

CENDANT CORP
Form 10-K/A
August 14, 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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EXPLANATORY NOTE

We are filing this Form 10-K/A to reflect the May 2002 disposition of our National Car Parks subsidiary, now accounted for as a discontinued operation, and to respond to initial comments received from the SEC as a result of the SEC's previously announced policy to review the 2001 Form 10-K's of all Fortune 500 companies. The SEC has not completed its review of our response to the SEC's initial comments and has

indicated that it may have additional comments. Accordingly, additional modifications to our 2001 Form 10-K may be required.

PART I

ITEM 1. BUSINESS

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

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

Our Real Estate Services segment franchises the real estate brokerage businesses of the CENTURY 21®, 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 FISI*Madison LLC, provides insurance-based products to consumers through Benefit Consultants, Inc. and Long Term Preferred Care, Inc., provides loyalty solutions to businesses through Cims Ltd., operates and franchises tax preparation services through Jackson Hewitt Inc. and provides a variety of membership programs offering discounted products and services to consumers through our relationship with Trilegiant Corporation.

* * *

We seek organic growth augmented by the acquisition and integration of complementary businesses. As a result, we are currently engaged in a number of preliminary discussions concerning possible acquisitions and intend to continually explore and conduct discussions with regard to other acquisitions and other strategic corporate transactions. The purchase price for any possible transaction may be paid in cash, stock,

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

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In addition, we continually review and evaluate our portfolio of existing businesses to determine if they continue to meet our business objectives. As part of our ongoing evaluation of such businesses, we intend from time to time to explore and conduct discussions with regard to joint ventures, divestitures and related corporate transactions. However, we can give no assurance with respect to the magnitude, timing, likelihood or financial or business effect of any possible transaction. We also cannot predict whether any divestitures or other transactions will be consummated or, if consummated, will result in a financial or other benefit to us. We intend to use a portion of the proceeds from any such dispositions and cash from operations to retire indebtedness, make acquisitions and for other general corporate purposes.

This 10-K/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.

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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.

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

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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

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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.

On August 12, 2002, NRT entered into an agreement to acquire all of the outstanding common stock of The DeWolfe Companies, Inc. at a price of \$19.00 per share, or approximately \$149 million in cash. Pursuant to the terms of the acquisition agreement, a subsidiary of NRT will commence a tender offer within five business days of the date of the announcement for any and all shares of DeWolfe's common stock. Consummation of the transaction remains subject to customary closing conditions and is expected to be completed in September 2002. The transaction has received clearance under U.S. anti-trust regulations. 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.

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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.

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

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

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

Mortgage Business (9%, 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.

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

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teleservices platform. The competitive advantage of using a centralized, efficient and high quality teleservices platform allows us to more cost effectively capture a greater percentage of the highly fragmented mortgage marketplace.

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

Real Estate Services Seasonality

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

Real Estate Services Trademarks and Intellectual Property

The trademarks "CENTURY 21®", "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.

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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
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	U.S. and International ⁽⁵⁾	57.20%	\$ 46.97	\$ 26.87
				8				
Travelodge	Upper Economy	80	598	47,688	U.S. and International ⁽⁶⁾	46.80%	\$ 53.53	\$ 25.05
Villager	Lower Economy	101	120	12,177	International ⁽⁷⁾	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 Days Inn trademarks 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 Cendant'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

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own in the future, other hotels, which can be converted to our brand names. Accordingly, a significant factor in our sales strategy is maintaining the satisfaction of our existing franchisees by providing quality services. We employ a national franchise sales force, compensated primarily through commissions, consisting of approximately 90 sales personnel.

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

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

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

Competition. Competition among the national lodging brand franchisors to grow and maintain their franchise systems is intense. Our primary national lodging brand competitors are the Holiday Inn® 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 Equivest. We are only obligated to purchase the resort upon completion to the contractual specifications, upon delivery of a certificate of occupancy and when clear title is obtained. As of December 31, 2001, subject to FFD's completion of the construction of timeshare inventory in accordance with the contractual specifications and delivery of a certificate of occupancy with clear title, we would be obligated to purchase approximately \$98 million of timeshare inventory from FFD. Certain officers of Cendant serve on the Board of Directors of FFD.

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

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

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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.

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

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merchant locations. The cards operate as a universal card with centralized billing designed to measure and manage costs. In the United States, Wright Express is the leading fleet charge card supplier with over 160,000 fuel facilities in its network and in excess of 3.1 million cards issued. Wright Express distributes its fleet cards and related offerings through three primary channels: (i) the Wright Express®-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 FISI Madison, (ii) marketing for accidental death and dismemberment insurance and certain other insurance products through FISI and BCI and (iii) marketing for long term care insurance products through LTPC. With nearly 39 million customers, we offer the following products and services:

