (227)</u>
Income from continuing operations	\$ 342	\$ 569	\$ (227)

Net revenues increased primarily as a result of the impact of acquired businesses (Avis, Fairfield, Galileo and Cheap Tickets), which resulted in an additional \$4.2 billion in net revenues, as well as substantial growth in mortgage refinancing activity and mortgage purchase volume, which resulted in an additional \$367 million in net revenues. A detailed discussion of revenue trends is included in "Results of Reportable Segments 2001 vs. 2000." Total expenses also increased primarily as a result of the impact of acquired businesses, which resulted in an additional \$4.0 billion in expenses, as well as other charges of \$560 million (discussed below) and an increase in net non-vehicle interest expense of \$100 mill