Enhancement Package Service. We sell enhancement packages for financial institution consumer and business checking and deposit account holders primarily through our FISI subsidiary. FISI's financial institution clients select a customized package of our products and services and then usually add their own services (such as unlimited check writing privileges, personalized checks, cashiers' or travelers' checks without issue charge, or discounts on safe deposit box charges or installment loan interest rates). With our marketing and promotional assistance, the financial institution then offers the complete package of enhancements to its checking account holders as a special program for a monthly fee. Most of these financial institutions choose a standard enhancement package, which generally includes \$10,000 of common carrier insurance and travel discounts. Others may include Trilegiant's shopping and credit card registration services, a travel newsletter or pharmacy, eyewear or entertainment discounts as enhancements. The common carrier coverage is underwritten under group insurance policies with two referral underwriters. We generally charge a financial institution client an initial fee to implement this program and monthly fees thereafter based on the number of customer accounts participating in that financial institution's program. In January 2001, FISI acquired 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 FISI and BCI subsidiaries, we serve as an agent and third-party administrator for marketing accidental death and dismemberment insurance throughout the country to the customers of financial institutions. These products are primarily marketed through direct mail solicitations which generally offer \$1,000 of accidental death and dismemberment insurance at no cost to the customers and the opportunity to choose additional coverage of up to \$250,000. The annual premium generally ranges from \$10 to \$250. BCI also acts as an administrator for, and markets, term life and hospital accident insurance. FISI's and BCI's insurance products and other services are offered to customers of banks, credit unions, credit card issuers and mortgage companies.

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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) ALIGN="right">90,329 696,091

Total Assets

169,385,245	26,028,298	24,373,605	4,116,104	12,377,762	236,281,016	(20,333,843)	215,947,173
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Other Items

Depreciation

76,025	19,232	8,725	10,650	551	115,184	2,412	117,597
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Amortization of Goodwill

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7,292 108 130 712 8,242 6,569 14,812

Interest Expenses

174,763 36,238 37,352 16,253 20,591 285,200 (31,889) 253,311

Losses from investment in affiliates (Equity Method)

Extraordinary Profits

2,706 4,651 12,719 1,251 5,388 26,717 (6,600) 20,116

Extraordinary Losses

7,019 1,375 1,830 883 3 11,112 4,563 15,675

Losses on Depreciation of Fixed Assets

2,560 1,233 177 19 3,990 3,990

Tax Expenses

175,884 24,892 1,554 3,000 2,431 207,763 1,594 209,358

Unamortized Goodwill

234,929 4,205 570 11,701 251,407 178,802 430,209

Total Investment in Equity Method Affiliates

205,470	68,812	308,630	361	813,132	1,396,407	298,917	1,695,324
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Increase in Tangible and Intangible Fixed Assets

78,630	53,899	12,779	5,797	547	151,654	151,654
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Notes:

1. Ordinary income, interest income and interest expenses used in the above table are equivalent to revenues, interest income and interest expenses, respectively, generally used by Japanese non-financial companies.
2. Others includes MUFU and other companies.
3. Net income from Others includes 159,628 million yen of dividends from MUFU's subsidiaries and affiliates.
4. Adjustments on interest income include deduction of dividend income from affiliated companies received by MUFU.
5. Adjustments on profits from equity method investees include 290,644 million yen of negative goodwill recorded in connection with the application of equity method accounting to our investment in Morgan Stanley.
6. Adjustments on net income include elimination of inter-segment transactions of 182,486 million yen and 272,815 million yen of amounts that are not allocated among segments consisting of profits (losses) from investment in affiliates (equity method), amortization of goodwill and negative goodwill, tax expenses and minority interests.
7. Adjustments on total assets mainly include offsets of inter-segment debt and credit transactions.
8. Adjustments on amortization of goodwill are mainly related to consumer finance subsidiaries and MUSHD.
9. Extraordinary profits and losses and adjustments thereon are primarily attributable to elimination of inter-segment transactions and amortization of goodwill not allocated among segments.
10. Adjustments on unamortized goodwill are mainly attributable to consumer finance subsidiaries and MUSHD.
11. Net income is adjusted from the net income in the consolidated profit and loss statements for the interim financial reporting period ended September 30, 2011.

Related Information

I. Prior Year Interim Financial Reporting Period (from April 1, 2010 to September 30, 2010)

1. Information by Type of Service

Omitted because it is similar to the above explained reporting segment information.

2. Geographical Information

(1) Ordinary Income

						(in millions of yen)
Japan	United States	Europe/Middle East	Asia/Oceania	Others		Total
1,892,222	246,748	103,229	118,903	8,375		2,369,479

Notes:

1. Ordinary income is equivalent to revenues generally used by Japanese non-financial companies.
2. Ordinary income is categorized by either country or region based on the location of MUFG's operating offices.

(2) Tangible Fixed Assets

				(in millions of yen)
Japan	United States	Others		Total
1,143,820	186,546	16,768		1,347,135

3. Information by Major Customer

Not Applicable.

II. Interim Financial Reporting Period (from April 1, 2011 to September 30, 2011)

1. Information by Type of Service

Omitted because it is similar to the above explained reporting segment information.

2. Geographical Information

(1) Ordinary Income

						(in millions of yen)
Japan	United States	Europe/Middle East	Asia/Oceania	Others		Total
1,836,818	549,195	120,413	154,813	9,964		2,671,205

Notes:

1. Ordinary income is equivalent to revenues generally used by Japanese non-financial companies.
2. Ordinary income is categorized by either country or region based on the location of MUFG's operating offices.

(2) Tangible Fixed Assets

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	Japan	United States	Others	(in millions of yen) Total
3. Information by Major Customer	1,129,140	196,037	15,541	1,340,719

Not Applicable.